COMMITTEE ON WAYS AND MEANS

HEARINGS BEFORE THE

SUBCOMMITTEE ON TRADE
(Volume 1 of 5)

104th Congress
1995-1996

	Tab No.
U.S. Customs Service Reorganization and Modernization Efforts	1
H.R. 553, The Caribbean Basin Trade Security Act	2
Select Fiscal Year 1996 Budget Proposals and Possible GSP Extension	3
U.S./China Intellectual Property Agreement and Accession to the World Trade Organization	4
Fast Track Issues	5
U.S.-China Trade Relations and Renewal of China's Most-Favored-Nation Status	6

COMMITTEE ON WAYS AND MEANS

HEARINGS BEFORE THE

SUBCOMMITTEE ON TRADE
(Volume 2 of 5)

104th Congress
1995-1996

	Tab No.
Accession of Chile to the North American Free Trade Agreement	1
The Economic Relationship Between the United States and Cuba After Castro	2
Rules of Origin	3
Organization for Economic Cooperation and Development (OECD) Agreement on Shipbuilding	4
Implementation of Uruguay Round Trade Agreements and Establishment of the World Trade Organization	5

COMMITTEE ON WAYS AND MEANS

HEARINGS BEFORE THE

SUBCOMMITTEE ON TRADE
(Volume 3 of 5)

104th Congress
1995-1996

	Tab No.
United States-Japan Trade Relations	1
Department of Commerce Proposed Anti-Dumping Regulations and Other Anti-Dumping Issues	2
H.R. 2795, Safeguard Investigations of Perishable Agricultural Products	3
U.S. Trade Policy	4
Iran and Libya Sanctions	5

COMMITTEE ON WAYS AND MEANS

HEARINGS BEFORE THE

SUBCOMMITTEE ON TRADE
(Volume 4 of 5)

104th Congress
1995-1996

	Tab No.
United States-China Trade Relations and Renewal of China's Most-Favored-Nation Status	1
U.S. Trade Competitiveness and Work Force Education and Training	2
U.S. Trade with Sub-Saharan Africa	3
World Trade Organization Singapore Ministerial Meeting	4
Accession of China and Taiwan to the Word Trade Organization	5

COMMITTEE ON WAYS AND MEANS

WRITTEN COMMENTS BEFORE THE

SUBCOMMITTEE ON TRADE
(Volume 5 of 5)

104th Congress
1995-1996

	Tab No.
Extension of Unconditional Most-Favored-Nation Treatment to Cambodia and Bulgaria	1
Technical Corrections to Recent Trade Legislation	2
Proposals to Terminate Trade Adjustment Assistance Programs for Workers and Firms	3
Miscellaneous Trade Proposals	4
International Trade Commission Reforms	5
Miscellaneous Trade Proposals	6
Extension of Unconditional Most-Favored-Nation Treatment to Romania	7
Change in "Most-Favored-Nation" Terminology	8

UNITED STATES-CHINA TRADE RELATIONS AND RENEWAL OF CHINA'S MOST-FAVORED-NATION STATUS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JUNE 11, 1996

Serial 104–87

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

42–874 CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055717-8

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, NEW YORK

PHILLIP D. MOSELEY, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON TRADE

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California
E. CLAY SHAW, JR., Florida
AMO HOUGHTON, New York
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JENNIFER DUNN, Washington

CHARLES B. RANGEL, New York
SAM M. GIBBONS, Florida
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts

CONTENTS

	Page
Advisory of June 7, 1996, announcing the hearing	2

WITNESSES

Office of the U.S. Trade Representative, Hon. Charlene Barshefsky, Acting United States Trade Representative	39
U.S. Department of State, Hon. Winston Lord, Assistant Secretary, East Asian and Pacific Affairs	46

American Federation of Labor and Congress of Industrial Organizations, Mark A. Anderson	147
American Association of Exporters and Importers, Eugene Milosh	202
American Insurance Association, David F. Snyder	119
Anderson, Mark A., American Federation of Labor and Congress of Industrial Organizations	147
Cohen, Calman, Emergency Committee for American Trade	114
Cox, Hon. Christopher, a Representative in Congress from the State of California	90
Duggan, E. Martin, Small Business Exporters Association	210
Emergency Committee for American Trade, Calman Cohen	114
Gyari, Lodi G., International Campaign for Tibet	171
Human Rights Watch/Asia, Mike Jendrzejczyk	159
International Campaign for Tibet, Lodi B. Gyari	171
Jendrzejczyk, Mike, Human Rights Watch/Asia	159
Kapp, Robert A., United States-China Business Council	126
Kaptur, Hon. Marcy, a Representative in Congress from the State of Ohio	80
Kolbe, Hon. Jim, a Representative in Congress from the State of Arizona	21
Milosh, Eugene, American Association of Exporters and Importers	202
Mototola, Inc., Richard W. Younts	102
National Association of Manufacturers, M. Dianne Sullivan	186
National Foreign Trade Council, Inc., Daniel O'Flaherty	196
Pelosi, Hon. Nancy, a Representative in Congress from the State of California	22
Rohrabacher, Hon. Dana, a Representative in Congress from the State of California	95
Scarborough, Hon. Joe, a Representative in Congress from the State of Florida	96
Small Business Exporters Association, E. Martin Duggan	210
Smith, Hon. Christopher H., a Representative in Congress from the State of New Jersey	73
Snyder, David F., American Insurance Association	119
Solomon, Hon. Gerald B., a Representative in Congress from the State of New York	10
Sullivan, M. Dianne, National Association of Manufacturers	186
United States-China Business Council, Robert A. Kapp	126
Wolf, Hon. Frank R., a Representative in Congress from the State of Virginia	74
Younts, Richard W., Motorola, Inc.	102

Page

SUBMISSIONS FOR THE RECORD

American Forest & Paper Association, statement 216
Edison Mission Energy, Irvine, CA, Edward R. Muller, statement 218
Ewing, Hon. Thomas W., a Representative in Congress from the State of Illinois, statement and attachment 220
Fashion Accessories Shippers Association, New York, NY, Joel K. Simon, and Barbara Y. Wierbicki, statement 231
Russ Berrie and Company, Inc., Oakland, NJ, Joel K. Simon, and Barbara Y. Wierbicki, statement 234
Toy Manufacturers of America, Inc., New York, NY, statement 237

UNITED STATES-CHINA TRADE RELATIONS AND RENEWAL OF CHINA'S MOST-FAVORED-NATION STATUS

TUESDAY, JUNE 11, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:13 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
June 7, 1996
No. TR-25

CONTACT: (202) 225-6649

Crane Announces Hearing On U.S.-China Trade Relations And Renewal Of China's Most-Favored-Nation Status

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S.-China trade relations, including the issue of renewing China's most-favored-nation (MFN) status. **The hearing will take place on Tuesday, June 11, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

Oral testimony at this hearing will be heard from invited witnesses. Also, any individual or organization may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

Non-discriminatory MFN trade status was first granted to the People's Republic of China on February 1, 1980, and has been extended annually since that time. Annual extensions are granted based upon a Presidential determination and report to Congress that such an extension will substantially promote the freedom of emigration objectives in Title IV of the Trade Act of 1974, the so-called Jackson-Vanik amendment. Subsections 402 (a) and (b) of the Trade Act set forth criteria which must be met, or waived by the President, in order for the President to grant MFN status to non-market economies such as China.

The annual Presidential waiver authority under the Trade Act expires on July 3 of each year. The renewal procedure requires the President to submit to Congress a recommendation for a 12-month extension by no later than 30 days prior to the waiver's expiration (i.e., by no later than June 3). The waiver authority continues in effect unless disapproved by Congress within 60 calendar days after the expiration of the existing waiver. Disapproval, should it occur, would take the form of a joint resolution disapproving the President's determination to waive the Jackson-Vanik freedom of emigration requirements for China.

FOCUS OF THE HEARING:

The focus of the hearing will be to evaluate overall U.S. trade relations with the People's Republic of China, and to consider the extension of MFN status for China for an additional year on the basis of that country's emigration performance. The Subcommittee will be interested in hearing testimony on China's emigration policies and practices; on the nature and extent of U.S. trade and investment ties with China and related issues; and on the potential impact on China, Hong Kong, Taiwan, and the United States of a termination of China's MFN status.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Tuesday, June 18, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

(MORE)

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available over the Internet at GOPHER.HOUSE.GOV, under 'HOUSE COMMITTEE INFORMATION'.

*****

Chairman CRANE. Good morning. This is a meeting of the Ways and Means Trade Subcommittee to review the critical issue of United States-China trade relations.

On an annual basis, as required by 1974 Jackson-Vanik statute, Congress considers the question of renewing China's MFN trade status. We must continue to emphasize that MFN is normal or standard trade treatment, uniform among 150 U.S. trading partners. I believe it is misleading to characterize MFN as exceptional or special tariff treatment.

My colleagues know that I am a strong supporter of expanding trade relations with China as the most effective way to promote change and improve human rights. The annual process of subjecting the United States-China trade relationship to a hostile vote in Congress is harmful to our deeply felt goals of freedom and prosperity for the Chinese people. It simply does not increase our leverage or our influence in China.

I am encouraged by the growing view among the U.S. business community that the Jackson-Vanik statute should be revised to reflect the importance of the Chinese economy to long-term U.S. interests in Asia.

I would now like to yield to my distinguished colleague from New York, Mr. Rangel, for an opening statement and for everyone to wish him happy birthday, which is this great day. [Applause.]

Mr. RANGEL. Thank you.

Chairman CRANE. I want to thank the witnesses in advance for their prepared testimony, and ideally, if you can try and confine any opening remarks to 5 minutes, any extended remarks will be made a part of the permanent record.

Now I yield to the birthday boy.

Mr. RANGEL. Thank you, Mr. Chairman. I might heartily add that I hope that no one treats me any differently today than any other celebrity. [Laughter.]

Thank you for holding today's hearing. We all agree that China poses one of the most significant trade and foreign policy challenges for the United States. I hope that this hearing and the proposed renewal of China's most-favored-nation status would shed more light on the problems that we face, China and therefore the world.

We have to really try to decide how we are going to wrestle with and handle the ever-growing $34 billion trade surplus that China has with the United States. I, for one, do not understand and hope I never understand the way China believes it can continue to violate our intellectual property rights and ignore the vast amount of time, money, and research that we put into what is our most valuable export.

It is true that trading with China does provide many jobs for the people in the United States and around the world, but notwithstanding that, I think that China should be placed on notice that this country cannot afford to have its assets just stolen and pirated because of some difference in culture, as I understand it from those who are China watchers.

In any event, the President is correct that we should not just arbitrarily cutoff trade with China. It is too serious a question for us

to treat that way. The question of human rights continues to be a very important subject that will remain on our agenda.

I just hope that it is abundantly clear to all that I am a strong supporter of the U.S. intellectual property rights, and in this regard, I cosponsored H.R. 3421, to impose increased tariffs on Chinese products until the President certifies that China complies with the agreement to protect intellectual property rights. I also support strict monitoring of the United States-China Bilateral Textile Agreement, especially provisions related to transshipment of textiles through other countries.

If we decide, and I know we will, to support China's continued MFN status, we must nevertheless identify and consider other options available to effectuate changes in China, if our current policies over time, and I do not know how much time, fail to produce the desired results, not only for us, but for the rest of the world. I suggest a stronger Congressional role in China's accession to the WTO and hope that the Trade Subcommittee would discuss this idea in depth at the appropriate time.

I would want my friend, Mr. Solomon, who is a fellow New Yorker, to know that the way the Chinese treated me on November 30, 1950, on the Yalu River has nothing to do with my position today. I look forward to this hearing and I thank you for calling it.

[The opening statement follows:]

OPENING STATEMENT OF HON. CHARLES B. RANGEL

Mr. Chairman, thank you for holding today's hearing. We would all agree that China poses one of the most significant trade and foreign policy challenges for the United States.

I hope that this hearing on United States-China trade relations and the proposed renewal of China's Most-Favored-Nation status will shed more light on the broader questions and challenges confronting the United States in China.

On the trade side, we must determine how to best address China's burgeoning $34 billion trade surplus with the United States; China's piracy and gross violations of Intellectual Property Rights; discriminatory entry barriers in China to U.S. trade and investment; and, Chinese accession to the World Trade Organization (WTO).

On other fronts, we cannot ignore the cries and aspirations inside China for justice and democracy. We must continue to aggressively confront and condemn China's disregard for human rights, the revocation of liberties for masses of people, and the blatant disrespect for the due process of law.

China must also adhere to the spirit and letter of nonproliferation. The United States, as the leader and champion of freedom, peace and democracy, must pursue policies that will assure China's respect for these fundamental principles.

While these principles can be applied within the context and dignity of a country's culture—the basic universal principles of humanity must not be compromised.

I have heard credible arguments both pro and con regarding the use of MFN to bring about constructive change in China.

As a backdrop to this debate, we must keep in mind China's immense importance as one of our largest trading partners—with nearly 200,000 U.S. jobs tied to over $55 billion in bilateral trade. China's enormous size as the third largest economy in the world with over of 1.2 billion people; and, U.S. security interests in Asia are also interconnected to overall U.S. policy towards China.

Parenthetically, I would also note with interest that in 1995, New York's exports to China totaled over half a billion dollars—rising at a rate of almost 40% in two years.

The Clinton Administration has sought to navigate U.S. trade and foreign policy through this web of challenges and competing priorities. President Clinton has decided to renew MFN for China for another year in the context of his overall policy of constructive engagement with China.

I have been asked by the Administration to support this policy even though there is no strong evidence to suggest that this policy has resulted in tangible benefits

for the United States in terms of a reduction in the bilateral trade deficit or a lessening of human rights abuses. Apparently more time and patience are needed.

Nonetheless, I hope that the Administration officials present today can further clarify how we can develop a constructive framework with China that will advance U.S. policy objectives in both trade and human rights without resorting to a withdrawal of MFN.

On other matters, I am a strong supporter of U.S. intellectual property rights. In this regard, (co-sponsored H.R. 3421 to impose increased tariffs on Chinese products until the President certifies that China complies with the agreement to protect intellectual property rights.

I also support strict monitoring of China's bilateral textile agreement—especially provisions related to performance on transshipments of textiles through other countries.

If we decide to support China's continued MFN status, we must, nonetheless, identify and consider other options available to effectuate change in China, if our current policies over time fail to produce desired results.

Some have suggested, for example, a stronger Congressional role in China's accession to the WTO. I would hope that the Trade Subcommittee would discuss this idea in depth at the appropriate time.

Mr. Chairman, I look forward to this hearing this morning and hope that these issues will be addressed by our witnesses.

Chairman CRANE. I would like to yield at this time to Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

I come from the Nation's most trade-dependent State, Washington State, so the question of United States-China trade is crucial to the folks I represent here in Congress. In fact, Washington State ranks among all 50 States number one in exports to China.

I believe that trade with China promotes change. U.S. trade and investment teaches the skills of free enterprise that are fundamental to a free society. For instance, in my home State, we export a number of U.S. products, from aircraft to software. Every single airplane and every single CD carry with them the seeds of change. These products further serve to unleash the free market desires of the Chinese people. It is in our national interest to move China toward a free market enterprise.

Now let me address directly the issue of China MFN, one of the great misnomers of our time. MFN status is not a concession and does not mean that China is getting preferable trade treatment. Let me state this again. MFN is not a tariff preference or a form of special treatment. It is the cornerstone of commercial relations between the United States and any foreign country.

I am working with a number of my colleagues in the other body on legislation to eliminate this misnomer once and for all. The most confusing point in this debate for the public is that "most-favored-nation" status is nothing of the kind. As Senator Moynihan and as Chairman Crane have pointed out, MFN really means "normal trade relations." We should call it "NTR" instead of "MFN."

Again this year, I proposed that we use the following criteria to find the answer on difficult MFN cases like China. I believe these criteria must become our compass in our decision. We should extend normal trade relations or MFN to a nation if they allow U.S. investors and advisers in, the rule of law is advancing in that country, a multilateral action is unattainable or unsustainable, and we have that nation's assistance on a critical geopolitical issue.

Conversely, we should deny normal trade status to governments abusing their people if an effective multilateral action is doable and the United States can expect no help from that government on other critical geopolitical issues, if they do not allow U.S. employers

or advisers into their country, or if they do not respect the rule of law.

Last year, I believed China met the test for normal trade status and I continue to believe the same thing now. Indeed, I would take it one step further by stating that the burden of proof is on those who deny normal trade status with China. They must prove that an active protest would demonstrably improve the human rights situation in China or that it would address grinding poverty or that it would lessen religious persecution. I submit that the only thing we know for sure right now is that such an act of protest would increase unemployment and suffering here in the United States.

Thank you, Mr. Chairman.

[The opening statement of Ms. Dunn follows:]

JENNIFER DUNN
8TH DISTRICT, WASHINGTON

432 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-7761
dunnwa08@hr.house.gov

50 - 116TH AVENUE, SE
SUITE 201
BELLEVUE, WASHINGTON 98004
(206) 450-0161

UNITED STATES
HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEES:
TRADE
HUMAN RESOURCES

HOUSE OVERSIGHT
COMMITTEE

Congresswoman Jennifer Dunn
8th Congressional District of Washington State
Opening Statement
House Ways and Means Trade Subcommittee
June 11, 1996

Thank you Mr. Chairman.

I come from the nation's most trade-dependent state, so the question of US-China trade is crucial to the people I represent in Congress. In fact, Washington state ranks first among all 50 states in exports to China.

Today, of course, U.S.-China trade relations are within the larger context of the overall U.S.-China relationship.

Clearly, our overall China policy must be revisited. Under our form of government, the Executive Branch bears the responsibility for our policy. Yet, the Congress can and should be a valuable partner in this review.

Together, we must make clear to the Chinese that their participation in the world economy and in international security arrangements can only come about with **concrete** evidence that China is abiding by norms of international behavior.

Let me be clear: disengagement will **not** help us understand China. The only way we can accomplish this is to continue our policy of engagement. We must speak -- not to the Chinese, but rather with them -- in a clear dialogue. That can help China to transform in a peaceful and stable way which is clearly in our national interest.

A key subset of that overall China policy, of course, is trade.

Trade with China promotes change. US trade and investment teaches the skills of free enterprise that are fundamental to a free society. For instance, in my home state of Washington, we export a number of U.S. products, from aircraft to software. And every single airplane and every single CD carries with it the seeds of change. These products serve to further unleash the free-market desires of the Chinese people. And let me just say that I will take the word of Americans working in China over the word of bureaucrats working in Washington, D.C. when it comes to whether or not our commercial engagement is having a positive effect on China.

I would like to speak for a moment on the issue of China MFN -- one of the great misnomers of our time!

MFN status is not a concession and does not mean that China is getting preferable trade treatment. Let me state this again: MFN is **not** a tariff preference or a form of special treatment. It is the cornerstone of commercial relations between the United States and any foreign country.

I am working with a number of my colleagues in the other body on legislation to eliminate this misnomer once and for all. The most confusing point in this debate for the public is that "most favored nation" status is nothing of the kind. As Sen. Moynihan has pointed out, MFN really means "normal trade relations." We should call it NTR rather than MFN.

The China MFN issue has been hung up on two competing policy goals: Is our goal to maximize our own U.S. jobs? Or is it to make the cause of human rights primary as a means to achieving our best long-term trade interests?

The answer, I believe, is **both**. The goals are **not** mutually exclusive.

Again this year, I proposed that we use the following criteria to find the answer on difficult MFN cases like China's: I believe these criteria must become our compass. We **should** extend normal trade relations, or MFN, to a nation if:

They allow U.S. investors and advisors in...
The rule of law is advancing in that country...
A multilateral action is unattainable or unsustainable...
Or we have that nation's assistance on a critical geopolitical issue...

Conversely, we should **deny** normal trade status to governments abusing their people if:

An effective multilateral action is doable...
And the U.S. can expect no help from that government on other critical geopolitical issues...
They do not allow U.S. employers or advisors into their country...
They do not respect the rule of law...

Last year, I believed China met the test for normal trade status and I continue to believe the same now.

Indeed, I would take it one step further by stating that the burden of proof is on those who who deny normal trade status with China. They must prove that an act of protest would demonstrably improve the human rights situation in China, how it would diminish suffering, how it would address grinding poverty, or how it would lessen the religious persecution now practiced in China. I submit that the only thing we know for sure is that such an act of protest would increase unemployment and suffering in the United States.

There is a better way. The President should turn a moral spotlight on, for instance, the religious persecution practiced against Chinese citizens by following through on his pledge to create a special advisory office to the President on such matters. Unfortunately, the President has yet to live up to a promise to do precisely that.

Actions like that -- targeted at the problem rather than at American workers -- is far more likely to achieve the goals we all share of expanding human rights **and** expanding trade.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Now I would like to yield to our first witness, our distinguished colleague from New York, Mr. Solomon, who has a long record in Congress on this issue.

STATEMENT OF HON. GERALD B. SOLOMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. SOLOMON. Thank you very much, Mr. Chairman and Ranking Member Rangel. Charlie, if I might, welcome to us senior citizens. We appreciate your company.

Mr. RANGEL. What do you mean, "we senior citizens"? [Laughter.]

Mr. SOLOMON. Mr. Chairman, I also would like to just say that looking at this distinguished panel, you certainly seem to epitomize intelligence and common sense. Therefore, when this hearing is over and you mark up this legislation, I hope you use that good common sense and intelligence in favorably reporting this bipartisan Rohrabacher, Solomon, Pelosi, Smith, Kaptur, and Cox resolution of disapproval. That is what we are here to talk about today.

Mr. Chairman, I guess I have been coming before this Subcommittee so many years now to talk about this issue it seems like deja vu. I think you all know my views on this issue, so I will be as brief as possible. But to complete the record so that I do not take up too much of your time, I would like to ask unanimous consent to submit the excellent article by Robert Kagan that appeared in The Weekly Standard this past week, if I might, Mr. Chairman. Do I have unanimous consent, sir?

Chairman CRANE. Yes, it will be inserted.

[The following was subsequently received:]

Most Favored Nation—or Most Appeased?

By Robert Kagan

Bill Clinton's announcement last week that he will seek unconditional renewal of China's most-favored-nation status is the latest evidence of a metamorphosis remarkable even for this president. Though he relentlessly attacked the Bush administration's China policy as bereft of human-rights concerns during his 1992 candidacy, in office Clinton has become the spiritual godson of Henry Kissinger. After a very brief flirtation with risky originality, Clinton has sought safety in the conventional wisdom of the bipartisan foreign policy and business elite, in which he stands shoulder to shoulder with his presidential rival, Bob Dole.

Incoherence on China is not unique to Bill Clinton's foreign policy. It has been a problem for politicians of both parties since the late 1980s. The collapse of the Soviet Union and its Communist empire swept away the original foundation on which the Sino-American rapprochement was built in the early 1970s. America's interests and priorities have shifted as policymakers must now grapple with how to manage a world in which the United States is the sole superpower. At the same time, China's place in the constellation of global powers has shifted; from its position as the weakest side of the Sino-Soviet-American triangle as recently as 10 years ago, China seems poised over the coming decade to become the principal challenger to American dominance of the world order.

The lack of clarity and resolve in American policy toward China today is due to the failure of policymakers to recognize these changes and reorient American strategy to deal with them. The result has been worse than incoherence. American policies these days are starting to look a lot like the kind of appeasement that eventually leads to disaster.

Twenty-five years ago, the logic of the U.S.-China relationship was clear. At a time when American power seemed in Vietnam-saturated decline, Richard Nixon and Henry Kissinger were searching for quick and easy ways of redressing the increasingly unfavorable U.S.-Soviet balance while shoring up Nixon's political standing at home. Playing the "China card" looked like a brilliant strategic gambit, a simple matter, as Kissinger recalled in his memoirs, of "align[ing] oneself with the weaker of two antagonistic partners, because this acted as a restraint on the stronger." Kissinger did not share the view of State Department Sinophiles that good relations with China were a worthy end in themselves; he considered them a means to the end of shaping Soviet behavior and inducing Soviet leaders to accept the outstretched hand of détente. Indeed, as former Kissinger aide Peter W. Rodman has noted, the real purpose of "triangular diplomacy" was not to forge a permanent strategic partnership with China against Russia but "to secure better relations with both."

The shift to a more enduring strategic partnership with China came during the Carter administration under the direction of national security adviser Zbigniew Brzezinski. Alarmed at the Soviet Union's increasing adventurousness in the Third World from Africa to Southeast Asia, Brzezinski sought to involve the Chinese more directly on the U.S. side in the worldwide anti-Soviet struggle. Kissinger aimed at playing both Communist giants against each other, but Brzezinski in 1978 traveled to Beijing to tell Deng Xiaoping that the United States had "made up its mind" and had chosen China. The price the Carter administration willingly paid for this new strategic partnership was the completion of the process of normalization Nixon had begun, including the revocation of U.S. recognition of Taiwan. In American foreign policy circles, Brzezinski's actions firmly established the still-extant bipartisan consensus on the overriding strategic importance of U.S.-Chinese relations.

The world of the 1970s looked very different from today's, however. The West was suffering from a paralyzing loss of confidence in its institutions and its liberal values. Communism still seemed to many around the world, and even to some in the United States, a viable if not superior alternative to capitalism. The great, resurgent successes of liberal capitalism—the Reagan boom here, the rise of the economic "tigers" in East Asia—lay in the future. The policymakers of the 1970s could not even have begun to imagine the worldwide democratic revolution that began in the

1980s in Latin America and Asia and then spread to Central and Eastern Europe and Russia. Instead, the United States was surrounded by dictatorships in its own hemisphere and maintained supportive relations with them and many others around the world.

In such a world, the strategic value of American rapprochement and then partnership with a Communist China seemed to outweigh the sacrifice of American ideals such a relationship required. Churchill had been willing to "sup with the devil" in order to defeat Hitler; few questioned the logic of closer U.S.-Chinese ties in a world where democracy and capitalism seemed to be imperiled by an expanding Soviet empire. In a world filled with dictatorships of both the left- and right-wing varieties, moreover, few believed the United States could afford to be picky about how its allies governed themselves.

Which is not to say that everyone in the United States was enthusiastic about the new partnership with Communist China. Conservative Republicans, including the old "China Lobby" with its bitter memories of 1949 and the "betrayal" of Chiang Kai-shek, opposed some elements of the new course—especially when it was conducted by the Democratic administration of Jimmy Carter. Thus Robert Dole, although a devoted supporter of Nixon, vigorously opposed Carter's normalization of relations with China at the end of 1978. After normal ties were established, as Jim Mann of the *Los Angeles Times* has recently noted, Dole called on the White House to invite the president of Taiwan to Washington. From the floor of the Senate in 1979, he insisted that the Taiwan Relations Act must not leave America's old ally undefended against aggression by America's new ally. And when Carter proposed extending most-favored-nation status to China in 1980, Dole led the opposition and introduced legislation denying it to any nation that, like China, had not yet signed the nuclear nonproliferation treaty.

Despite these efforts by its Republican allies, however, the authoritarian regime in Taiwan had a difficult time winning much support in the United States. The dominant view of American policymakers in both parties was that holding the prized China card was essential to America's strategic well-being and that other issues—like sentimental ties to Taiwan, like the sharp ideological differences between China and the United States—had to be set aside.

The resurgence of American power and will under Ronald Reagan ought to have changed this and many other calculations. And to some extent during the 1980s, it did. Reagan, who had achieved preeminence in the Republican party partly by leading a crusade against the Nixon-Kissinger foreign policy, did not share Kissinger's and Brzezinski's strong attachment to the China card. Reagan himself was a longtime supporter of Taiwan, and as Peter Rodman points out, in the Reagan administration "even the younger officials making Asia policy . . . thought that the Nixon, Ford, and Carter administrations had all gone overboard in their sentimentality about China."

There was also strategic logic to the Reagan administration's de-emphasis of the relationship with China. At a time when Reagan was determined to challenge the Soviets directly on all fronts, both militarily and ideologically, a China policy born in a time of strategic weakness was less compelling: Reagan simply didn't believe he needed China as much as Nixon and Carter had.

The worldwide ideological offensive that Reagan

launched at the start of his second year in office, moreover, could not fail to affect the nature of relations between the United States and China. By the mid-1980s, much of the world appeared to be moving steadily in the direction of liberal economics and liberal government. The dire circumstances that had given birth to the U.S.-China strategic partnership in the 1970s were rapidly giving way in the 1980s to a new international situation that required a recalculation of the value of close ties between the two global powers.

IN THE POST-COLD WAR ERA IT IS LUDICROUS TO SPEAK OF PLAYING THE CHINA CARD, AS KISSINGER AND BRZEZINSKI ONCE DID.

Finally, the beginning of the collapse of the Soviet empire in 1989 and the emergence of the United States as the world's dominant military, economic, cultural, and ideological power utterly shattered the original rationale for Sino-American partnership. In the post-Cold War era it was ludicrous to speak of playing the China card, as Kissinger had, to convince Moscow to embrace *détente*; or as Brzezinski had, to combat Soviet aggression in the Third World. It was no longer possible to describe U.S.-China relations as "align[ing] oneself with the *weaker* of two antagonistic partners," given the Soviet Union's free fall and China's explosive economic growth.

China itself had appeared to be part of the global trend toward freedom throughout the 1980s. The "Four Modernizations" begun under the leadership of Deng Xiaoping in the late 1970s helped produce the Chinese economic miracle we know today. A Chinese "democracy movement" soon emerged, calling for a "Fifth Modernization," free elections, and in some instances openly praising American-style democracy. Though it was subject to government harassment, the existence of the democracy movement suggested to many American observers that political reform in China was the inevitable next step after Deng's economic reforms.

The massacre at Tiananmen Square in 1989 and the subsequent suppression of dissidents, which continues to this day, dashed these hopes. It could hardly have been better timed to force the United States to reconsider the unpleasant bargain it had made with its conscience in the 1970s. At the same time the old strategic rationale for the U.S.-China partnership was vanishing, the Chinese government cast a bright light on the acute ideological differences between the two countries. Indeed, after Tiananmen, China emerged as the most powerful opponent of American liberal principles in the world.

In the ensuing years, China would significantly increase its military spending, even as both Soviet and American defense spending declined, and with the clear aim of using its growing military power to enhance its influence abroad. The fruits of these efforts have been apparent in recent years, as China, in the words of Sen. John McCain, has increasingly been "displaying very aggressive behavior"—in the South China Sea, against a newly democratic Taiwan, and in a growing propensity to make arms sales to many of the world's rogue states.

Under these new circumstances, it would seem to make little sense to continue pursuing the old Cold War policies toward China. Yet remarkably, that is just what the Bush administration tried to do after 1989, and what the purveyors of the bipartisan consensus, including most recently the Clinton administration, have been trying to do ever since. Even after the Cold War, the United States maintained "overriding strategic interests in engaging China," former secretary of state James Baker declares in his memoirs, but nowhere does he explain exactly what those "overriding strategic interests" are.

In fact, the most common explanations of the strategic importance of the U.S.-China relationship today are fraught with contradictions. American business leaders, and their supporters in the administration and Congress, constantly point to China's potentially vast market for American goods. But it is striking how unimpressive the economic numbers really are. Last year, American merchandise exports to China amounted to $12 billion, about 2 percent of overall exports. By comparison, American exports to Taiwan, with a population one-sixtieth as large as the mainland's, were $19 billion. Meanwhile, China has amassed a $34 billion trade surplus with the United States, enough to send Patrick Buchanan into fits of protectionist hysteria. Well might the boosters of the U.S.-China trade relationship insist, like Rep. Toby Roth, that "the key is not where China is today. What is important is where China is headed." But how impressive does the future look? Roth boasts that "in just 15 years, China will be our 13th largest export market." Now *there's* a strategic imperative!

In the late 19th century, many American businessmen succumbed to what some historians now call "the myth of the China market." The businessmen, the politicians, and the policymakers of the day could see only the unimaginable bounty that lay in the future of

such a populous country—even though earnings in the near-term proved minuscule and businesses had to suffer losses in an effort to wheedle their way into the good graces of the Chinese powers that controlled foreign trade. A full century later, the bounty is still elusive, but the myth is just as potent.

And today's proponents of the China trade on strategic grounds have adopted another 19th-century nostrum as well: the conviction that increasing trade is the solvent for all the problems of mankind. Nations that trade with one another, the theory goes, will not let clashing strategic interests get in the way of making a buck. After all, Rep. Roth insists, "Economic strength, not military might, determines the world's great powers today." In testimony before Congress recently, Clinton administration official Stuart Eizenstat defended the renewal of most-favored-nation status for China on the grounds that the "commercial relationship provides one of the strongest foundations for our engagement." Argues undersecretary of state Peter Tarnoff: "Our economic and commercial relations increase China's stake in cooperating with us and in complying with international norms." Robert Dole, once the mainland's foe, now agrees: In a May 9 speech, he argued that "extension of most-favored-nation status [is] the best way to promote our long-term interests in China. . . . In China, continuing trade offers the prospect of continuing change."

Is that true? Few Republicans and conservatives would say that trade will reform Castro's Cuba. Nor would they be likely to forget that during the Cold War, the Jackson-Vanik restrictions on trade with the Soviet Union did not prevent political liberalization. On the contrary, the denial of most-favored-nation status to the Soviets may have encouraged reform by forcing the Communist leaders in Moscow to undertake political liberalization as the prerequisite for economic growth.

The view that economics is paramount while military, strategic, and political issues are of declining importance—so-called Manchester liberalism—was rampant in the 19th and early 20th centuries, right up until the outbreak of World War I. It is as dangerous a misconception today as it was then. Nevertheless, this assumption now lies at the heart of American China policy. We need to engage so we can trade, say the businessmen; yes, say the China experts, and we need to trade so we can engage.

In their search for a new rationale for preserving a close relationship between the United States and China, the adherents of today's bipartisan consensus have had to employ such logic constantly. Indeed, the logic of the U.S.-China relationship today has turned in on itself. In the 1970s, the case for strategic partnership with China was that it was necessary to meet the threat posed by the Soviet Union. Today, it seems, strategic partnership with China is necessary to meet the threat posed by China. Secretary of State Warren Christopher put the case best in his speech on May 17. He noted the "importance of China to our future security and well-being." And what, in addition to the lure of the market, is that importance? The answer is that "China can tip the balance in Asia between stability and conflict." In other words, we need a good relationship with China because China is dangerous. Or as Eizenstat put it, "It is when China's policies are the most difficult that engagement becomes the most essential."

It's a nice racket the Chinese have going. By the current circular logic of American policy, the more trouble the Chinese make—whether in Taiwan, or on trade, or in the South China Sea, or in weapons sales to rogue states—the harder the United States has to work to "engage." There is no dispute on this point now between the leading figures of both parties. Henry Kissinger, in an op-ed piece a few weeks ago, declared that "after Chinese leaders had been pilloried and threatened with sanctions for years," what was needed now was "a serious strategic and political dialogue, . . . a sustained effort to define a common assessment of the future of Asia." Christopher soon after announced his intention to "develop a more regular dialogue between our two countries." The idea is that regular consultations will "facilitate a candid exchange of views, provide a more effective means for managing specific problems, and allow us to approach individual issues within the broader strategic framework of our overall relationship."

BY THE CIRCULAR LOGIC OF AMERICAN POLICY, THE MORE TROUBLE THE CHINESE MAKE, THE HARDER WE MUST WORK TO "ENGAGE."

We may be forgiven for doubting whether such candid talks will make a big difference. After all, it's not as if efforts at assiduous diplomacy haven't been tried. After the massacre in Tiananmen Square in 1989, President Bush and his secretary of state saw their main task as protecting the important strategic relationship with China from American outrage at Beijing's massive abuse of individual rights. According to Baker, President Bush's first reaction upon hear-

ing of the assault at Tiananmen was: "It's going to be difficult to manage this problem." And indeed it was, as Baker's memoirs amply demonstrate. Baker employed precisely the negotiating style that the China experts insist is the only kind capable of producing results—quiet negotiations, no public threats, none of the "spasmodic harassment" Kissinger finds so detrimental, and constant attention to the fact that, as Baker writes, "face is unusually important to [the Chinese], so an interlocutor must negotiate a delicate balance that nudges them toward a preferred course without embarrassing them in the process." Despite all this subtle diplomacy, the Chinese gave Baker absolutely nothing for his troubles. Chinese officials, Baker recalls, "had no compunction about asking for American concessions while simultaneously ignoring my request for 'visible and positive Chinese steps' to make it easier to allay congressional and public anger with Beijing." Throughout the four years of the Bush administration, Baker acknowledges, "the Chinese relationship essentially treaded water."

Under present policies, in the years to come the United States will continue to tread water, or worse. The truth is, our posture today is, simply, plain old appeasement. One bit of proof is that we are not supposed even to use the word "containment" to describe our policy toward China lest we suggest to the Chinese that in some way we may consider them adversaries. The United States "should not, and will not, adopt a policy of containment towards China," declares Undersecretary Tarnoff. Why not? Because "we would gain nothing and risk much if China were to become isolated and unstable." In other words, even if it were necessary to contain China, it would be too dangerous to attempt the task. This is Kissinger's view, as well. Any attempt to pursue a policy of "containment" of China, Kissinger has argued, is "reckless" and a "pipe dream."

Such a skittish approach to another world power might be forgivable if our own nation were weak. But the same people who fear a policy of "containment" often boast that China needs the United States more than the United States needs China. In a trade war, for instance, Eizenstat argues that "China has a lot more to lose than we do." Like that $34 billion trade surplus, for instance. According to Baker, the Chinese "need our help to sustain their economic growth." And Baker, who got nowhere in four years of subtle diplomacy with Beijing, even believes that the Chinese understand toughness: "Strength inevitably irritates the Chinese, but they understand it. And the absence of resolve in dealing with them can lead to serious miscalculation on their part."

And yet "the absence of resolve" would seem to be the best characterization of the policy that the Bush administration and now the Clinton administration have chosen to pursue toward China. When Baker negotiated with the Chinese during the Bush years, he always went out of his way to make clear that the Bush administration was entirely "committed to maintaining the relationship," that it was always "seeking ways to reconcile our estrangement." Little wonder that, according to Baker, the Chinese "seemed utterly oblivious to our concerns." It is axiomatic that if the United States enters all negotiations with China with the mutual understanding that ultimately American leaders will not allow an estrangement in the relationship, then the Chinese will win in most of the negotiations.

In every relationship between nations there is a horse and a rider, Bismarck once noted, and one should endeavor to be the rider. American policy toward China today almost guarantees that we will be the horse.

How can the United States restore the resolve that James Baker believes is so essential to effective dealings with China? This week Congress is debating and voting on the renewal of most-favored-nation status for China. It will surely pass, and perhaps it ought to. The fate of U.S.-China relations should not rest on this relatively narrow issue. The problem with our China policy goes deeper than simple trade rules. Dealing with an increasingly powerful and ambitious China over the coming years will require a strong and determined America willing either to engage or to contain China, depending on Chinese behavior.

Still, most-favored-nation status has become a symbol of China's whip hand over us. Our unwillingness to pay what is still a relatively small economic price in terms of lost trade opportunities; our fear that any crisis in U.S.-Chinese relations that might result from denial of most-favored-nation status is too dangerous to risk; our concern that in any confrontation it is we, not they, who will be most likely to blink—these are all sizable cracks in our armor the Chinese can exploit, have exploited, and, indeed, are exploiting.

Thus one can only conclude that before we can conduct a successful strategy of compelling China to "play by the rules of the international system," in the words of Bob Dole, we will have to break our addiction to the China-market myth. And that can only come about if policymakers, economists, and businessmen begin to look at the hard truth and stop allowing their dreams of a gold rush to outweigh more vital concerns—not only America's strategic interests, but the basic liberties of more than a billion people living beneath the yoke. ♦

Mr. SOLOMON. Thank you. Mr. Chairman, the main thrust of my argument today is that the policy of engagement with Communist China is a failed policy on all fronts, security and foreign policy, human rights and trade. The behavior of the regime in Beijing is worse today than it was a year ago and it is worse year by year by year. It never gets better. The argument that trade and engagement would modify the behavior of the Chinese Communists has once again failed to hold any water, and you all know it in this body here today. The examples of abhorrent and dangerous behavior by the dictatorship are too numerous to even cover completely, so I will name just a few here this morning and yield to some of my colleagues to further elaborate on them.

First, I am compelled to mention that as we speak, there is a vicious crackdown on dissent taking place in Tibet and we all ought to keep that in mind as we deliberate this issue and we ought to be ashamed of ourselves if we do not use everything in our power to do something about it. We must remember that we are talking about a Communist dictatorship that commits crimes against its own people every single day of the year.

Mr. Chairman, the People's Republic of China represents a growing threat to the national security interests of this country and you had better pay attention to that. Backed by its rapidly growing military power that has more than doubled in the last several years, the PRC has begun to throw its weight around in East Asia, bullying our democratic friends in Taiwan, and that was a disgrace, and acting aggressively in the Spratly Islands, and it goes on and on.

This should not have surprised anyone, Mr. Chairman. The People's Republic of China has been increasing its military budget by double digits for years now and has been making a concerted effort to increase its power projection capabilities. That is a fact. Take the time to research it.

We should be very concerned about recent purchases from Russia of SU–27 fighters. What do they need those for? And Kilo-class submarines—what do they need those for? And especially about the ongoing attempts to acquire SS–18 ICBMs from Russia. What do they need those for? Ladies and gentlemen, you had better think about it. What do we think that Communist China is going to do with these?

The SS-18 issue is especially provocative in light of the recent veiled threats by a PRC official to bomb Los Angeles. Can you imagine a superpower even saying such a thing? Just look at the recent nuclear bomb test that was similar to the bombs exploded in World War II. I think it was an 80-kiloton, which was equivalent to a 5.7 magnitude earthquake. That is pretty serious, ladies and gentlemen.

Turning to proliferation matters, what can we say? Even I, someone who actually expects Communist China to misbehave this way have been amazed at the number of cases of irresponsible proliferation policy on the part of the PRC in just the past few months, and I hope you all are following this. Hardly a day goes by when we do not read about things like Chinese nuclear ring magnet shipments to Pakistan. Have you read about that? Chemical weapons technology transfers to Iran—have you read about that? Cruise

missile shipments to Iran—have you read about that? Uranium processing technology to Iran, plutonium processing technology to Pakistan, and the list goes on and on.

Go upstairs in the Capitol to our intelligence briefings and just see what is going on, ladies and gentlemen, and I think every one of you would change your mind on this issue. These activities materially contribute to the proliferation of weapons of mass destruction, directly threaten U.S. troops in the Persian Gulf, violate arms accords the PRC has signed, and violate several provisions of U.S. law. How can we go along with countries that violate our own laws? Mr. Rangel, you spoke to it.

That brings me to this administration's policy toward Communist China, which, incidentally, is condoned by too many Republicans in this Congress, as well, and I will be critical of those Republicans. In addition to granting MFN, in addition to giving the PRC $800 million of support through the Export-Import Bank in 1995, in addition to not opposing the $4 billion in multilateral loans to China every single year to bring in slave-labor goods into this country that are produced by military-owned corporations, this administration has flippantly, in my opinion, refused in every case to apply U.S. law to these outrageous and dangerous cases of proliferation in the People's Republic of China.

What we have here, Mr. Chairman, is appeasement, pure and simple. They may call it "engagement," just as in the seventies they called it "detente," but it is the same thing and we have the same results, a totalitarian power running amok while showing absolute contempt for U.S. policy. I, for one, am not willing to take that, and why should not they?

In this atmosphere of appeasement, they know that they can get away with anything, from threatening our allies, which they have done, to spreading weapons of mass destruction, which they have done, to killing their own people, to destroying American jobs with mercantile trade practices. And it is the on the job issue that our China policy really hits home. I will let Ms. Pelosi and others speak to that more in detail.

But once again, our trade deficit with China has skyrocketed. It is over $34 or $35 billion now. It will hit $40 billion before the year is out. What do you think that does to jobs in America? You had better think about it. Meanwhile, we continue to give China carte blanche in our markets with MFN.

This has got to stop, Mr. Chairman and my colleagues, and words will not stop it. Rhetoric will not stop it. Sitting down and talking will not stop it. They need to be shown. We have the economic power to bring pressure to bear on these tyrants and we ought to use it—250 million Americans with the strongest buying power in the world, that is what you use against them, and they will sit down and they will talk and they will come to their senses.

Terminating MFN is the first and best place to start, ladies and gentlemen. When the vast American market for Communist Chinese goods is shut off, believe me, these greedy dictators will start to show a little more flexibility. I urge the Subcommittee to give every consideration to this year's resolution of disapproval of MFN for China.

I would also like to lend my support to the legislation introduced by my friend, Mr. Cox, that is before your Subcommittee which would link MFN for China to Taiwan's entry into the World Trade Organization. That is only fair. I commend Mr. Cox for his creative approach to the problem with China and I am going to use every power I have in the Rules Committee to try to get that legislation forwarded out of your Subcommittee and to us and onto the floor.

I have introduced legislation which is currently before the Banking Committee that would attempt to deny multilateral loans to Communist China until they clean up their act and become responsible, good citizens expected of a world power like them.

The bottom line, Mr. Chairman, is the current situation begs for a China policy and I urge your firm support of this legislation to get it to the floor. I am sorry to have taken up so much time.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT BEFORE THE WAYS AND MEANS TRADE SUBCOMMITTEE
ON CHINA MFN
REP. GERALD B. SOLOMON
JUNE 11, 1996

Mr. Chairman and members of the committee,

I have been coming before this committee so many years now to talk about this issue it seems like deja vu.

I think you all know my views on this issue, so I will be brief.

Mr. Chairman, the main thrust of my argument today is that the policy of engagement with Communist China has failed.

On all fronts....., security and foreign policy, human rights, and trade, the behavior of the regime in Beijing is worse today than it was a year ago.

The argument that trade and engagement will modify the behavior of the Chinese Communists has, once again, failed to hold any water.

The examples of abhorrent and dangerous behavior by this dictatorship are too numerous to cover completely, so I will name just a few.

First, I must mention that as we speak, there is a vicious crackdown on dissent taking place in Tibet, and we all ought to keep this in mind as we deliberate this issue.

We must remember that we are talking about a Communist dictatorship that commits crimes against its own people every day.

Mr. Chairman, we also must remember that the People's Republic of China represents a growing threat to the national security interests of this country.

Backed by its rapidly growing military power, the PRC has begun to throw its weight around in East Asia, bullying our democratic friends on Taiwan and acting aggressively in the Spratly Islands.

Most of all we should be very concerned about recent attempts to acquire SS-18 Intercontinental Ballistic Missiles from Russia, which could directly threaten the American people.

This is especially provocative in light of the recent veiled threats by a PRC official to bomb Los Angeles.

Turning to proliferation matters, well, what can we say?

Hardly a day goes by when we don't read about things like Chinese nuclear ring magnet shipments to Pakistan...., chemical weapons technology transfers to Iran....., cruise missile shipments to Iran....., uranium processing technology to Iran....., plutonium processing technology to Pakistan..... and the list goes on and on.

These activities materially contribute to the proliferation of weapons of mass destruction, directly threaten US troops in the Persian Gulf, violate arms accords the PRC has signed, and violate several provisions of US law.

Which brings me to our current policy toward Communist China.

In addition to granting MFN....., in addition to giving the PRC $800 million of support through the Export-Import Bank in 1995....., in addition to not opposing the $4 billion in

multilateral loans to China every year....., the administration has declined, in every case, to apply US law to these outrageous and dangerous cases of proliferation by the PRC.

This may be called engagement, just as in the 1970s it was called detente, but it is the same thing and we have the same results:

a totalitarian power running amok while showing absolute contempt for US interests.

And why shouldn't they? In this atmosphere of engagement at all costs, they know they can get away with anything, from threatening our allies to spreading weapons of mass destruction to killing their own people to destroying American jobs with mercantile trade practices.

And it is on the jobs issue that our China policy really hits home. Once again, our trade deficit with China has surged, and now stands at $34 billion.

Mr. Chairman, China does not grant fair access to our goods, period.

Meanwhile, we continue to give China carte blanche in our market with MFN.

This has got to stop, Mr. Chairman. We must stand up for the American worker and American interests, and words won't do it.

We have the power, especially the economic power, to bring pressure to bear on these tyrants, and we ought to use it.

Terminating MFN is the first and best place to start.

When the vast American market for Communist Chinese goods is shut off, believe me, these greedy dictators will start to show more flexibility.

I urge the committee to give its every consideration to this year's resolution of disapproval of MFN for China which as I understand will be offered by my friend Mr. Rohrabacher.

I would also like to lend my support to the legislation introduced by Mr. Cox that is before your subcommittee which would link MFN for China to Taiwan's entry into the WTO.

I commend Mr. Cox for his creative approach to the problem of China.

I myself have introduced legislation which is currently before the Banking committee that would attempt to deny multilateral loans to Communist China.

The bottom line, Mr. Chairman, is that the current situation begs for a China policy, and I urge your fine subcommittee to give careful consideration to all of these proposals.

I thank the Chairman and the subcommittee for the time.

Chairman CRANE. Thank you for your testimony.
Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you, Mr. Chairman.

My remarks will be very short. This is kind of deja vu. We seem to have this same cast of characters every year before this Subcommittee. But it is important, and I do appreciate the opportunity to testify. I also commend you, Mr. Chairman, and this Subcommittee for holding these hearings. It is important that we have these hearings on the issues related to United States-China trade.

Our economic stake in maintaining trade relationships with China, is widely known. So, I am going to limit my very brief remarks today to the effect which denying China's most-favored-nation trade status would have on the issue which polarizes Congress every year at this time, and that is the issue of promoting human rights in China.

I strongly support the President's decision to renew most-favored-nation status for China, a decision which is also supported by our likely Republican nominee, Senator Dole. I do so because I firmly believe that the single most effective tool we as a nation possess to advance the cause of human rights in China is our power to influence, and our power to influence changing political conditions in China, is tied very directly to our continued economic engagement with them.

I disagree with my colleague, the very distinguished Chairman of the Rules Committee, Mr. Solomon, when he says that nothing has gotten better. Can anyone deny that conditions are certainly better than they were during the bizarre years of the cultural revolution of the sixties and seventies, when thousands of people were executed? It is a much more open society today in China than that.

It is because our ability to influence conditions in China is tied to our economic engagement that renewal of unconditional MFN is so critical. We cannot retreat. We cannot hide from the challenges that face the United States-China relationship, some of which have been outlined by my colleague here this morning.

We have to use our economic influence to promote meaningful change within China. Every day and in every way that we engage China in trade, we are transforming Chinese society from within. History has demonstrated this time and again, whether it has been in Korea, whether it has been in Taiwan, whether it has been in Chile, that economic growth and prosperity does lead to political freedom. History also teaches us that isolationism and economic stagnation lead to repression, and North Korea, is a case in point there.

If we revoke or limit our trade with China, we are going to be diminishing our ability to promote change in that country. U.S. economic sanctions would harm the emerging Chinese private sector and the dynamic market-oriented provinces in Southern China, which are remarkably different from the rest of China and which are the most heavily dependent on trade. This would weaken the

very forces in Chinese society that are pressing the hardest for real change in that country.

Perhaps most important, we ought not to forget the impact denial of MFN would have on the fledgling democracies of Taiwan and Hong Kong, the latter of which next year will be coming under the Chinese flag. For them, and they have been very clear on this, loss of MFN for mainland China would be catastrophic and lead to economic chaos at a critical juncture in their political history.

The United States must remain engaged in China, Mr. Chairman. We must continue our daily struggle to promote freedom, individual liberty, and the institutions of democracy in that country. Only through engagement are we going to have influence, and only through influence are we going to promote change.

So, I strongly urge this Subcommittee to keep us engaged by recommending renewing unconditional MFN for China, and I thank you, Mr. Chairman, for the opportunity to testify.

[The prepared statement follows:]

Thank you very much for the opportunity to testify today. I commend this Subcommittee for holding hearings on the important issues related to United States-China Trade. Our economic stake in maintaining trade relationships with China is well known. Therefore, I will limit my testimony today to the effect which denying China's Most-Favored-Nation trade status would have on the very issue which polarizes Congress every year at this time—the promotion of human rights in China.

I strongly support the President's decision to renew Most-Favored-Nation status for China. I do so because I firmly believe that the single most effective tool we as a nation possess to advance the cause of human rights in China is our power to influence. Just as important, our influence on changing political conditions in China is tied directly to our continued economic engagement with them. Can anyone deny conditions are better than during the bizarre years of the cultural revolution of the 1900s and early 1970s.

That is why the unconditional renewal of MFN is so critical. We cannot retreat and hide from the challenges facing U.S-China relations. We must use our economic influence to promote meaningful change within China. Every day and in every way that we engage the Chinese in trade, we are transforming Chinese society from within. History has demonstrated this time and time again—whether in Korea, in Taiwan, or in Chile—that economic growth and prosperity leads to political freedom. History also teaches us that isolationism and economic stagnation lead to repression. North Korea is a case in point.

If we revoke or limit our trade with China we will be diminishing our ability to promote change. U.S. economic sanctions would harm the emerging Chinese private sector and the dynamic market-oriented provinces in Southern China, which depend on trade. This would weaken the very forces in Chinese society pressing hardest for economic trade. Perhaps most important, we should not forget the impact denial of MFN would have on the fledgling democracies of Taiwan and Hong Kong. For them, loss of MFN for mainland China would be catastrophic, leading to economic chaos at a critical juncture in their political history.

The United States must remain engaged in China. We must continue our daily struggle to promote freedom, individual liberties, and the institutions of democracy in China. Only through engagement can we have influence, and only through influence can we promote change. I strongly urge this Subcommittee to keep us engaged by recommending renewing unconditional MFN for China.

Thank you again for the opportunity to testify today.

Chairman CRANE. Thank you, Mr. Kolbe.

Ms. Pelosi.

STATEMENT OF HON. NANCY PELOSI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. PELOSI. Thank you very much, Mr. Chairman. Mr. Rangel, happy birthday. Members of the Subcommittee, thank you for the opportunity to be here today.

We can all agree that the United States-China relationship is an important one and that we look forward to a brilliant relationship with the Chinese people economically, diplomatically, politically, and culturally. At the same time, I believe that in our international relationships we must strive to make the world safer, people freer, and trade fairer. On none of those scores does our United States-China policy measure up.

I know that many Members of the Subcommittee believe that trade should not be linked to violations of human rights and proliferation. I disagree. However, I am going to focus my remarks today strictly on the economics of our United States-China trade policy and relationship.

If we consider the United States-China relationship solely on economic grounds, China should not receive unconditional MFN for three reasons: Lack of market access to U.S. products, violation of intellectual property rights, and the transfer of technology and production to China.

While I intend to discuss trade, I do want to mention the name of Bao Tong, a courageous dissident in China who was released from prison after serving his 7-year sentence on May 27, but is now under house arrest. I wish to associate myself and those of my colleagues who work in the daily struggle for human rights in China with his challenge to the President of China and the Politburo. Mr. Bao charges them with taking the law into their own hands, by preventing a prominent voice of party reform and democracy from emerging lawfully. Even the State Department's Country Report for 1995 says that economic reform has not led to political reform in China.

But back to the trade issues, lack of market access, violation of intellectual property rights, and technology transfer. The Chinese government allows only a handful of industries and their products into China, primarily telecommunications, fertilizer, aerospace, grain, and some technology. Most goods and services made in America or developed in America are not allowed there. The emphasis of supporters of unconditional most-favored-nation status to China is always on U.S. exports to China.

I would like to call to the attention of the Subcommittee the growth of the exports and imports in the past 10 years. It has tripled. At the same time the imports from China have increased 11 times, leading to a $35 billion trade deficit. The trade deficit is expected to exceed $40 billion in 1996. This is, in one way, attributed to lack of market access for U.S. products.

Another alarming aspect of this trade is the 4-to-1 ratio of what we buy from China to what they buy from us. The Chinese ship one-third of their products as exports to the United States. We export 2 percent of our products into China. Because of lack of market access, we cannot export more.

Many people who promote MFN for China unconditionally point to the number of U.S. jobs tied to United States-China trade. I have another chart which I want to call to Members' attention that is with my statement. We have a $57 billion trade relationship with China. If you take a comparably sized trade relationship and look at the number of jobs generated, you will see that we have a real problem here.

According to President Clinton's statement accompanying his request to renew MFN, exports to China support 170,000 American jobs. It is, therefore, interesting to note the following. United States trade with the United Kingdom is $55.7 billion and it supports 432,000 American jobs, two-and-a-half times more than United States-China trade. United States-West German trade totaled $59 billion in 1995 and supported 336,000 U.S. jobs. United States-South Korean trade totaled $49 billion in 1995, almost $10 billion less than the United States-China trade, and supported 381,000 American jobs, over twice as many as the United States-China trade. I hope you will study these numbers and take pause as you see what our lack of market access is doing to this trade relationship.

As you have heard the $2.3 billion in losses due to the violation of our intellectual property rights does harm to the American economy. That $2.3 billion is not even included in the trade deficit that I mentioned. This Subcommittee is well aware of the movies, music, and software theft that China is engaged in, so I will not go into detail on that except to say that I am pleased that Mr. Rangel is a cosponsor of my bill, which states that the Chinese must live up to the agreement, not just agree, but must live up to the intellectual property rights agreement, or the President must issue sanctions. So, the President must issue sanctions under that bill unless China lives up to the agreement. No more agreements. The must live up to already existing agreements.

We are told regularly by economists and labor force specialists that the future of our economy is our intellectual property, the genius that rises from the great American freedom of expression and freedom of thought. In that real way, with their continuing patterns and practice of theft of our intellectual property, the Chinese are stealing our economic future.

Last, Mr. Chairman, in my statement, I go into some of the problems about intellectual property theft, the most significant of which is that it is largely for export. The United States is competing with its own intellectual property pirated by the Chinese for export from China to the rest of the world.

I support the administration's decision to publish a preliminary sanctions list and commend U.S. Trade Representative Charlene Barshefsky and Deputy Trade Representative Lee Sands for their unrelenting efforts to protect U.S. intellectual property rights.

My last point is on technology transfer. We must be concerned about the harm to our economy of the technology transfer and production which is accompanying U.S. sales to China. The Chinese government demands that American companies wishing to obtain access to the Chinese market, because most products made in the United States do not have access, must not only build factories there but also transfer state-of-the-art technology in order to do so. The government then misappropriates that technology to build China's own industries. The companies have little choice, in light of the high tariffs for U.S. products to reach the Chinese marketplace.

A recent Washington Post article entitled "A China Trade Question: Is It Ready for Rules?" states that, 'As vital as the Chinese market is, the appropriation of foreign technology by the Chinese poses a serious problem for the industrialized world, much more serious than CD pirating', said Kenneth DeWoskin, a professor at the University of Michigan. 'Think of telecommunications, automotive, and electronics, as very high technological chemicals. There is enormous value in that technology. You are talking about billions of dollars. When you provide technology to your Chinese venture, it has to be certified by the Engineering and Design Institutes, whose job it is to disseminate technology to domestic Chinese ventures.'

The Chinese Government is building its own industries to the detriment of the long-term vitality of our industries, and we are not only letting them do so, we are encouraging this practice.

I call to the attention of the Subcommittee this report, "Jobs on the Wing," by the Economic Policy Institute. It reports about the fact that the Chinese aerospace industry already employs 500,000 workers manufacturing planes in China and pays them an average of $50 a month. In one example, China is working closely with McDonnell-Douglas, assembling Western-designed commercial MD–82–Ss, a co-production deal. It is expected to dramatically increase Chinese content, reportedly up to 85 percent by the end of the year. I also call to your attention, once again, the fact that the 737 rear fuselage and tail sections which American workers produced for Boeing are now being produced in Xian, China, by workers who earn $50 a month.

The Chinese Government's industrial policy of targeting certain U.S. industries is by no means limited to aerospace, and I go into more detail in my statement. In the interest of time, I will skip over that right now, but it relates to General Motors and other automobile manufacturers opening plants there to make parts, directly stealing high-paying jobs from American workers.

Technology and production transfer can only result in a loss of an increasing number of American jobs as we lose our job-intensive industries to a cheaper, more manipulable work force.

Finally, since this hearing is about MFN, I will say that the annual review for MFN for China can give Congress and the administration increased leverage with the Chinese Government. I believe it is important to review the state of the United States-China relationship on an annual basis. During the debate, we gauge most whether U.S. policy is making trade fairer, people freer, and the world safer. It is a useful legislative vehicle to see if we are making progress in these areas. One-third of China's exports come to our country. Only 2 percent of our exports are allowed in their country. China will not walk away from the U.S. market access they desperately need.

Until the Chinese government plays by the rules, we should not grant China unconditional most-favored-nation status. I will repeat one more time that the current policy, which tolerates lack of market access, piracy of our intellectual property, and the transfer of our technology to China does damage to our economy, undermines our commitment to promoting democratic freedoms, and threatens our National security. It does harm to the American worker, and on that basis alone, China should not receive most-favored-nation status.

Thank you very much, Mr. Chairman.

[The prepared statement and attachments follow:]

Representative Nancy Pelosi

Subcommittee on Trade
Hearing on MFN for China

June 11, 1996

Chairman Crane and Members of the Subcommittee on Trade, thank you for the opportunity to appear before you today.

We can all agree right from the start that the U.S.-China relationship is an important one and that we look forward to a brilliant future with the people of China, politically, economically, diplomatically and culturally. At the same time, I believe that in our international relationships, we must strive to make the world safer, people freer, and trade fairer.

As you know, there are serious concerns in Congress about a number of aspects of the U.S.-China relationship. These concerns fall into the broad categories of trade, proliferation, and human rights. I know that many of the members of this Committee believe that trade should not be linked to violations of human rights and proliferation. I disagree. However, even if we consider the U.S.-China relationship solely on economic grounds, China should not receive unconditional MFN.

I will focus my remarks on some Congressional concerns about the economics of the U.S.-China relationship. The picture, I am afraid, is not a good one, particularly in light of the lack of access to the Chinese market for the vast majority of U.S. goods and services. In my statement I will discuss the trade deficit, intellectual property rights violations, technology and production transfer, and MFN.

While I intend to discuss trade, I would first like to bring to your attention a situation of immediate and pressing concern in China today. This should be of particular interest to those who support unconditional MFN and "commercial engagement" arguing that their way spurs political reform and helps political reformers.

One of China's most important reformers is Bao Tong, a former advisor to Zhao Ziyang, the Communist Party chief sacked on the eve of the June 1989 crackdown. At that time, Bao was charged with leaking "state secrets" and imprisoned for seven years. He served his entire prison term and was released on May 27, but is now under house arrest under close guard at a guest house near Beijing.

It appears that the Chinese authorities are refusing to allow Bao Tong to return to his home and, according to this morning's New York Times, are preparing instead to keep Bao Tong and his family under permanent house arrest, in internal exile, without access to the telephone, to doctors or to lawyers. The Chinese police have reportedly told Mr. Bao they want him and his family members to agree to relocate to an unspecified new home to live in what Mr. Bao called a "cage" of police supervision and indefinite house arrest. This information is based on a letter by Bao Tong smuggled out of China.

The Administration and the business community should exercise their commitment to supporting reform in China by speaking out now on behalf of Bao Tong.

Now, I would like to present some basic facts on the U.S.-China trade relationship in three areas: lack of market access, intellectual property rights and technology transfer.

Lack of market access:

The Chinese government only allows into China a limited list of U.S. products -- primarily telecommunications, fertilizer, aerospace, some engineering, and grain -- and bars market access for most other U.S. goods and services. The emphasis of supporters of unconditional Most Favored Nation (MFN) status for China is not unexpectedly on U.S. exports to China. To understand the U.S.-China economic relationship, however, we must look at how trade has grown in both imports and exports.

While overall, U.S. exports to China have tripled in the last ten years, U.S. imports from China have grown eleven times, resulting in a trade deficit with China that has grown from $10 million in 1985 to $34 billion in 1995. In 1985 China was our 70th largest deficit trading partner; it is now our second largest deficit trading partner, second only to Japan. At the current rate, the U.S. trade deficit with China will likely surpass $41 billion in 1996 and will, within a matter of a few years, surpass our trade deficit with Japan.

Another alarming feature of this trade pattern is the four-to-one ratio of what we buy from China as to what they buy from us.

The U.S. is China's largest export market, with over one-third of their exports coming to our country. Less than 2% of U.S. exports go to China. At the same time, U.S. exports to other East Asian markets surpass our exports to China. In 1995, for example, U.S. exports to Taiwan, with 21 million people were $19 billion (supporting 288,000 U.S. jobs) and to China, with 1.2 billion, were under $12 billion.

One of the oft-cited statistics of those who favor unconditional renewal is the size of the overall U.S.-China trade relationship, which reached $57 billion in 1995. If we look at other trade relationships of comparable size, we will see that far more jobs here in the United States result from exports to other countries than from exports to China. These job statistics are based on the standard formula that every $1 billion in U.S. exports supports about 15,000 jobs.

According to President Clinton's statement accompanying his request to renew MFN, "U.S. exports to China support 170,000 American jobs..." It is therefore interesting to note the following:

* United States-United Kingdom trade totalled $55.7 billion in 1995 and supported 432,000 American jobs, two and one-half times more jobs than U.S.-China trade.
* U.S.-West German trade totalled $59 billion in 1995 and supported 336,00 American jobs.
* U.S.-South Korean trade totalled $49.5 billion in 1995 and supported 381,000 American jobs, over twice as many as U.S.-China trade.

The numbers of jobs supported by U.S.-China trade are important, yet they must be seen in the larger context of jobs lost through lack of market access, violations of intellectual property rights and technology and production transfer.

Intellectual Property:

We should all be concerned about the harm to our economy of the ongoing practice by the Chinese of violating our intellectual property rights, which is estimated to have cost the U.S. economy over $2.3 billion in 1995. The trade deficit and jobs numbers do not include the impact on the U.S. economy of Chinese piracy of U.S. software, CD's, videos, pharmaceuticals, books, movies and music.

We are told regularly by economists and labor force specialists that the future of our economy is our intellectual property -- the genius that arises from our great democratic tradition of freedom of expression and freedom of thought. In that very real way, with their continuing patterns and practices of theft of our intellectual property, the Chinese are stealing our economic future.

In China, it is possible to buy $12,000 of pirated U.S. software on a CD-ROM for $10. Pirated versions of Windows'95 were available in China as the real thing was released in the U.S. Most of the production of stolen intellectual property in China is not for Chinese domestic consumption. Our IP is being stolen and produced mostly for export. China's domestic consumption capacity of CD's is only 7 million annually -- and its CD production capacity is currently 150 million units per year.

The piracy does not stop at software. There are reports of pirated raw materials -- like integrated circuits from China -- showing up in Paraguay for distribution throughout the Americas. China's piracy of our intellectual property, while barring access for U.S. products to China's market, robs American workers of jobs and undermines our global competitiveness.

I support the Administration's decision to publish a preliminary sanction list and commend U.S. Trade Representative Charlene Barshefsky and Deputy U.S. Trade Representative Lee Sands for their unrelenting efforts to protect U.S. intellectual property rights.

Technology transfer:

We must also be concerned about the harm to our economy of the technology transfer and production transfer which is accompanying U.S. investment in China and U.S. sales to China.

The Chinese government demands that companies wishing to obtain access to the Chinese market not only build factories there, but also transfer state-of-the-art technology in order to do so. The government then misappropriates that technology to build China's own industries. The companies have little choice, in light of the high tariffs for their products to reach the Chinese marketplace.

A recent Washington Post article, "A China Trade Question: Is It Ready for Rules?" (May 19, 1996), states that

> as vital as the Chinese market is, the appropriation of foreign technology by the Chinese poses a serious problem for the industrialized world -- "much more serious than CD pirating," said Kenneth DeWoskin, a professor at the University of Michigan and adviser with Coopers & Lybrand's China consulting business. "Think of telecommunications, automotive, electronics, very high technology chemicals -- there's enormous value in that technology. You're talking hundreds of billions of dollars."

DeWoskin continued,

> "When you provide technology to your Chinese venture, it has to be certified by one of these research and design institutes," he said, "But unfortunately, those are the same institutes whose job it is to disseminate technology to domestic ventures."

The Chinese government is building its own industries to the detriment of the long-term vitality of our industries and we are not only letting them do this, we are encouraging them in this practice.

The aerospace industry is an excellent example of the pattern of technology and production transfer. According to a 1995 study by the Economic Policy Institute, Jobs on the Wing, the Chinese aerospace industry already employs 500,000 workers manufacturing planes in China -- and pays them an average of $50 a month. One example: China is working closely with McDonnell Douglas assembling Western-designed commercial aircraft, MD-82s, in a coproduction deal. The coproduction of MD-90 "Trunkliners," is expected to have dramatically increased Chinese content, reportedly up to 85% by the end of the production run. Several years ago, Boeing shut down a plant in Wichita, Kansas -- the 737 rear fuselage and tail sections which American workers produced are now being produced by workers in Xian, China, who earn $50 a month.

The Chinese government's industrial policy of targeting certain U.S. industries is by no means limited to aerospace. General Motors, for example, has plans to build parts plants in China -- plants which it is believed will produce auto parts for export and will displace American autoworkers.

I understand the position of any given business on the U.S.-China relationship. Each business is, after all, concerned for its own bottom line. But we here in Congress are supposed to have a broader view -- someone is supposed to keep their eye on the public interest, on the bigger picture -- and the bigger picture here is neither a pretty nor an encouraging one.

Technology and production transfer can only result in the loss of an increasing number of American jobs as we lose our job-intensive industries to a cheaper and more manipulable labor force. The belief that we have only lost and are only losing our low-wage, low-skilled jobs to China is a completely fallacious one. The Chinese government is carefully and calculatedly building its own economic future by acquiring overtly and covertly, legitimately and illegally, our technology, our production, and our genius, the very blueprints of our economy.

Finally, since this hearing is about Most Favored Nation status for China, I will say that the annual review of MFN for China can give the Congress and the Administration increased leverage with the Chinese government. I believe it is an important opportunity to review the state of the U.S.-China relationship. During the debate, we must gauge whether U.S. policy is making trade fairer, people freer, and the world safer. We must retain the legislative vehicle of MFN as a tool to make significant progress in these areas. One-third of China's exports come to our country, and the Chinese government will not walk away from the U.S. market access which they so desperately need. The current policy of unconditional renewal does damage to our economy, undermines our commitment to promoting democratic freedoms, and threatens our national security.

Until the Chinese government plays by the rules, we should not grant China unconditional Most Favored Nation status.

U.S. Merchandise Trade with China: 1985-1995

($Millions)

Year	U.S. Trade Balance	U.S. Exports	U.S. Imports
1985	- 10	3,852	3,862
1986	- 1,666	3,105	4,771
1987	- 2,805	3,488	6,293
1988	- 3,479	5,033	8,512
1989	- 6,181	5,807	11,989
1990	- 10,417	4,807	15,224
1991	- 12,698	6,278	18,976
1992	- 18,309	7,418	25,727
1993	- 22,768	8,767	31,535
1994	- 29,494	9,287	38,781
1995	- 33,807	11,748	45,555

Source: U.S. Department of Commerce

Aggregate 1995 trade data by country

Country Name	Trade Balance	Exports	Imports	Jobs Supported by Exports
West Germany	59,223,101,999	22,376,431,993	36,846,670,006	336,000
China	57,303,878,400	11,748,446,559	45,555,431,841	175,500
United Kingdom	55,718,066,628	28,826,885,373	26,891,181,255	432,000
South Korea	49,596,881,638	25,413,200,508	24,183,681,130	381,000

Note: Every $1 billion U.S. Exports supports about 15,000 jobs

Source: U.S. Department of Commerce, U.S. Trade Representative

U.S.-China Trade: The Status Quo

1995 Trade deficit:	**$34 Billion**
Tariffs:	
Avg. U.S. MFN tariff on Chinese goods:	2%
Avg. Chinese MFN tariff on U.S. goods:	35%
Exports:	
% of U.S. Exports allowed into China:	2%
% of Chinese Exports to the U.S.:	33%
Jobs:	
Chinese jobs supported by U.S. trade:	10,000,000
U.S. jobs supported by Chinese trade:	170,000
Trade Growth:	
Exports to China have grown:	3 Times
Imports from China have grown:	11 Times

Representative Nancy Pelosi

USTR 1996 "SPECIAL 301" DECISIONS AND IIPA ESTIMATED TRADE LOSSES DUE TO COPYRIGHT PIRACY (1995)

(in millions)

	Motion Pictures	Records & Music	Computer Software		Books	Losses TOTAL
			business	entertainment		
PRIORITY FOREIGN COUNTRY						
People's Republic of China	124.0	300.0	488.0	1286.0	125.0	2323.0
PRIORITY WATCH LIST						
Argentina	49.0	15.0		64.7	7.0	135.7
Greece (OCR, September)	59.8	6.0		20.8	5.0	91.6
India (WTO)	58.0	10.0		25.8	25.0	118.8
Indonesia	15.0	2.0		82.6	45.0	144.6
Korea	17.0	6.0		173.6	25.0	221.6
Turkey (WTO, GSP pending)	57.0	8.0		86.5	18.0	169.5

New York Times
June 11, 1996

Former Official, Under Detention, Issues Rare Challenge to China

By PATRICK E. TYLER

BEIJING, June 10 — The only senior Communist Party leader imprisoned after the 1989 pro-democracy uprising here today publicly challenged the basis for his continued detention at a remote police hideaway with no access to a lawyer, a doctor or a telephone.

The former official, Bao Tong, 63, completed a seven-year sentence on May 27 and has since been held under close guard at a guest house in the hills west of Beijing. Now, Mr. Bao says in a letter dated today, he has been informed by police authorities that he may never be allowed to go home.

Instead, the police said they want Mr. Bao and his family members to agree to relocate to an unspecified new home to live in what Mr. Bao called a "cage" of police supervision and indefinite house arrest.

"In this cage, there is no law, there is no lawyer, there is no doctor, there is no telephone and there is no time limit," Mr. Bao wrote in the letter, which was smuggled out of China and made public by human rights organizations. Mr. Bao and his family members have told the police that their actions are illegal.

Mr. Bao's letter represents a direct and open challenge to President Jiang Zemin and the Politburo, which is supervising Mr. Bao's case. He has accused them of taking the law into their own hands to prevent a prominent voice of party reform and democracy from lawful emergence.

Mr. Bao was the principal aide to the reform-minded Communist Party leader Zhao Ziyang, who was ousted over his refusal to approve the martial-law crackdown on student demonstrators in 1989.

Chinese legal experts said tonight that there seemed to be no legal basis for preventing a prisoner who has completed his term from returning to his home or from consulting a lawyer or a doctor. Family members say Mr. Bao has a low white blood cell count that makes him vulnerable to any infection.

"Bao Tong served his sentence right up until the last day and yet he is not free," said Robin Munro, the Hong Kong director of the New York-based Human Rights Watch. "They didn't do this in the past with prominent political prisoners. What are they afraid of?"

Chairman CRANE. Thank you, Ms. Pelosi.

Mr. Shaw.

Mr. SHAW. Thank you, Mr. Chairman.

I am a little concerned that coming into this debate is the imbalance of trade. If that were a consideration in our vote here today, then we should be talking to Korea and we should be talking to Japan. We should be talking to many of our trade partners.

I do not think that is a consideration, and I think that to try to inflame the Congress because of the imbalance of trade is really going in the wrong direction and is bringing something before this Subcommittee that is totally irrelevant to the debate that we are having here.

Ms. PELOSI. May I respond?

Mr. SHAW. Also, in thinking about what has happened in China over the last 15 to 20 years, the freedoms and the progress that China has made can be attributed to the many business people throughout the world who have invested in China, and we find that coming from a totally structured economy, we see it opening up to parcels of capitalism.

The capitalism that has taken place in that country, and we have seen it in Shanghai and particularly down in the south end of China, has brought about the freedom of the Chinese to be able to move. They no longer are completely dependent upon the state for jobs and, therefore, kept within their own community. So they are enjoying freedom, greater freedom of motion. There are things that are happening for them.

We can sit here all day and agree that there are abuses of human rights in China. There is no question about it, and I am in total agreement with that. But do we really, as the economic power of the world, want to shut off a country that is composed of such a high population, and is composed of such a growing economy? Do we want to penalize ourselves and the workers in this country by doing this? Do we want to further punish the Chinese by cutting off any hope they have for freedom?

The generator of what progress they have made is not attributed to their leaders, it is attributed to trade. Trade is what is making the difference, and we may not be satisfied with the progress that we have made, but do we really want to step back in time? Do we really want to cut off China's most-favored-nation status in a year when we are seeing Hong Kong coming into this mix? Do you see our cutting off Hong Kong, as well?

This is where I would like to focus my attention to Mr. Solomon and Ms. Pelosi. Do you feel that Hong Kong would be an exception or do you feel that Hong Kong also would be cutoff? Mr. Solomon?

Mr. SOLOMON. Let me respond first, Mr. Shaw, by saying I was a little surprised to hear you say that trade is not the issue that is before us on this bill.

Mr. SHAW. I said the balance of trade is not.

Mr. SOLOMON. Let me just say, I have spent the last several months defending your Subcommittee against those other standing Committees that would like to usurp your authority on the trade issues, the Foreign Affairs Committee, the National Security Committee——

Mr. SHAW. I do not think that is an issue, either, Mr. Solomon, but for that we are very grateful.

Mr. SOLOMON. So, we want to continue to defend your rights on the issue of trade.

Mr. SHAW. Thank you.

Mr. SOLOMON. However, let me just say something to you. There is nothing like the buying power of the American people. We do have the highest standard of living in the world, and we ought to be using it.

American foreign policy, whether there is a Republican or a Democrat in the White House, has always been to defend and encourage democracies around the world but never to insert ourselves militarily. But, we can use our buying power in this world to correct this problem.

I can tell you right now that we are being discriminated against. The General Electric Co. is being discriminated against in selling their steam turbines to China and other countries. We need to sit down. We need to use that buying power. Your Subcommittee can do it.

We would not be cutting off MFN for China indefinitely. You can do it for 30 or 60 days, or for 3 months. If you did it for 1 day, you would see them come rushing to the table and we would resolve a many of these problems and it would result in Chinese people being treated like decent human beings in the future, and that is what this is all about.

Mr. SHAW. Ms. Pelosi.

Ms. PELOSI. If I may respond, Mr. Shaw, you asked some very——

Mr. SHAW. If you could comment on what to do about Hong Kong, I would appreciate it.

Ms. PELOSI. Yes, I will be pleased to do that, but first, I want to address your statement about the deficit. You said you did not think it was appropriate for us to bring up the trade deficit as an issue. I disagree, respectfully, and want to call to your attention the growth of the trade deficit. Actually, we have been having this debate for 7 years but this chart shows it for the last 10 years.

Mr. SHAW. I understand that, but is it part of the Jackson-Vanik? Is it involved in that? Is that supposed to be involved? Look at the statute. Does the statute say anything about the balance of trade? I think not. I think it talks about human rights.

Ms. PELOSI. When we talk about human rights, you say they should not be linked. But I want to emphasize the trade deficit, because the fact that we lack market access into China is a very significant reason why the deficit has grown. While our exports to China have grown over the last 10 years 3 times, the imports from China to the United States have grown 11 times.

Accompanying the lack of market access and the high tariffs of our products, if they were allowed into China, is the transfer of technology, people who want to build factories there must transfer their technology. The technology is then misappropriated into other Chinese industries.

This Subcommittee has a responsibility to the American economy and to the American work force. We cannot hide behind chapter and verse of a bill to say that we will not consider what is happen-

ing in this trade relationship when Members of this Subcommittee and those who advocate not using MFN as a tool always point to the number of U.S. jobs that are tied to United States-China trade, indeed, they are doing so even here this morning.

You mentioned South Korea, I have a chart that I handed out with my statement which points to the fact that our trade relationship with South Korea is almost $50 billion. China's is $57 billion. The number of jobs that spring from the United States-China relationship are 175,500 jobs——

Mr. SHAW. Reclaiming my time, which has expired, long expired——

Ms. PELOSI [continuing]. While the number of jobs that spring from South Korea are 381,000. We are, indeed, just about in balance with South Korea.

Mr. SHAW. Ms. Pelosi, I have asked a question which has not been answered and my time has expired.

Mr. SOLOMON. Mr. Shaw, could I respond in one sentence?

Mr. SHAW. In closing, I would like the record to be very clear that the legislation about which this hearing is being held talks about human rights as reflected in the immigration policy of China and it does not speak to these other things that maybe we should have hearings on on a global basis, but it is not a subject of this hearing. Thank you.

Chairman CRANE. Mr. Houghton.

Mr. SOLOMON. Mr. Shaw, would you yield just for a one-sentence answer to your question? You had proposed the question to me. I guess I did not specifically answer it, but we all know that Hong Kong does not become a part of China until next year. It is irrelevant to the cutoff of MFN this year.

Ms. PELOSI. Further to Mr. Shaw, I think that MFN is not going to be cutoff. You know there is no chance of overriding a Presidential veto. But everyone who tells you that, because of Taiwan and Hong Kong, we should not revoke MFN, many of those same people say to us, keep up the debate. They know MFN is not going to be revoked.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

China is a better friend than it is an enemy. Therefore, how can we maintain our friendship and develop it over the years without using a sledgehammer? Obviously, we are not going to disavow Japan and take away their most-favored-nation status, and if I understand it correctly, in 1974 with the Jackson-Vanik amendment, they took the nonmarket economies and lumped them together.

But very similar conditions, irrespective of the technical reasons there, exist with Japan and China. We have a trade deficit, I would imagine, between $40 and $60 billion year after year after year with Japan, but we are not thinking of extracting ourselves from that particular relationship. So, there must be other ways of getting at this rather than falling back on the most-favored-nation situation.

Also, there was a man called Pei, Professor Minxin Pei of Princeton University, who indicated that—and he was a member of the group that was there in Tiananmen Square. He said the institutional foundations of a genuine democracy are slowly taking shape,

so the question is, how do we help them foster it, without being rather abrupt and unnecessarily decisive as far as the most-favored-nation issue?

Ms. PELOSI. Is it to me? I thank the gentleman for his very comprehensive question.

First of all, getting to your first point about China being a better friend than an—did you use the word adversary or enemy? I started my remarks by saying that we look forward to a brilliant future with the Chinese people in every way and that it is an important relationship. Let me also say that without putting a scale out there to say whether it is better or worse, China is engaged in activities in violation of many of our agreements, whether they relate to the proliferation of weapons of mass destruction, the transfer of nuclear technology to unsafeguarded states, or the transfer of cruise missiles and other missile technology to unsafeguarded states, making the world a less safe place.

At the same time the United States has an embargo on Iran and it wants to have a secondary boycott on countries doing business with Iran, we turn our head away from the transfer of cruise missiles by China—and this is undisputed, this is not even in doubt—to Iran, as well as to other dangerous technologies.

In terms of human rights and Jackson-Vanik, and this addresses something Mr. Kolbe said about the Cultural Revolution, what we should be comparing China's human rights situation to is not the cultural revolution—we were not engaged then—but to the last 10 years, when we have had this policy of engagement. In that period of time, even by the State Department's own Country Report, economic reform has not led to political reform.

So, while I know that this Congress is not going to cut off most-favored-nation status to China, I believe that it would be in the best interest of those who criticize the annual debate to come up with some alternative. I think the burden is with those who say, let us not use this for leverage.

I believe that if the Chinese ever thought for 1 minute that their access to the U.S. market for one-third of their exports was in jeopardy, it would have a positive impact on the rights of freedom and the rule of law in China. Right now, the rule of law in China does not exist, and that is not helpful to U.S. companies trying to do business there. The chickens will come home to roost, and unfortunately, the American workers are the ones who are going to have to pay the price.

Mr. HOUGHTON. If I could just interrupt a minute, Ms. Pelosi, I guess there are three basic issues here. One is trade, the other is weapons, and the third is human rights. It seems to me that they are all important, they affect all of us in our daily lives, and they should be looked at, but rather than throwing the whole cloak of most-favored-nation over it, can we not deal with those as we do with other countries, on an individual basis?

Ms. PELOSI. Mr. Houghton, each year, since the Tiananmen Square massacre, many of us have proposed alternatives to revocation of MFN. Mr. Solomon has been the leader in the revocation fight, but many of us have proposed conditional renewal with very generous opportunities for China to make overall significant progress. We proposed targeted revocation on products made by the

People's Liberation Army because of the smuggling, and at that time legal but inappropriate sale of weapons into the United States. As you know, the smuggling continues. We were trying, at the time, to get at those businesses that were owned by the Chinese military.

We have proposed discrete and targeted approaches which have not been accepted by opponents to revocation of MFN. We have tried for many years, tabling the MFN issue, and instead supporting a framework for diplomatic relations with China, but that was not embraced by those who oppose MFN for China. Some Members of Congress voted for it but that did not help us get it through the Senate, and therefore that legislation did not exist. So, we have tried for more discrete approaches, but they have not been well received.

To address Mr. Shaw's question about Hong Kong. The people in Hong Kong, of course depend on MFN, but they also depend on our speaking out each year using as much leverage as possible for democratic reform. None of us wish to be associated with the diminishing of human rights and freedom in the parts of China that it does exist, Hong Kong and Taiwan.

Chairman CRANE. I want to thank the witnesses for their testimony. We have at least one vote coming up, so the Subcommittee will stand in recess until either the one or two votes are behind us, and then we will call upon our next panel to testify. I want to thank you all for your testimony.

Ms. PELOSI. Thank you, Mr. Chairman.

[Recess.]

Chairman CRANE. Will everyone please be seated.

I want to welcome Ambassador Barshefsky and Ambassador Lord. We are looking forward to your testimony. Again, I know you have some tight time constraints, too, so if you can try and condense your opening remarks to 5 minutes, we can assure you that any printed statements will be a part of the permanent record.

With that, I would like to yield to Ambassador Barshefsky.

STATEMENT OF HON. CHARLENE BARSHEFSKY, ACTING U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you so much, Mr. Chairman. It is a pleasure to be here today before you.

I would like to discuss the United States-China relationship briefly. I know Ambassador Lord is going to discuss that in further detail. I would like to focus in particular on the question of intellectual property rights, which so many of the members have mentioned.

It is an understatement to say that the United States-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 nonproliferation to environmental concerns and increasingly, of course, trade plays an essential role in the relationship.

China is the world's fastest-growing major economy, already possessing the world's largest population. By early next century, China may have the world's largest economy.

On Friday, the President sent to Congress the formal waiver recommending extension of unconditional MFN to China for another year. U.S. interests in China are best promoted, we believe, if we maintain MFN as the foundation for our trade relationship.

Mr. Chairman and Members of the Subcommittee, we will never achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange. They occurred in times of isolation. President Clinton believes we must remain engaged with China, and Ambassador Lord will review this in some detail. But, let me be clear by what we mean by engagement.

President Clinton came to office with the view that engagement with China does not mean ignoring our differences. It means that we actively engage China to resolve our differences and it means protecting our interests when consultations are not fruitful, and that brings me to the intellectual property rights issue.

As you are aware, last month, the United States announced the publication of a $3 billion preliminary retaliation list targeting Chinese exports to the United States for China's failure satisfactorily to implement the 1995 Intellectual Property Rights Enforcement Agreement. Barring satisfactory implementation of the agreement by China, a final list of approximately $2 billion will go into effect on June 17.

We do not take the move toward retaliation lightly. China has taken certain actions to improve IPR protection, particularly in cleaning up its retail market and in establishing a nationwide enforcement structure. Where Chinese officials have demonstrated resolve, as in Shanghai, they have shown that piracy can be brought under control.

Despite these improvements, China has not enforced key areas of the agreement, including halting piracy at its source. Last year, China exported approximately 50 million pirated CDs, CD–ROMs, VCDs, and LDs to the world. Today in Hong Kong and elsewhere, $10,000 software packages can be purchased for as little as $5. Pirate versions of Microsoft's Windows 95 were on sale in China before it was officially introduced. Motion pictures are often pirated and available on VCD before they are released in the United States.

The effect of this activity on the U.S. economy is clear. U.S. copyright industries alone represent more than 5 percent of the U.S. work force, roughly equal to the U.S. auto industry, and are growing at three times the rate of the rest of the economy. When China pirates American products, it denies the ideas, the enterprise, and the jobs of these American companies and the workers they employ.

China must take four key actions to remedy the current IPR situation and implement the agreement. It must first close or clean up the CD factories.

Second, it must intensify enforcement in areas where piracy is rampant, such as Guangdong Province.

Third, it must take effective action to curb piracy at its borders, particularly seizures of bulk cargo shipments.

And finally, China must permit market access for U.S. computer software, sound recording, and motion picture products and companies.

China knows exactly what it must do to get back on the compliance track. I am pleased to say that we can confirm China has closed some factories. Has it done enough yet? No. The issue is for China to take further concrete and verifiable action to reduce piracy at its source and at its borders.

Let me make two final points on this issue. First, the United States has gone the extra mile to help solve the problem. Since the signing of the agreement last year, we have sent nine delegations to China. We have had more than 30 high-level consultations and our government agencies and private industry have provided massive technical assistance to China to assist it in its enforcement efforts.

Second, we are not asking China to do anything more than what it already agreed to do 14 months ago. This administration will enforce trade agreements entered into and China can be no exception.

Mr. Chairman, the benefits of the United States-China relationship are important for both countries and must run in both directions. Renewal of MFN by the Congress, as well as continued engagement with the Chinese, is the United States contribution to that mutual relationship. China's contribution must be to open its markets, to adhere to international norms, and to become a responsible international player. Thank you very much.

[The prepared statement follows:]

Testimony Before
The House Ways and Means Trade Subcommittee
Ambassador Charlene Barshefsky
June 11, 1996

Mr. Chairman, it is a pleasure to appear before the Subcommittee today to discuss the U.S.-China relationship and the question of intellectual property rights enforcement.

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 plays a central role in our relationship.

Make no mistake about it. Americans have a commercial stake in China. At least 160,000 Americans owe their jobs to U.S. exports to China. Just as we should not make apologies *for China*, we should not apologize for our economic interest *in China*.

China is the world's fastest growing major economy, with annual growth rates of more than 10 percent for each of the past four years -- and average growth rates of greater than 7 percent 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.

On May 31, the President sent to Congress the formal waiver recommending extension of unconditional MFN to China for another year. The United States' interests in China are best promoted if we maintain MFN as the foundation for our trade relationship.

Mr. Chairman, we will never achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange -- they occurred in times of isolation. President Clinton believes we must remain engaged with China.

But let me be clear about what we mean by engagement. President Clinton came to office with the strong view that engagement with China does not mean *ignoring* our differences. It means we actively engage China to *resolve* our differences and it means protecting our interests when consultations are not fruitful.

When the President decided to delink human rights and MFN two years ago, he said that we were prepared to use a whole array of legislative and administrative methods to address specific issues with China. With respect to trade, as the President has repeatedly said, we welcome foreign products, but insist that our products be treated fairly overseas. When other countries do not live up to their obligations, we will take action. More than three years ago the President affirmed that, "We must enforce our trade laws and our trade agreements with all the

tools and energy at our disposal." We have used all of the tools at our disposal to open China's market.

One area of immediate difficulty, of course, is China's lack of satisfactory implementation of the 1995 Intellectual Property Rights Enforcement Agreement.

Mr. Chairman, as you are well aware, last month the United States announced the publication of a $3 billion preliminary retaliation list targeting Chinese exports to the United States. This action set in motion a 30 day clock before final action occurs. Last week, USTR held public hearings on the retaliation list, and we appreciated the range of comments from individuals and companies that we received. We are currently preparing a final list with a value of approximately $2 billion -- a figure commensurate with the damage inflicted on U.S. industries. Barring satisfactory implementation of the IPR Enforcement Agreement by China, the final list will go into effect on June 17.

We do not take the move toward retaliation lightly. China has taken certain actions to improve IPR protection particularly in the retail sector. Over the past year, China has carried out more than 4000 raids and destroyed approximately 2 million pirated CDs, and hundreds of thousands of pirated books, audio cassettes, and trademarks. Some IPR court cases involving foreign rightholders have also been resolved successfully over the past year.

China has also established a nationwide IPR enforcement structure as required under the Agreement -- a system of more than 30 provincial and municipal level task forces comprised of enforcement agencies and the police. The system -- designed to target piracy, levy stiff fines, and remand infringers for criminal prosecution -- is working in some localities. In Shanghai, for example, officials have made IPR protection a priority and have taken effective action to clean-up the city's markets. Clearly, where Chinese officials have demonstrated resolve, they have shown that piracy can be brought under control.

Despite these measures, China has not enforced key areas of the agreement, including halting piracy at its source. As a result, important American industries and broader American and international interests are getting hurt. Last year, China exported approximately 50 million pirated CDs, CD ROMS, VCDs, and LDs to the world. Today in Hong Kong and elsewhere, $10,000 software packages can be purchased for as little as $5. Pirate versions of Microsoft's Windows 95 were on sale in China before it was officially introduced. Motion pictures are often pirated and available on VCD disks before they are released in the United States.

The affect of this activity on the U.S. economy is clear. U.S. copyright industries alone represent more than 5 percent of the U.S. work force -- roughly equal to the U.S. auto industry -- and are growing three times as fast as the rest of the economy. The copyright industries contribute more than $350 billion a year to the U.S. economy, accounting for more than 6% of GDP. The U.S. computer software industry alone maintains a 75% market share worldwide and created almost 60,000 jobs last year. When China pirates American products, it denies the ideas,

the enterprise, and the jobs of these American companies and the workers they represent.

China must take four key actions to remedy the current IPR situation and implement the IPR Agreement:

First, action against the factories involved in the production of pirate CDs and CD-ROMS. We have an aggressive strategy with China to ensure -- to the best of our ability -- that all CD factories in China are producing legitimate CDs, LDs, CD-ROMs, and Video CDs. The IPR Agreement that we have in place with China calls for the clean-up all factories producing pirated products. We have targeted the worst offenders and have asked the Chinese to close down these factories immediately. In addition, we are working with the Chinese Government to ensure that the remaining factories are cleaned-up or closed down. The point is that we need to see a comprehensive system in place to crackdown on piracy in China.

Second, intensify enforcement in areas of China where piracy continues to be rampant, such as Guangdong Province. While China has raided retail establishments extensively, regions such as Guangdong continue to engage in rampant piracy. Manufacturers and distributors have remained untouched. Major pirates have not been punished, and prosecutors remain reluctant to tackle copyright infringement cases. Penalties are rarely sufficient to deter piracy -- for pirates they are now simply a part of the cost of doing business.

Third, take effective action to protect intellectual property at China's borders -- particularly seizures of bulk cargo shipments. Exports of pirated products -- mainly from Southern China through Hong Kong -- result in huge losses for U.S. companies in third country markets. China's Customs Service has conducted more than 1000 seizures, but mainly against foot traffic at the border. China has yet to target cargo shipments -- the primary export method for pirated CDs.

Finally, permit market access for U.S. computer software, sound recording and motion picture products and companies. China has not yet fulfilled any of the major elements of the market access commitments that it undertook in the IPR Enforcement Agreement. Although China has entered into some revenue-sharing arrangements, US filmmakers still face de facto quotas in China's markets. China has yet to issue regulations allowing the establishment of joint ventures for production of audiovisual products, including the signing and promotion of local artists, as well as other market access steps.

Actions in these areas, all required by last year's agreement, will establish the foundation for bringing the rampant piracy under control. China knows exactly what it must do to get back on the compliance track. The issue now is for China to take concrete and verifiable action to reduce piracy at its source and at its borders.

Let me make two final points on this issue. First, the United States has gone the extra mile to help solve this problem. Since the signing of the agreement last year, we have sent eight delegations to China and its provinces and conducted more than thirty senior level meetings. At

the request of the Chinese government, we have a team in China this week for consultations. The United States has also provided technical assistance in support of this effort. Key U.S. law enforcement agencies have provided assistance to the Chinese including the Department of Justice, the FBI, the Customs Service, the Patent and Trademark Office, the U.S. Information Agency, and USTR. Additionally, the U.S. private sector has hosted literally dozens of training seminars throughout China. In fact, our companies have gone so far as to donate computer equipment and software to the Chinese customs service.

Second, the IPR issue has significance beyond bilateral relations between the United States and China. As the world's fastest growing market, whether China enforces its trade obligations matters for everyone. We are not the only nation for which the protection of intellectual property rights is important and this is well known to China. We have not asked China to do anything more than what other Asian nations are already doing -- indeed what China has already agreed to do. The vitality and success of the global trading system depends on everyone living up to their obligations.

We urge China to take the concrete actions necessary to demonstrate its firm commitment to the Agreement and ensure its implementation. There is time for this to happen before sanctions go into effect. We are prepared to work with the Chinese toward that end. But it is decisive action against piracy that China must now take.

Mr. Chairman, the U.S.-China relationship is as important as any bilateral relationship in the world. But the opportunities in our relationship with China must run in both directions. For China, the potential of the U.S. market is matched by a tangible reality. Roughly one third of China's exports go 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 -- like all foreign companies -- are allowed to establish freely in the United States. No one restricts their right to do business with American customers.

For the United States, it is certainly true that China offers unmatched potential. Unfortunately, while progress has been made, for the United States, the potential of the China market remains unfulfilled in many respects. While the United States accepts one third of China's exports, China accounts for less than 2 percent of U.S. exports and maintains highly restrictive import policies. China must further open its markets. The first step is to ensure compliance with commitments already made.

We have an opportunity to bridge important gaps in our relationship, so that benefits travel in *both* directions. To make this potential a reality, the United States stands ready to do its share. Renewing MFN, along with a broader engagement strategy, is critical to building a long term, stable relationship with China. But China, too, must bear *its* share. It must respect international norms, open its markets, and fulfill the commitments it makes. Mutual prosperity depends on this.

Chairman CRANE. Thank you, Ms. Barshefsky.
Mr. Lord.

STATEMENT OF HON. WINSTON LORD, ASSISTANT SECRETARY, EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. LORD. Mr. Chairman, I will submit my full statement for the record and just give you brush strokes of our approach, in the interest of time.

I will begin by saying and pointing out that since the 1979 normalization, every administration, Republican and Democratic, has extended China's MFN trading status. Then I go through a series of myths and misunderstandings with respect to our China policy generally and MFN particularly.

The first one has been addressed, the misleading nature of the very term itself, most-favored-nation treatment. I will not belabor that except to say this is not a referendum on China's behavior. We will meet that behavior when it is unacceptable using various instruments, both pressures and inducements, but we do not think MFN is the way to proceed.

I point out how we have used these other instruments with respect to Taiwan. Both through rhetoric and removal of certain military assets, we have made clear that the resort to force would have grave consequences. Tensions have been reduced.

On nonproliferation, we have on several occasions either threatened or actually employed sanctions. We are required to make nonproliferation progress and we have made some progress.

On IPR enforcement, Ambassador Barshefsky has already addressed that.

With respect to human rights, we are using other multilateral and bilateral ways of attacking this very serious problem, but again, MFN, we do not believe, is the way to proceed.

A second myth that exists in our China debate is that whenever there are difficulties in relations with China, somehow, it is due to United States miscues. The fact is that no matter how wise and steady our policy, we will continue to encounter problems as well as opportunities on our relations with Beijing.

Mr. Chairman, during this particular period, we are dealing with a complex, difficult, and prickly partner whose power is growing, whose leadership is in transition, and whose government is turning increasingly to a nationalism that is conditioned by thousands of years of experience as a dominant "Middle Kingdom" and more than a century of humiliation by foreigners. Against this backdrop, any administration, any policy would encounter tensions.

Growing out of that is the third myth, that therefore because of these problems and tensions, we should practice containment or try to control China. This would be a self-fulfilling prophecy, turning China into an enemy. We are not naive. We are maintaining our force levels. We are maintaining our various options.

But, to opt for containment would require a major shift in our economic, military, and diplomatic resources. We in the global community would risk much if China were to become isolated and unstable. We would be alone. None of our friends, however they may be concerned about growing Chinese power, would join us in

a containment policy. And we would forfeit Chinese cooperation on many global, bilateral, and regional issues.

Then a fourth myth comes up arising from that. If you cannot practice containment, the only alternative must be appeasement. We have already heard that word here today. Consistent with the approach of five previous administrations of both political parties, this administration's policy of engagement in no way implies acquiescence in Chinese actions that clash with U.S. interests or international norms.

I have already pointed out, and I do in my statement, how we are firm wherever necessary and will be cooperative wherever possible. We use all the instruments at our disposal, including domestic legislation, where required, to promote progress in Chinese behavior. Our willingness to take a firm stance when necessary as required to protect our interests, maintain domestic support for engagement, and, frankly, engender respect in Beijing itself.

The fact is, with all the media attention on our frictions and problems, and they are substantial, there are many areas where we do cooperate with China. I list that in my statement. Engagement is paying off in many areas, even as we have trouble in other areas. In their own self-interest, the Chinese are helping us on the North Korean nuclear problem. They have cutoff aid to the Khmer Rouge in Cambodia. At the United Nations, although they sometimes can be annoying, they are not using their veto or obstructing important U.N. actions.

Even in nonproliferation and trade, despite all our problems, we have made some progress and our exports are growing fast in the Chinese market. On issues like international crime, controlling narcotics, getting at the environmental problem, alien smuggling, China and the United States have a useful dialog and cooperation.

Finally, my statement ends up by pointing out what MFN withdrawal would not accomplish with respect to our goals. It would not promote China's adherence to nonproliferation standards, and I point out why. It would not open China's markets and foster respect for commercial laws. It would not help to protect the rights and freedoms of Chinese citizens or ease repression in Tibet, both of which we are very seriously concerned about, both of which I have raised literally within the last few hours with our Chinese friends.

It would not enhance the stability and security of Taiwan and Hong Kong. You could not have more dedicated spokesmen for human rights and democracy or people more suspected in Beijing than Governor Patten of Hong Kong and Martin Lee, the pro-democracy activist. Despite their other concerns, they came here a few weeks ago, as you know, and argued very strongly for extending MFN because to remove it would have a devastating impact on this innocent bystander in Hong Kong, not to mention what it would do to Taiwan.

Finally, MFN withdrawal would inflict great damage on a range of important U.S. interests, denying us tens of thousands of American jobs, setting back the process of openness and reform in China, straining our relations with our partners in Asia and else-

where, and hampering our ability to work constructively in some of these areas of cooperation that I have pointed out.

So China must make its efforts. We must make our efforts. It is an important relationship. It is inevitably troubled, but we believe engagement is the way to pursue that, as I said earlier, being firm wherever necessary and cooperative wherever possible. As President Clinton has noted, a vote for MFN renewal is a vote for American interests. Thank you, Mr. Chairman.

[The prepared statement follows:]

Testimony by

Ambassador Winston Lord
Assistant Secretary for East Asia and the Pacific
Department of State

Before the

House Ways and Means Committee
Trade Subcommittee

June 11, 1996

Thank you very much for the opportunity to testify before this committee on the extension of China's Most Favored Nation (MFN) trading status. This issue is of critical importance to our relationship with a country that is fast becoming a major regional and global power. It has great significance for our national interests. I would like to use my time this morning to put the MFN decision into the broader context of overall U.S.-China relations.

Since we normalized relations with China in 1979, every U.S. administration -- Democratic and Republican -- has extended China's MFN trading status. This Administration supports the continuation of that well-established policy.

As President Clinton said when he confirmed his commitment to this policy two weeks ago: "MFN renewal is not a referendum on all China's policies." It does not constitute an endorsement of any specific action or behavior. The decisions of President Carter, President Reagan, and President Bush to extend MFN did not indicate their approval of Chinese

repression or behavior. Their decisions were based on a balanced assessment of U.S. interests and the best means of pursuing those interests. The same considerations apply today.

Unfortunately, a number of myths and misunderstandings have muddled our discussions on China's MFN status.

First of all, the term "Most Favored Nation," in itself, contributes to the confusion. Contrary to the way it sounds, MFN does not provide any preferential or special treatment and is clearly not a reward for good behavior. Rather, it is the normal commercial foundation upon which our relations with all but a handful of our international trading partners rest. It is also the basis of multilateral consensus and support for a free and open global economic system.

As Congressman Bereuter recently noted, we have not withdrawn Nigeria's MFN status because its current regime has executed poets and other political dissidents. Products from Syria and the Sudan receive MFN treatment, despite their governments' support for international terrorism.

The extension of this status in these cases, of course, does not mean that we do not consider human rights abuses, support for terrorism, or IPR piracy to be serious problems. However, MFN withdrawal is clearly not the best way to deal with such issues. In each case, we have more appropriate and more effective foreign policy tools at our disposal.

This is also true in our relations with China. Relying on the instruments already available, we have tailored our responses to China's behavior for maximum effectiveness. These instruments provide both positive and negative inducements for Beijing to address our concerns. For example:

- On Taiwan, our response to Beijing's missile exercises in the Strait this March was clear. Our deployment of naval forces to the region was meant to avert any dangerous miscalculations and signaled to all our friends our intention to maintain our presence in the region. We have emphasized to both sides of the Strait the importance of avoiding provocative actions and we continue to strongly urge both sides to resume the cross-Strait dialogue.

- On non-proliferation, we have demonstrated our determination to enforce U.S. law. In 1994, as a result of the sanctions we had imposed following China's sales of missile equipment to Pakistan, China agreed not to export ground-to-ground MTCR-class missiles, and reaffirmed its commitments to abide by the MTCR Guidelines and Annex.

More recently, this firm stance was critical to our ability to obtain China's commitment that it "will not provide assistance to unsafeguarded nuclear facilities" in third countries, including Pakistan. This is a new and significant public commitment by China. It goes beyond earlier Chinese commitments by accepting responsibility not only to control nuclear items specifically listed on the international trigger lists, but also dual-use items, including ring magnets, and other forms of assistance to unsafeguarded nuclear facilities. It is an important step forward.

- On IPR enforcement and other trade issues, we have left no doubt about the serious consequences of failure to remedy chronic problems and comply with international and bilateral commitments. At the same time, we have worked hard to provide constructive advice and support for China's efforts to integrate its economy into the world trading system.

- With respect to human rights, this Administration has kept faith with our principles by placing a high priority on human rights issues in the conduct of our relationship with China. We have engaged China bilaterally to raise our concerns, we have taken appropriate multilateral actions, and we have kept the focus on what China needs to do to adhere to international human rights standards. Our relationship with China covers a broad array of issues

and interests which we must weigh. But we will ensure that Beijing is aware that its behavior on human rights is of great concern and will continue to be a priority for us.

At the same time, Chinese society is opening up, and its increasing integration into the international community will be a long-term process. The creation of an increasing network of economic, educational, cultural, technical, and legal ties between Chinese citizens and the outside world will help foster a positive climate in China for human rights. We are pursuing both governmental and non-governmental dialogue with China on issues related to the rule of law. Over time, this engagement, too, will have a significant effect.

A second myth that exists in some quarters is that whenever there are difficulties in our relationship with China, it must be due to U.S. miscues. Clearly, the U.S. is not responsible for political insecurities that lead Beijing to imprison dissidents. Clearly, our policy did not cause Beijing to launch missiles into the Taiwan Strait, to export dangerous technologies, or to fail to open markets and enforce intellectual property rights.

The reality is that, no matter how wise and steady our course, we will continue to encounter problems as well as opportunities in our bilateral relations with China. Moreover, during this period, we are dealing with a complex, difficult

and prickly partner whose power is growing, whose leadership is in transition, and whose government is turning increasingly to a nationalism that is conditioned by thousands of years of experience as the dominant "Middle Kingdom" and more than a century of humiliation by foreigners. Against this backdrop, any Administration, any policy would encounter tensions. It is inevitable that two great nations -- with different histories, cultures, and stages of development -- will have differences.

A third myth is that America should respond to our differences with China by seeking to control or contain it. Such a policy would be misguided and, in the end, unsuccessful. It would constitute a self-fulfilling prophesy of turning China into an enemy. It would require a major shift in our economic, military and diplomatic resources. We and the global community would risk much if China were to become weak, isolated and unstable. Who could seriously contend that China, in such circumstances, would be more likely to respond positively to our concerns in such areas as regional security, arms control, trade and human rights? As Secretary Christopher said recently, "A more secure China is likely to be more open to reform and a better neighbor."

In practical terms, a containment policy would require the support and cooperation of Europe, Russia, Japan, Korea, and others in the region. Whatever the degree of their concern about China's growing power, no country would be willing to join in efforts to contain the PRC. And if we attempted to pursue such a policy alone, we would not only lose our ability

to influence China in ways that promote our interests. We would also lose the benefits of cooperation on trade and other commercial issues, on North Korea, non-proliferation, UN Security Council actions and other international security issues and on global issues like the environment, narcotics trafficking and international crime. We would also severely strain our relations with our many friends and allies in Asia and elsewhere, and could potentially destabilize the entire region.

A fourth myth, suggested by some of those who advocate containment, is that the only alternative is appeasement. Consistent with the approach of five previous administrations of both political parties, this Administration's policy of pursuing U.S. interests through engagement with China in no way implies acquiescence in Chinese actions that clash with U.S. interests or international norms. As I explained earlier, engagement allows us to tailor our responses to the specific circumstances in each area where we have differences with China. It makes it possible for us to apply a wide range of inducements and pressures on issues where we wish to encourage China to adjust its course. Engagement means being firm whenever necessary, and cooperative whenever possible.

Where China does not comply with its international commitments or with internationally-recognized standards of behavior, we are prepared to use all the instruments at our disposal, including those provided for in existing domestic

legislation, that may be required to promote progress. Our willingness to take a firm stance when necessary is required to protect our interests, maintain domestic support for engagement, and engender respect in Beijing. It is an important component of building a stable, productive and mutually-beneficial long-term relationship.

At the same time, engagement allows us to continue to enjoy the substantial benefits of a constructive and cooperative bilateral relationship with China. In the midst of the inevitable frictions and media attention, let us not lose sight of these positive elements.

The benefits of engagement with China are not limited, as is sometimes implied, to the economic and commercial sphere. China, in its own self-interest, has cooperated with us in managing dangerous North Korean behavior. It has cut off aid to the Khmer Rouge and supported the elected government in Cambodia. Though sometimes exerting its influence, China has not vetoed United Nations actions of critical importance to the international community. It has cooperated with us in such areas as narcotics trafficking and alien smuggling.

Despite serious continuing problems, China has come a long way in the last decade on non-proliferation and arms control issues. It has joined the Non-Proliferation Treaty (NPT) and the Chemical Weapons Convention and has supported rapid

conclusion of the Comprehensive Test Ban Treaty (CTBT). In 1994, after we had imposed sanctions related to Chinese sales of missile equipment to Pakistan, China agreed not to export ground-to-ground MTCR-class missiles. More recently, we have obtained China's commitment not to assist any unsafeguarded nuclear facilities.

On the economic side, despite some substantial disputes, China has been our fastest growing export market in recent years. Last year alone, our exports increased by more than one-fourth, supporting nearly 170,000 American jobs. Based on sales in the first quarter of this year, we may do nearly as well this year -- creating another 35,000 or more new jobs.

With one of the world's highest economic growth rates, China offers enormous commercial opportunities for U.S. business. To take just one example, by the year 2000, China is expected to invest over $150 billion in electric power production and distribution, transportation, telecommunications and other major commercial and infrastructure projects. If allowed to compete on a level playing field, U.S. companies can expect to win a significant portion of the related international contracts. But if our producers are handicapped in this key market, European, Japanese and other international competitors are ready and able to take their place.

Commercial concerns, of course, are only one of our foreign policy interests. But we must be very sure of the effectiveness of our proposed actions before we put at risk the livelihoods of so many American citizens.

Given the stakes involved, the extension of China's MFN status is a precondition of engagement -- both where we seek changes in Chinese behavior and where our interests and policies coincide. An examination of the negative consequences of MFN withdrawal for U.S. interests offers a compelling case for our policy approach.

On the one hand, MFN withdrawal would NOT accomplish our goals:

- It would NOT promote China's adherence to non-proliferation standards. Rather, it would strengthen hardliners and provide a strong incentive to compensate for lost revenues from legitimate trade with exports of dangerous and destabilizing technologies and equipment.

- It would NOT open China's markets and foster respect for commercial laws and trade disciplines. Rather, it would bolster the claims of nationalists that China cannot rely on its international partners and must remain separate, self-reliant and unbound by international norms and standards of behavior.

- It would NOT help to protect the rights and freedoms of Chinese citizens or ease repression in Tibet. Rather, it would restrict access to the outside world and reduce the impact of international values on Chinese society and politics.

- It would NOT enhance the security and stability of Taiwan and Hong Kong. It would deal severe blows to their economic interests and stability, while raising tensions and diminishing the chances for a peaceful cross-Strait relationship and a smooth transition to Chinese sovereignty over Hong Kong.

On the other hand, MFN withdrawal would inflict great damage on a range of important U.S. interests:

- It WOULD deny tens of thousands of jobs to American workers -- jobs that would quickly move to the economies of our international competitors.

- It WOULD set back the process of openness and reform in China, doing the greatest harm to those whom we most wish to support and encourage there.

- It WOULD strain our relations with our partners in Asia and elsewhere.

- It WOULD severely hamper our ability to work constructively with one of the world's most powerful nations on the broad range of U.S. foreign policy interests.

This Administration will not downplay or ignore our problems with China's policies or behavior. We support unconditional MFN extension not as a favor for China, but because it is good for America. The stakes are high -- for us and for China, for stability and prosperity in Asia and the world. We must manage our differences with China in a way that promotes our interests. China, in turn, must make its own efforts on behalf of a relationship that will be central to both countries' welfare in the twenty-first century.

Mr. Chairman, in the last two weeks, President Clinton and Secretary Christopher have set forth our comprehensive policy toward China. In this context, they have reaffirmed their strong conviction that U.S. national interests require the unconditional extension of China's MFN status. This judgement is consistent with the policies of previous administrations and with the advice of political leaders and foreign policy experts of both parties. As President Clinton has noted, a vote for MFN renewal is a vote for American interests. I look forward to working with you and with the rest of the Congress to build the political consensus that is required for us to steer a steady course during this difficult period in U.S.-China relations.

Thank you.

Chairman CRANE. Thank you.

Mr. Lord, I remember when Deng Xiaoping about 2 or 3 years ago traveled down to South China and he was profoundly impressed with the economic development. He described it as "Leninist capitalism," and I said that is the ultimate oxymoron. But the fact is, there are State-controlled enterprises there, as well as others driven by market forces.

I was wondering how that breaks down. What percentage would you say is really privatized and what percentage is still state-controlled?

Mr. LORD. I will let Ambassador Barshefsky give you the specific figures, but this is still their big challenge as they move toward a market economy, and that is dealing with these state enterprises. They have not moved as aggressively as they might. Frankly, I think they are concerned that if they make them truly competitive, they will have unemployment and this will contribute to instability during a period of political succession. That is one reason I think they have not made a decent offer on the WTO, because they are worried about this. But, nevertheless, they are moving toward a market economy and Ambassador Barshefsky can give you the figures.

Chairman CRANE. Before Ambassador Barshefsky addresses that question, has this privatization thrust stalled, basically?

Mr. LORD. I would not say it has stalled. It is very encouraging and it is very important. I am saying that the next big challenge on economic reform is to make many of these state enterprises more efficient or actually put them out of business and privatize them. They do seem to be pausing on that, partly, I believe, related to the fact that they are worried about the unemployment, because if you lay off workers in China, they not only lose their jobs, they lose other benefits like housing, medical care, and education. So I think there is some stalling on moving to reform the state enterprises, but the overall trend, I think, is irreversible and positive toward a more market economy.

Chairman CRANE. Very good. Ms. Barshefsky.

Ms. BARSHEFSKY. Mr. Chairman, the estimates are that between 50 and 70 percent of China's economy is State-owned, operated, State-run, or where the State has a significant influence. There is a growing entrepreneurial class, and in China's most recent 5-year plan, there is a provision for substantial reduction in state ownership of industry through privatization as well as through closure.

But as Ambassador Lord has said, while some progress has been made, it is of a limited nature, because of some provincial resistance to closure of these enterprises due to the unemployment concern, and also, to some disagreement within the Chinese Government circles as to the best way to proceed with respect to privatization or closure.

Chairman CRANE. But to the best of both of your knowledge, is the government, the successors, or successor maybe, but are they as committed in your estimation to "Leninist capitalism" as Deng Xiaoping was?

Ms. BARSHEFSKY. The phrase that the Jiang administration has used has been, "a socialist market economy." Certainly, there are competing factions within China, as one might expect. There are

those in the leadership circle who do not wish to see the pace of market opening accelerated in any respect and who do not wish to see external interference in the manner in which that opening occurs, which is to say who are also opposed to WTO accession.

There are others within the leadership that believe that the current course China is on is the right course and that WTO accession and opening of the market in a manner consistent with international standards should be sought by China and is desirable for China. But that debate is an ongoing debate within China and it rages to the present time.

Mr. LORD. If I could add a few comments, I agree completely with what Ambassador Barshefsky has said. I do think the overall trend of moving toward the market and trading with the outside world will continue and they are dedicated to it because they have seen how they have grown when they have done that and where there is stagnation where they have not.

But there are these debates, and it is not only related to economic considerations, it is related to the oxymorons that you are mentioning. You cannot have both. In my view, they are oxymorons, whether it is phrased as, "Leninist capitalism" or "market socialism."

What this reflects, also, is the big debate going on, not only in China, but also in Vietnam and many other countries of the world, and that is can you have economic openness in a closed political system? The Chinese feel that they can. They look at the Russian example and they rather smugly assume that you can continue to have political repression and open economics. I do not believe you can for very long.

First of all, you buildup a middle class and man or woman does not live by rice alone. We have seen it, as somebody pointed out, in Taiwan, South Korea, and Chile.

But second, I would argue that this whole process has been accelerated in an age of Internet, faxes, and computers, when economies depend so much on openness, debate, information, and pluralism. That is why I think they are going to have to loosen up that political system over time, but that is behind part of this debate.

We believe that trade and investment, including MFN renewal, helps to advance that process in a constructive way.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you.

I feel that we are adopting a policy with China much like the one we had with South Africa, that is while we have found their conduct repugnant, it is our general belief that having a policy of constructive engagement in the long run would benefit United States interests. There is also the question of human rights and the question of denying access of U.S. goods to their markets.

What I am very sensitive to is the fact that many United States businesses are vulnerable if, indeed, the results of their research and technology are just absolutely ignored. This applies particularly to movies, videos, software, and music and is a result, we are told by China experts, of some cultural misunderstanding of what basic theft is.

So, I am afraid that some of our businesses are going to suffer and one of our major exports may lose its competitive edge while we are waiting for some cultural or other changes to take place.

I support the President. I support the witnesses' expertise. But, are there any tools available to show just how strongly we feel about what they are doing other than denying them the ability to trade with us like any other nation? There should be a little more outrage, in my opinion, as to what is happening to us, not just now, but more importantly, for the future of American-based corporations that we hope would maintain leadership in world trade. Ambassador?

Ms. BARSHEFSKY. Yes, Mr. Rangel. Let me say that the use of targeted trade sanctions by the administration to assist in opening China's market, to assist in leveling the playingfield, is a policy to which we are committed. That is clear from our response 3 years ago on the textile issue, when we said to China, either negotiate a good agreement with us or we will unilaterally take away a quarter of your textile access to the United States. Two days later, we had an agreement, which was a good agreement, and has resulted in substantially reduced Chinese textile shipments to the United States.

Or 14 months ago, where we said to China, negotiate a good intellectual property rights enforcement agreement with us, or we will impose trade sanctions. Or now, where we are seeking enforcement of the commitments China has already made and we have already announced the publication of a preliminary retaliation list of $3 billion, heavily focused on textiles and apparel in China because that is a sector where we believe would most incentivize China's compliance with the agreements it makes.

Mr. RANGEL. But their contemptuous response is countersanctions. In other words, they appear to not care about what we say or what we do. They are going to take us to the mat. If we are so weak that all we can do is surrender, then let us surrender and get it over with. But every time we say that we are going to sanctions, they threaten us.

Ms. BARSHEFSKY. Mr. Rangel, their threats of sanctions do not change what is a good agreement into a bad agreement and certainly does not change a bad agreement into a good agreement. The textile agreement that was negotiated 3 years ago demonstrably has been a great agreement for the United States. The intellectual property rights enforcement agreement negotiated 14 months ago is a very good agreement. It is historic in proportion. Enforcement, let me——

Mr. RANGEL. Just in conclusion, share with me once again why their stealing our rights is a cultural misunderstanding, and why we should understand that they think they have the right to steal because they are not developed. Could you run that by me just once again?

Ms. BARSHEFSKY. We do not accept the notion that there is any cultural excuse to theft. The Chinese are quite clear that the United States, the Western world, indeed, 114 nations of the WTO view their actions as theft. We are not waiting——

Mr. RANGEL. That is because we are American, but give me the Chinese view as to why——

Ms. BARSHEFSKY. The Chinese do not particularly express that view. If you want to know why piracy is occurring, it has nothing to do with culture. It has to do with money. Piracy is a very lucrative business. There is a lot of money to be made by pirates, which is why it is a problem worldwide.

Mr. RANGEL. Then it is theft and we do not have to be sensitive in dealing with it that way.

Ms. BARSHEFSKY. It is theft, but from the point of view of U.S. interests, the way best to deal with it is to get China to do what we have gotten many other countries to do and that is enforce intellectual property rights protection. That is the best outcome for us. That is the best outcome for China.

Mr. LORD. Could I make a related point, Mr. Chairman? I know you are pressed for time, but it has to do with enforcing intellectual property rights, preventing theft, and many other problems we have with China.

I am reminded when you mention the South Africa situation, and I am not equating South Africa and China, I want to make that clear. There are some differences, obviously. In the case of South Africa, we had international support, whether it was the United Nations or other countries, and, therefore, pressures and sanctions were much more effective.

One of our biggest problems in China is that our friends in Europe and Japan hold our coats while we take on the Chinese and they gobble up the contracts. I have said it directly to our friends. If we could get more European and Japanese support on intellectual property rights, for example, where they have a clear interest, on nonproliferation, on human rights, whatever we did, targeted or not, would be much more effective. It is one of our biggest problems. We are working on it, but we need more help from our friends around the world.

Mr. RANGEL. You have the same problem with Cuba, too, I assume.

Mr. LORD. That is correct.

Chairman CRANE. Mr. Shaw?

Mr. SHAW. Thank you, Mr. Chairman.

I want to pursue pretty much the same line that Charlie Rangel was pursuing except I want to switch over to the contractual area. As you know, there have been some problems in the enforcement of contractual rights in China. One was particularly brought to my attention which concerned Rev Power Limited and their attempt to enforce an arbitral settlement in Stockholm that was against the Shanghai Far East Aero Technology Import and Export Corp., which is, incidentally, a state-owned Chinese company.

What is the status of that? Are we making any progress? Do we see that the Chinese are moving more toward what is considered a norm as far as the enforcement of contractual rights?

Ms. BARSHEFSKY. Congressman, I am not sure that we can presume any track record toward the recognition of arbitral awards from the Rev Power example, but it is true that the Shanghai court has finally recognized the arbitral award, has directed that the books of the Shanghai Corp. be looked into with respect to that award.

My understanding is that upon looking into the books of the Shanghai Corp., it was discovered that there is very little money left in the corporation. There was apparently a very substantial transfer of assets out of the corporation so that the award, as a practical matter, would be rendered invalid.

This is an issue that we have raised with the Chinese and will continue to raise with the Chinese. We are working with the State Department on this.

Mr. SHAW. Is this type of thing a high priority within your office?

Ms. BARSHEFSKY. This is a very high priority, Mr. Shaw, because this has to do with the development of the rule of law in China. Either China is going to abide by international norms in cases such as Rev Power, where arbitral awards are at issue, or it is going to be thought of as rather a renegade with respect to these issues. Their accession to the WTO and other multilateral institutions, I think, is at risk, the extent to which we do not have confidence that China will abide by international agreements.

They are a member of UNCATRAL. They should be abiding and recognizing arbitral awards that are granted. And certainly, the Chinese government and the provincial government should not be condoning the transfer of assets from corporations against which there are arbitral awards.

Mr. SHAW. Do we have their attention in this area and is this an area that—I have just brought up one instance that has been brought to my attention—is this something that is a real problem for many of our American business people?

Ms. BARSHEFSKY. I believe we are getting their attention in this area, but the Chinese have a spotty record with respect to contractual enforcement generally. There is the McDonald's example, but there are many other examples of that sort. Again, the overarching difficulty here is that the rule of law is simply not a tradition firmly established in China.

Mr. SHAW. Was it a tradition if you go back prior to the Communist revolution? They have been big in trade from the beginning of recorded time, just about, and it would seem that they would have developed a line of law prior to the Communist revolution that they could draw back on. Is there a history of law in that area?

Mr. LORD. There is not much history of law in China, Mr. Chairman. There have been some periods where there has been attention to that, but Ambassador Barshefsky is correct. They do not have this tradition. They are trying to develop it now in their own self-interest. They realize they are going to need this for economic reasons. We think it will also promote human rights, so we are working on it very hard.

Mr. SHAW. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I will be very brief.

I would like to ask Ambassador Barshefsky a question. I do share much of Mr. Rangel's concerns with respect to China, and I think, by the way, the administration is doing an excellent job in attempting to deal with the five or six issues that have arisen over the last 12 to 15 months.

But, obviously, we are getting very little cooperation from the Chinese on a lot of fronts. I thought the aggression that they demonstrated with respect to Taiwan, the ring magnet sales to Pakistan, the recent assault weapons that were sent over to the United States via San Francisco, the intellectual property issue, and obviously continued violations of human rights are all issues, all of us in this country are very concerned about.

So, I applaud you and the administration for your efforts in trying to deal with these issues on a case-by-case basis, but I would hope that no one would take the support for the continuation of most-favored-nation status to be a ratification of the activities of the Chinese Government. I know you do not, and certainly, I would not want anyone from the outside thinking that those of us that support MFN would anywhere feel comfortable with the behavior of the Chinese government.

The prior panel raised the issue of economic issues, and although I do not believe this is purely economic, I think this is much larger. This is the global issue that probably is the most important bilateral relation the United States will have over the next 25 years with 22 percent of the world population. So I see this as much more fundamental than an issue of trade, and I think even the private sector views it that way.

But talking about trade for a minute, I was struck by the issue of piracy, which is currently on the front burner for USTR and your activities, Ambassador Barshefsky. You have made very clear, and the President has made very clear that on the 17th, the sanctions will be in place and certainly there will be a price to pay. The Chinese may or may not retaliate.

But, all of us in this country will support whatever actions you and the administration take, and if the Chinese retaliate, obviously, a second list from this country will have to be thrown out for further consideration. We will support that. There will be no hesitation, and certainly the members of the House and Senate, Democrats and Republicans of all ideological shades will support that activity.

But, I would like to ask about the issue. If we did not have MFN, what leverage would we have with respect to the issue of piracy? The Chinese would still be able to go buy compact discs, CDs, and whatever else they may want. They would still be able then to produce it. If we had no MFN, we obviously would have very little trade relations. So what would our leverage be, because that was one of the issues raised in the first panel, that we should cut off MFN because of piracy. It seems to me that by continuing to engage the Chinese, we have a better opportunity to eliminate piracy because piracy will occur whether we have trade or no trade with the Chinese.

Ms. BARSHEFSKY. I think you are absolutely right. From the point of view of the administration, MFN is the foundation for U.S. trade relations with virtually all countries in the world. There are only seven countries in the world—only seven—that do not have some form of MFN from the United States. That is it, only seven.

MFN is the cornerstone of normal trade relations between the United States and other countries. It is through the MFN avenue that we have consultations, that we have standing acceptance of

each other's complaints, that we have forums in which to resolve complaints and issues, that we build some measure of trust among nations, and it is MFN that, of course, is the cornerstone of the multilateral trading system which has been so beneficial to the United States. So MFN is critical. That is the undergirding, or should be the undergirding principle with respect to China.

Now, does that status ignore differences among countries? Certainly not. Does that status suggest that we will not be as vigorous and as aggressive in pursuing trade violations? Absolutely not. One can look around the world at all the rest of the countries with whom we have an MFN relationship and can see that we are every bit as aggressive with respect to trade relations. Korea, Brazil, Argentina, Japan, many countries are examples of that.

The key is not, are as satisfied with trade relations as they are. Of course we are not. No one could be satisfied with the trade deficit figures that Ms. Pelosi pointed to. The question is how best to handle that situation. Do we destroy the foundation of the trade relationship in order to build a trade relationship? I do not think so. I think that is ill advised. But, do we have a basic foundation to the relationship on which we can then build, and as to which we will defend in a targeted way? Yes. We think that is the way to proceed and that is what we are doing with China.

Mr. MATSUI. I would like to thank both Ambassador Barshefsky and Secretary Lord for their testimony and all the work they have been doing. Thank you.

Ms. BARSHEFSKY. Thank you.

Chairman CRANE. Thank you.

Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman, and welcome to both the Ambassadors.

I agree with the direction the administration has taken in the threat of sanctions. I am from a state that would be in grave danger of retaliation if that were to occur. So I would like to ask you, I read a piece in the Wall Street Journal in the last day or two that the Chinese have closed down four piracy factories. I would like to know your impression of this action, if you would characterize the tone of the negotiations and is it your sense that we will actually need next Monday to go ahead with imposing the sanctions?

Ms. BARSHEFSKY. I think it is too early to tell. The Chinese tone, I think, has been constructive, but, of course, we are not seeking to renegotiate the intellectual property rights agreement. We have a good agreement. We are seeking action by the Chinese as to its enforcement.

There is no question that the Chinese have closed some factories. I do not want to put a number on that yet, but we are in the process of confirming that. There is no question that China is taking action and we believe, of course, that it is vital that China continue to do so because where we are now is insufficient relative to the requirements of the agreement. But I do think the tone has been constructive and I think China appreciates that there is no question that absent satisfactory enforcement, sanctions will go into effect on June 17.

Ms. DUNN. Thank you.

Recently, there has been a lot of talk among many of us regarding the idea of extending nondiscriminatory trade treatment to China. What are the administration's thoughts on this idea right now? Would you support extending permanent MFN to China? Would you support repealing or revising Jackson-Vanik? Could you make some comments on this, please?

Ms. BARSHEFSKY. Of course, the primary objective of the administration is to get MFN this year. This is a contentious and difficult issue. That is the focus.

With respect to whether there should be changes in Jackson-Vanik, and, of course, there would have to be legislative changes to do what you are suggesting, I think that is a matter for consultation between the administration and Congress.

Ms. DUNN. Ambassador Lord, any comment on that?

Mr. LORD. No. I would have to give you the same answer. Obviously, it applies to a lot of other countries besides China and it invokes many different issues. We have committed to getting MFN this year through the waiver process, but we would have to consult with Congress and see what kind of position we have on the issue you raised.

Ms. DUNN. Thank you.

I would also like to ask you both to address any concrete evidence or support for the position of the opponents of MFN that isolating China from the international community is going to have any positive effects.

Mr. LORD. I think the biggest problem with that thesis, and I touched on it briefly in my opening remarks, although I had to give excerpts, is that we would be entirely alone. There is growing concern about China in the Asia Pacific because of China's growing power, because of its growing nationalism, because of the South China Sea and the Taiwan Strait, purchases of military equipment from Russia. But I do not know of a single country in the world that would join us in a policy of isolation and containment.

Thus, the first problem with that kind of approach is that it would be ineffective. We already see how China plays us off against Europe and other countries with respect to contracts and so on, but this would be magnified many times over if we went to an actual policy of outright isolation and containment. So first, it would be ineffective.

Second, it would forfeit cooperation in many areas that we do have parallel policies or reinforcing interests with China. These never get attention in the media but they are important. The Chinese have been very helpful with the Korean nuclear problem, as I pointed out. They have been helpful in the last couple years on Cambodia, on drugs, on alien smuggling. We are having an increasingly important dialog on the environment. Therefore, isolation would also forfeit cooperation there.

Finally, China has 22 percent of the world's population, nuclear weapons, a United Nations veto, a huge market. So, I do not see how we could possibly even try to isolate China. There is a danger that China, through its actions, over time could isolate itself or provoke containment by others. We genuinely hope that is not the case. We are working with other countries to engage them, but without naivete. We maintain our force levels. We move our naval

ships around when we have to. We enforce sanctions when we have to. We press our interests and values. But we also cooperate where we can, and we think this mixed approach is a realistic one and much better than isolation.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Ambassador Barshefsky, it was pointed out earlier today that we are going to experience a $40 billion deficit with China this year probably. Could you list what the top products are that make up that $40 billion?

Ms. BARSHEFSKY. In terms of two-way trade, China's top exports to the United States are in consumer electronics, that is low-to medium-technology products, toys, textiles and apparel, footwear, some fertilizers, to name some. The U.S. principal exports are aircraft, consumer electronics, including computers, various agricultural products, some chemicals, machinery, and again to name some.

The composition of trade is not too bad from the United States' point of view. It is a slightly more favorable composition of trade than we have with Japan, where we tend to send in raw materials more than finished goods.

Mr. COYNE. But you have a listing of those that are exported to the United States?

Ms. BARSHEFSKY. Yes, we certainly do, and we can provide you that in detail with a dollar value, if you would like.

Mr. COYNE. Thank you.

It is often said that MFN is really not a good description for this treaty, that there really is not that much of an advantage to countries who experience MFN with the United States. You indicated that there are seven nations, that do not have any advantages with the United States. Could you describe three advantages for nations to have to be granted MFN status by the U.S. Government?

Ms. BARSHEFSKY. I do not know if I would use the word advantages, because, of course, the United States gets MFN from all the nations it grants MFN to. But MFN provides for lower grades of tariffs. For many countries, it also implies those tariffs cannot be raised without compensation, and that is a very important element.

MFN implies that there can be no discrimination among nations who receive MFN treatment, so that, for example, if the United States and Europe both have MFN treatment in China, the tariff rates for both must be the same and treatment with respect to imports must be the same. That would include nontariff barriers. That is extremely important. So, we are looking at stability in the trading relationship and, most critical, nondiscrimination in the trading relationship.

Mr. COYNE. So there are advantages for those nations that do not have MFN?

Ms. BARSHEFSKY. Yes. If I may say, I am happy to provide you with the names of the other seven nations. They are Afghanistan, Cuba, Cambodia, although legislation is currently pending to grant conditional MFN, Laos, North Korea, Serbia and Montenegro, where permanent MFN was revoked in 1992 by legislation, and Vietnam. Those are the only countries currently without any MFN status.

There are, of course, several other countries that actually have MFN but do not receive MFN treatment, for example, Iran, Iraq, and Libya, but it is significant that even they have MFN status.

Mr. COYNE. Thank you.

Ambassador Lord, we heard earlier from Representative Solomon that China is purchasing submarines and airplanes from Russia. Is that a reason of concern for the United States?

Mr. LORD. It is something we keep our eye on, of course. It is of concern and interest. It is of more immediate concern to China's immediate neighbors, where China's increasing capabilities to project power have direct relevance to the Taiwan Strait and the South China Sea, for example, whereas they do not really threaten us. We are vastly superior to China. But anything that concerns our friends and allies, of course, we are concerned about.

Having said that, and while we should keep an eye on China's growing military power, we should not exaggerate it. First, it is very tough to figure out exactly how big they are, because they hide their figures.

Second, there are many indices that suggest that the growth in their military budget has not been as huge as some accounts would suggest. That does not mean it has not been significant.

Third, they are starting from a very low base in terms of technology and equipment. So, they have a long way to go before they are any direct threat to us, but that does not mean we do not watch this carefully and with concern, focussing particularly on major weapons systems or anything having to do in the nonproliferation area, where it is of great concern.

Mr. COYNE. Is it our government's position that we ought to keep these two issues separate, the fact that there is a buildup and trade relations?

Mr. LORD. Yes, we believe so. In dealing with the security aspect, first, we are the preeminent military power in the world, of course, including in the Pacific. We have maintained our 100,000-man force levels. We have reaffirmed our alliance with Japan in the most successful summit with Japan in the last 50 years. We have maintained our other alliances.

Even as we do that as a realistic foundation, we are trying to engage China bilaterally and regionally in the security area. Bilaterally through military exchanges to get a better sense of their intentions, their budgets, their strategic doctrine, to expose them to the U.S. military, to have an impact on nonproliferation where they are important. And second, through regional security dialogs where China has been brought in to try to engage them multilaterally on security problems.

One quick example, last summer, the South China Sea was heating up. Because of the ASEAN Regional Forum, which is a new security dialog in Asia, partly, and also because of strong U.S. and ASEAN statements, that issue was at least temporarily diffused.

So, we want to approach on foundations of firmness but also engagement, and the security area is a good example of that but should be kept separate, in our view, from the trade area.

Mr. COYNE. Thank you.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman, and Madam Ambassador and Mr. Secretary, thank you both very much for your testimony.

I want in my few minutes to talk just a little bit about the textile and apparel industry. There are some real concerns that the people who I represent have concerning our relationship with China in textiles and apparel. Madam Ambassador, you stated last month when you had the preliminary retaliation list that Chinese apparel products comprise the largest single category of pirated goods seized by U.S. Customs officials.

We know that we and USTR have struck a very good bilateral textile agreement with China. However, we also hear from Customs that between $2 and $4 billion a year is transshipped from China to the United States, circumventing that agreement. The industry thinks that there may be more than that, perhaps as much as $8 billion a year.

This comes at a time when the industry has agreed, as in the GATT Agreement, over 10 years to give up a quota system, do away with the Multifibre Agreement. For a variety of reasons, what this has meant to an industry is that in the last 16 months, more than 170,000 jobs have been lost in this country. So it is a time, that people are looking at the laws, the agreements, making sure that they are going to be enforced, and to look at market access opportunities to see how we might sell our goods in other countries as we move into this globally competitive environment.

I have always supported MFN status for China. I do think that constructive engagement is the right way for us to proceed. But, at the same time, I need to have some understanding about where we are going relative to some of these concerns with China. If you could elaborate on that, and also any kind of market opening discussions or opportunities that we might have for us to sell our products in that country, I would appreciate your comments on that, as well.

Ms. BARSHEFSKY. Thank you. Last month I indicated that the single largest pirated crop that Customs seizes every year from China is textiles, usually a trademark violation but other violations were found, as well. The interesting point there, of course, is that these are Customs seizures. That is to say, we are getting much better with respect to our own border enforcement at attacking illegitimate goods.

We are currently, with respect to the issue of transshipment, in consultations with the Chinese over about $1 billion in potentially transshipped goods. The interesting feature about this current negotiation is that this is the first time we will be in a position, if these allegations prove true, to triple-charge China's quota with respect to these potentially transshipped goods. So, these are very important consultations and I think China understands full well that if the evidence is there, we will, in fact, triple-charge their quota, as we have a perfect right to do.

The textile agreement we entered into has proven quite effective with China. Last year, imports from China were down by about 5.6 percent. That is about a 17-percent increase in apparel imports from the Caribbean countries. So, this was not because our market

was shrinking in size. There was a shift from China, which in some areas is a less competitive producer.

With respect to market access efforts into China, I would ask that our chief textile negotiator, Ambassador Hayes, get in touch with you on the status of those discussions.

Mr. PAYNE. Thank you very much, Madam Ambassador. I look forward to continue to work with you on this important subject.

Ms. BARSHEFSKY. Thank you.

Chairman CRANE. Ms. Dunn asked me to put this question to you both. If MFN were discontinued, would that have an impact on Hong Kong and Taiwan, and if so, what kind?

Ms. BARSHEFSKY. I think there is no question, if MFN were revoked, the impact on Hong Kong would be potentially quite severe. Hong Kong itself estimates substantial diminution in their GDP if MFN were revoked, as well as substantial disruption with respect to trade ties.

The impact on Taiwan is somewhat less clear, if only because Taiwan is not the transshipment point that Hong Kong is for Chinese goods, but there is no question there would be some degree of adverse impact on Taiwan. That is on the economic side. I think Ambassador Lord might want to add to that, though.

Mr. LORD. In addition to that, with respect to Hong Kong, you would have the psychological impact as they head toward the July 1, 1997, turnover to Chinese sovereignty. It is a rather fragile situation as it is, and so beyond the economic would be the political and psychological impact. As I mentioned in my opening remarks, Governor Patten and Martin Lee, who are not known to be apologists for Beijing, nevertheless were very strong on the need to extend MFN, precisely because of your question of the tremendous economic and other fallout that would occur there.

Taiwan itself, I do not believe, has come out publicly on this issue, but it is fair to say they would not like to see MFN revoked, and it is partly for economic reasons. I agree with Ambassador Barshefsky. The impact probably would not be quite as severe or as easily quantifiable, but certainly their own trade would be disrupted. There are some production factories in China that export to us that would be affected, as well. So, this would have an impact on Taiwan, but I think the blow to Hong Kong is even more serious.

Chairman CRANE. I want to thank you both for your patience and for your willingness to come here and testify this morning. With that, you folks are free to leave.

Ms. BARSHEFSKY. Thank you, Mr. Chairman.

Mr. LORD. Thank you.

Chairman CRANE. You are welcome.

Chairman CRANE. I will invite our next panel of colleagues, Christopher Smith, Frank Wolf, Marcy Kaptur, Christopher Cox, Dana Rohrabacher, Thomas Ewing, and Joseph Scarborough, if you will all be seated.

We will proceed in the order that I just called out on our list of witnesses here. Mr. Smith, you open up, please, and Mr. Wolf will follow you.

STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SMITH. Thank you very much, Mr. Chairman. I thank you for this opportunity to appear before the Subcommittee.

Mr. Chairman, the Clinton administration celebrated the delinking of most-favored-nation status from human rights in 1994. It was the most egregious example of a broader policy in which the U.S. Government has brought about an almost total delinking of human rights from other foreign policy concerns. Although the current administration justly criticized its predecessors for subordinating human rights to other concerns in China and elsewhere, Bill Clinton called it "coddling dictators". The Clinton administration, however, has coddled as few have coddled before.

And yet, not all the blame for the sharp departure away from human rights and toward an amoral foreign policy falls on the Clinton administration. The very forces that have influenced the Clinton administration to do the wrong thing, short-sighted business executives who put short-term profits ahead of enduring values, career diplomats who think their job is to deal with tyrannical regimes on whatever terms seem possible, and that human rights are a distraction will be actively engaged in trying to have the same influence on a Republican administration after January of next year.

They are actively engaged in trying to influence the Congress today on the question of MFN. Each year as the time approaches for Congress and the President to review the question of MFN for the government of the PRC, Members of Congress are approached by representatives and business interests who support it. Their argument is that "constructive engagement" is the best long-term strategy for promoting human rights in China.

The biggest problem with this strategy is that it has not yet succeeded in the 20 years or so that our government has been trying it. Our government has been embroiled in a 25-year one-way love affair with the Communist regime in Beijing. There is no question that increased contact with the West has changed China's economic system, but there is little or no evidence that it has increased the regime's respect for fundamental human rights.

In discussing human rights strategies with people who do business in China, I find it helpful to ask the following questions. One, what specific opportunities have you taken to raise human rights concerns with your trading partners in PRC government contacts? Specifically, what steps have you taken to protest the continued imprisonment of Tiananmen Square dissidents and other political prisoners? What have you done to protest the use of torture, forced abortion and forced sterilization, harvesting of organs from executed prisoners, and the arrest and detention of such great and brave people like Wei Jingshen?

When I sat down with some members of the U.S. Chamber of Commerce in Beijing 2 years ago, one of three human rights trips to China, I was met with blank stares when I said, have you ever sat down and spoken with a dissident and heard what his perspective or her perspective might be on human rights in China?

Also, I think it is useful to ask, what charitable contributions have you, the business community, made to the Laogai Research

Institute, Democracy in China, Human Rights Watch, Amnesty International, Freedom House, the China programs of the National Endowment for Democracy, and other nonprofit organizations devoted to freedom and democracy in China? Where do you draw the line? It is a fair question. Where do you draw the line? Are there any human rights violations so loathsome or any pattern so clear and strong that you would stop doing business in the People's Republic of China?

Ambassador Winston Lord said a moment ago that the Chinese could reach a point where they might isolate themselves. I think that is highly unlikely with this administration, because as one abuse after another becomes manifest and is made known, we just make a statement, we say it is not good, and business as usual continues.

Unfortunately, the answers to these questions, I would submit, usually show that our commercial engagement with state-controlled entities in the PRC has not, in fact, been constructive as it might have been.

Just let me point out, Mr. Chairman, because my time is almost up, that our own country reports on human rights practices makes it very clear that the PRC's performance continues to deteriorate in the area of human rights, that significant regression has been the order of the day, not significant improvement. Things have not gotten better for the average person in China.

Religious freedom has gotten worse. When Li Peng issued his two decrees, 144 and 145, 2 years ago, the crackdown on the Evangelical Church and the crackdown on the Catholic Church began in earnest. They see that as a threat because people are willing to endure punishment for their faith, so the regime has gone down with an iron fist on people of faith. The same is true for the Buddhists in Tibet and the continued genocide that has occurred in that country.

It seems to me, Mr. Chairman, that the unintended but inescapable message that our dealings with the Chinese Communists is, and this emerges from the objective data, even where our words and actions have been strong as well as where they have been weak, is that we will tolerate the destruction and the devastation of many lives in China only if they will just stop pirating software. We put profits above people, and we talk about isolation.

They need our markets, Mr. Chairman. The balance of trade is $35 to $40 billion in their favor. They have to find markets. They are not going to find those markets in Europe or Australia or in other Asian countries. They are going to find them here. We have real leverage. We have failed to use it. I believe that we ought to take away MFN.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Chris.

Frank.

STATEMENT OF HON. FRANK R. WOLF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. WOLF. Thank you, Mr. Chairman.

Last year, we gave China MFN and what has happened? We learned that the Chinese Communist state-owned companies with

close ties to the Chinese military were attempting to smuggle AK–47 assault weapons into the United States and sell them to gangs, gangs that could kill American men and women and boys and girls. We learned the same smugglers were willing to sell the same violent gangs hand-held surface-to-air missiles, "red parakeets" that could take out 747s.

Since that time, we learned that the Chinese Government sold ring magnets for use in enriching uranium and M–11 missiles to Pakistan. We learned that the Chinese government was supplying nuclear technicians and equipment to Pakistan. Since that time, we learned that the Chinese Communists sold patrol boats to Iran. Since that time, we learned that the Chinese companies are helping the Iranian government to build poison gas factories. Since that time, we learned that the Chinese Communist government is making deals with Russia to buy SS–18s.

Since that time, we have obtained more evidence that babies are dying of neglect and deprivation of medical care. We saw the pictures of them tied in the cribs. Since that time, we heard of the persecution of Christians and people of faith, the persecution of the Catholic Church. There are bishops in jail. There are priests in jail. There are Protestant pastors in jail. There are even Evangelicals in jail. As Congressman Chris says, no one in the business community speaks out on the issue at all.

Since that time, we learned that the Public Security Bureau circulated an arrest warrant with the names of 3,000 names of Protestant Evangelical Christians. Nothing more has changed.

Since that time, we continue to hear the case of Chinese Christians being arrested, Catholic priests arrested, bishops again arrested, Moslem protesters arrested. Since that time, Tibet has been plundered. Tibet monks have been arrested. Nuns have been arrested. Since that time, many have been tortured or forced to strip off their clothes before beatings and routinely raped in jail. Since that time, the Chinese government arrested and detained Harry Wu. Since that time, just last year, the Chinese Communist human rights abuses continue.

Public executions—we did a "Dear Colleague" letter asking the whole Congress to come and see the public executions that we have on tape. Seven Members of Congress took the time to come. In 1983, when Ronald Reagan gave the "evil empire" speech in Orlando, if we had had a photo showing the Soviet Communists shooting people in Perm Camp 35, everyone would have come because everyone in Congress and everyone in the administration was very interested in it. This year, we get no one to come.

No Member of this Subcommittee in good conscience ought to vote—if you are going to give them MFN, I think you ought not to vote on this issue until you see the 13-minute film. They line them up, they put a pistol in the back of their head, they shoot them, they hit the tarp, they cut them open and they take the kidneys and their cornea. That is all since the time we have given them.

There are more gulags in China than there were in the Soviet Union when Solzhenitsen wrote "Gulag Archipelago." Intellectual technology—it goes on and on.

Fortunately, the American people are farther ahead than this administration, and quite frankly—I should not say this, but I am—

if I were Winston Lord, I would quit. I would leave my job, because to defend a fundamentally immoral policy of what they do year after year, when more Christians are persecuted—the fact is, the endangered species in this world are Christians. When Christians get persecuted, not one business speaks out. Motorola will not speak out. Boeing will not speak out. McDonnell Douglas will not speak out. They will all go to church or Mass on Sunday but no one speaks out.

Do you remember the rally that we had in the eighties? Do you remember the rally on the mall when 250,000 people came because of the persecution of those of the Jewish faith? We stood together in solidarity. What Member of Congress in the eighties, what administration, what assistant secretary would have had the nerve to publicly say that we should give MFN to the Soviet Union when Sharansky was in Perm Camp 35 and Sakharov was under house arrest? No one would have. Now we even see Members of Congress saying that we should give permanent MFN.

Chris was right. The business community would not speak out for Harry Wu. They would not speak out for the Catholic priests. They would not speak out for the Evangelical pastors. They will not speak out for the Buddhists that are persecuted in Tibet. They will not speak out when AK–47s and shoulder-holster missiles are being sold to street gangs in Los Angeles What will they speak out for?

I urge this Subcommittee to not give them MFN. But if you do give them MFN, condition it or do something, because if we do not do it, next year, I will predict you will see the Chinese army marching into Hong Kong, and then you are going to ask yourself, did you do the right thing?

Do not give them MFN this year. There has been no improvement. I say that as someone who last year introduced a resolution to take away MFN, then voted against it and voted to table it because I thought we had worked out a fair compromise. Nothing ever happened.

Do not give the Chinese Communists MFN. If you would not give the Communists in the Soviet Union MFN in 1980, do not give these people MFN in the nineties. I just submit the rest of my statement, if I may.

[The prepared statement follows:]

Statement of Rep. Frank R. Wolf (R-VA)
Before the House Subcommittee on Trade
June 11, 1996

Hearing on China's Most-Favored-Nation Trade Status

Thank you Mr. Chairman and members of the subcommittee for the opportunity to testify before you today.

Last year, I introduced a resolution to disapprove President Clinton's decision to extend Most-Favored-Nation trading status to the People's Republic of China (PRC). I later voted to table it. Why?

Because, after negotiating with Chairman Bereuter of the House Subcommittee on Asia, Rep. Pelosi and others, I believed that we had crafted a piece of legislation which would, for the first time, unify the pro-MFN and anti-MFN forces and send a strong message to China. The U.S.-China Policy Act was an attempt to put Congress on record in a unified way about the problems in the U.S.-China relationship and force administration accountability for its failed policy. Had the bill been enacted, for the first time ever, the U.S. Congress would have gone on record in support of China's democracy movement. In exchange for this legislation (which passed the House with an overwhelming vote of 416-10), I voted to table my own resolution, in effect, voting to give MFN to China for another year. Unfortunately, this bill was not pushed in the Senate and it died. China got MFN and avoided criticism.

And what happened this year?

We learned that Chinese state-owned companies with close ties to the Chinese military were attempting to smuggle AK-47 assault weapons into the United States for use by violent L.A. street gangs. Guns that could kill American boys and girls.

We learned that these same smugglers were willing to sell to the same violent gangs hand-held surface-to-air missiles -- Red Parakeets -- powerful enough to shoot down a 747 jumbo jet. These missiles can be launched from shoulder holsters and are also capable of taking out tanks.

We learned that the Chinese government sold ring magnets for use in enriching uranium and M-11 missiles to Pakistan. We also learned that the Chinese government is supplying nuclear technicians and equipment for a Pakistani plutonium reprocessing plant which in the words of Bill Triplett, a former counsel to the Senate Foreign Relations Committee, would provide "one stop shopping for nuclear war, courtesy of the Chinese."

We learned that China sold patrol boats to Iran and that Chinese companies are helping the Iranian government build poison gas factories.

We learned that China is making deals with Russia to buy SS-18 missiles.

We have obtained more evidence that babies are dying of neglect, deprivation of

medical care and starvation in Chinese state-run orphanages. We saw pictures of starving children tied to their cribs to die.

We hear that the persecution of Christians and other people of faith is intensifying. The Chinese government issued strict new religious guidelines in January, that Chinese religious officials have vowed to pull up house churches by their roots and that Chinese Christians are experiencing the worse persecution since the pre-Deng period of the late 1970's. We learn that the Public Security Bureau is circulating an arrest warrant with the names of 3,000 names Protestant Evangelical Christians.

We continue to hear case after case of Chinese Christians being arrested, detained, imprisoned, and sent to labor camp for practicing their faith. The number of such cases are increasing.

Christian churches are being bulldozed and that students and teachers who refuse to join China's "official" Catholic church are purged from schools.

The Chinese government is brutally suppressing Muslim protestors in the Western province of Xinjiang.

Repression in the region of Tibet has intensified and that in 1995, 50 percent more Tibetans were arrested for political offenses than in the previous year. The Chinese government is giving out longer sentences for political offenses in Tibet, has tightened control over nunneries and monasteries and demanded declarations of loyalty from thousands of Tibetan people.

We continue to hear stories of Tibetans being tortured in prison by electric shock, severe beating, self-tightening handcuffs and by being forced to assume difficult and painful positions. We received reports that Tibetan monks and nuns are required to strip off their clothes before beatings and are routinely raped in jail.

We learned that the Chinese government had arrested and detained American human rights activist Harry Wu.

China's human rights abuses continue unabated. Public executions are a standard way of keeping the masses in line and that prisoners are shot in the back of the head with a pistol at point-blank range in front of thousands of observers.

We know that when these prisoners die, doctors are standing by to take out their kidneys or corneas which are then sold to foreign buyers for transplantation for as much as $30,000 a piece.

We continue to hear reports that population officials force women to have abortions to keep the population down and deny medical and care and economic opportunity to families that refuse to abide by this draconian policy.

China has not dismantled the laogai, a system of gulags larger than that which existed under Stalin's Soviet Union but which same the same purpose -- to brainwash through backbreaking labor and brutal conditions.

China has not fully complied with the 1992 Memorandum of Understanding requiring that U.S. officials be allowed to inspect prisons suspected to use slave labor to manufacture goods for exports. We know that these goods continue to come into the United States;

China has blatantly disregarded the 1995 intellectual property agreement and that Chinese factories continue to rip off American technology, software, and other copyrighted material.

We know that almost all leaders of China's democracy movement are either in detention, in labor camps, in exile or under house arrest. Those who have supposedly been released from jail are still subjected to intense surveillance and restrictions of movement and speech. We watched as China's most prominent dissident Wei Jingsheng was sentenced to 14 years in prison; Chen Ziming's medical parole was revoked; and Wang Dan disappeared without a trace. Human rights observers say this is the worst time for dissidents since the immediate aftermath of the Tiananmen Square incident.

So Mr. Chairman, what improvements have we extracted through our current policy? The answer is none. In all three areas of concern, human rights, proliferation and trade, the situation has worsened..

It seems to me that Congress and the administration has failed to learn from history. Nobody on this subcommittee or in Congress would have gone down to the floor and voted to give MFN to the Soviet Union when Natan Sharansky was in Perm Camp 35 or Andrei Sakharov was under house arrest. It would have been unthinkable.

Last week, six prominent Chinese dissidents, all of whom had been student leaders in Tiananmen Square, came to Congress with this message: Western pressure works. When Western pressure is applied firmly and consistently, prison conditions got better. When Western pressure is applied firmly and consistently, the tight reins of repression were loosened.

Yet, today, there are some in this Congress and the administration who now advocate giving China permanent MFN. Do we ever learn?

Unconditional MFN is the backbone of a failed U.S. policy toward China.

How much will it take for this Congress to wake up and focus on the threat that China's actions pose to our national security, our belief in democracy and our continued economic prosperity? How long do we want to continue helping China create a powerful economy and a powerful military unchecked by political transparency and a rule-of-law based system?

There is no evidence that unconditional MFN is advancing U.S. interests with regard to China. I cannot support it this year and neither should this subcommittee.

Let's revoke MFN and engage China on our terms. Thank you.

Chairman CRANE. Thank you, Mr. Wolf.
Ms. Kaptur.

STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. KAPTUR. I am very impressed with Congressman Wolf's testimony, and I would just say that the large corporations of our country, including Boeing, not only do not stand up for Christians, they do not stand up for democracy.

This is not in my testimony, but I had dinner with the head of Boeing one night here in the Capitol one and a half to 2 years ago and I asked him why, as one of our premier business leaders, he did not speak out on some of these concerns. He told me that he had had dinner with the premier of China and that he played the violin and any man that had music in his heart could not be all bad. I will never forget that.

Mr. Chairman, I appreciate the 5 minutes. I wish I had 15 minutes. But, I am one Member of Congress who strongly believes that a new course must be struck in our relations with China, a course that reflects the rule of law and everything that we stand for, if we stand for anything as a people. After 20 years, China MFN has proven to be too thin a reed on which to base our bilateral relationships with China.

It is unfortunate that you and your Subcommittee Members are put in this position. This issue should not be before you in this way. Our foreign policy should be based on three tenets, obviously, realism in the world we live in; reciprocity, which is something I want to talk about here; and most importantly, the development of democratic principles beyond our shores.

But what has been happening is we as a country have been using trade policy as an indirect means of creating foreign aid, because you could never get the type of assistance that is needed in the Chinese situation through this Congress today. Because the burden of this misguided trade policy are borne so unequally in our society—Mr. Payne was talking about his concern for textile workers—there is no question that China MFN contributes to the undermining of our own middle class and sense of fairness to our own people.

China MFN bolsters and perhaps prolongs the existence of authoritarian regimes, as in China, while undermining our own domestic economic interest, which is where I want to focus on in my remarks today. These charts are attached to your testimony.

Since 1974, our trading relations with China were supposed to have improved if we just renewed MFN for one more year. This has not happened. Those red lines indicate what has happened with our trade deficit with China since 1974. Just in the past decade, our trade deficit has increased with them by over 1,000 percent. That means imports minus exports, because our exports, even though they have been at a flat or slightly increasing level, which is the bottom green line in that chart, the imports that have been coming in here have been increasing at an alarming rate, getting larger each year in total volume as well as real rate.

This year, that deficit is projected to be over $40 billion. In fact, 33 percent of China's exports come to our country. There are 250 million of us. There are 1.25 billion of them. Just mathematically,

what is happening here is unsustainable in the long term. Only 2 percent of our exports go into that market.

Right now, that trade deficit with China comprises one-fourth of the $160 billion trade deficit that we sustain with the world. It results in lost jobs here at home, a ratcheting down of our wages. Let me point out that the effective tariff rate under MFN will be about 2 percent. Their effective tariff rate against us, depending on the goods, is between 30 and 40 percent.

There is no reciprocity in this agreement. Why do we sustain this as a society when we get nothing in terms of the development of a free market, a free society on the other end? We are putting the gun not just to the Chinese people but to the heads of our own people who are losing these jobs all over the United States of America.

In terms of the exchange rate, and I just want to put this on the record because it is in my testimony, China has two exchange rates, the one that they officially say is theirs and then the real one, which is the one that they manipulate. The exchange rate they have been using effectively results in a subsidy to their exporters valued at over $15 billion, which makes it so much more difficult for our people to get our goods into the Chinese market, and effectively gives China such an incredible subsidy that benefits their exporters, including their army, which is well documented in these figures.

My time has expired, but our testimony documents the other nontariff barriers. I have only talked about tariff barriers and exchange rates. The nontariff barriers that we include in our testimony are important for you to reflect upon.

I just say in conclusion, Mr. Chairman, I would hope that whatever happens on your Subcommittee, or in in Full Committee, that you give us a chance to fully debate this on the floor of Congress so that we can bring up the concerns of the Members that are here before you and others in a much more complete way. I think that this relationship is exceedingly important and it does not deserve to be low-balled inside this Congress.

Thank you very much for the opportunity to appear.

[The prepared statement and attachments follow:]

TESTIMONY ON RENEWAL OF CHINA MFN
CONGRESSWOMAN MARCY KAPTUR (D-OH)
SUBCOMMITTEE ON TRADE
WAYS AND MEANS COMMITTEE
JUNE 11, 1996

Mr. Chairman, thank you for inviting me to testify before you and your Subcommittee today on the question of whether to renew China's Most Favored Nation status for another year. Given the explosion in our trade deficit with China, and the increasing potential for military conflict in Asia, the vote on China MFN is easily one of the most important votes of our day. I am one Member of Congress who strongly believes that a new course must be struck in our relations with China -- a course that reflects the rule of law, and benefits the wider populace of both our great nations rather than the base interests of a few.

After twenty years, China MFN has proven to be too thin a reed on which to base our bilateral interests. I will vote against renewal of China MFN as a first step in shaping a new foreign policy path with China. U.S. foreign policy must be based on three tenets: realism, reciprocity, and the development of democratic principles. The United States can no longer afford to use our trade policy as an indirect means of foreign aid. And because the burden of this misguided trade policy are borne so unequally in our society, China MFN contributes to the undermining of our middle class and sense of fairness. Finally, China MFN bolsters, and perhaps prolongs, the existence of authoritarian regimes such as found in China, while further undermining our own domestic economic interests. Renewal of China MFN simply makes no sense.

Congress has been voting annually on MFN since 1974 when Jackson-Vanik was signed into law, a law which tied the internal politics of non-market economies to their external trading relations with the U.S. It was a classic carrot-stick approach to policy. The carrot was the U.S. market. The stick was taking away a nation's Most Favored Nation trading status. While China has been gorging itself on the carrot of the U.S. market, somewhere along the line we lost the stick to affect change in regard to China's attitude and policies towards the U.S. and her own citizens.

THE GROWING U.S.-CHINA TRADE DEFICIT

Every year since 1974, President after President, from Ford to Clinton, has stood before Congress and the American public to assure us that our trading relations with China will improve IF China MFN is renewed just one more year. This, of course, has not happened.

Let me refer to the first chart attached to the back of my

testimony. **Over the past decade, the U.S. has recorded over a 1,000 percent increase in our trade deficit with China.** And the rate of disadvantage to the U.S. increases each year. In 1996, the U.S.-China trade deficit is projected to top $40 billion dollars, breaking yet another record. Thirty-three percent of China's exports, one of out of every three products, end up on U.S. shelves. At this pace, China will surpass Japan in the next two to three years as the nation with which we have the biggest bilateral trading deficit.

May I remind you that trade deficits are a form of debt, and like all debt, they must be repaid with interest. Last year, the U.S. owed the world over $160 billion because of our trade deficit in goods. That is more than our annual federal budget deficit. In 1995, China's $34 billion share of our foreign debt due to the trade deficit was almost a quarter of the total, and projected to grow rapidly. Like the budget deficit, the trade deficit, if left unchecked in its growth, will result in more lost U.S. jobs, the ratcheting down of U.S. wages, and increasing pressure for a rise in domestic interest rates in order to attract the offsetting foreign capital to our current account deficit. I do not need to tell you what impact any rise in interest rates has on economic growth and America's future. Quite frankly, we are mortgaging the future of the United States to countries like China with which we continue to run unsustainable trade deficits.

Many of the supporters of China MFN will point to the growth of U.S. exports to China as a reason to renew China MFN. I would like to refer you now to the second chart attached to my testimony. While U.S. exports to China have increased, the growth has been fairly flat in relation to the explosion of Chinese imports flooding into our country. While China exports at least 33 percent of its goods to the U.S., less than 2 percent of our exports are destined for China, less than tiny Hong Kong or Taiwan. Using only percentages, it is therefore somewhat disingenuous to claim a huge increase in our exports to China while starting from such a low starting base. If you will recall, this was a favorite debate point utilized by Japan during the recent auto dispute, claiming huge increases of 100 percent while, in actuality, only allowing in a few more U.S. automotive exports. Measured in absolute terms, it quickly becomes obvious that our exports to China are, in fact, not growing fast enough, as this gap in the chart yawns even larger with each passing year.

BARRIERS TO TRADE WITH CHINA

It is not difficult to understand why U.S. exports are continuing only to trickle into China. China is a closed, command economy. For example, while the U.S. charges an average MFN tariff rate of 2 percent or less on China's imports into the U.S., China charges average tariff rates of 30 to 40 percent on U.S. exports into China. With U.S. exports facing tariff rates up to twenty times greater

than our own tariff rates, it is no wonder that U.S. exports to China remain flat.

There is a further discrepancy when one considers the exchange rate between the U.S. and China. While the U.S. has only one fully-convertible currency, the dollar, China has at least two separate exchange rates for the Yuan -- the official rate for foreigners and the unofficial rate for the Chinese themselves. In 1993, the last year for which I have data, the official exchange rate was 5.7 Yuan to the dollar. The unofficial rate in 1993 -- the rate set by the market and not the government -- was 8.4 Yuan to the dollar. There is a difference of almost 50 percent.

This gap between the official Chinese exchange rate and the unofficial exchange rate serves to: 1) act as a subsidy for officially-approved importers and exporters in China's trading sector, namely the Chinese government itself; and, 2) act as a non-tariff barrier to U.S. exports competing with domestic goods in China. The price of U.S. exports sold in China are inflated by nearly half because of the difference between the official and unofficial exchange rates. Moreover, with the U.S. buying $31.5 billion worth of Chinese goods in 1993, mostly at the official exchange rate, China's exporters received a subsidy worth at least $15 billion dollars from what the market price would have been.

Finally, after paying high tariffs, and after factoring in the 50 percent exchange rate subsidy, U.S. exports face significant non-tariff barriers to China's market, including quotas, import licensing agreements, and other regulations. Let me quote from the United States Trade Representative's "1996 National Trade Estimate Report On Foreign Trade Barriers". It states: "China still maintains a large number of non-tariff administrative controls to implement its trade and industrial policies." The USTR report goes on to state that non-tariff barriers are administered at national and subnational levels, and are annually negotiated and set by China's central government.

The impediments to trade with China are not limited solely to tariffs, non-tariff barriers, and the gap between the official and unofficial rate of the Yuan in China. The USTR has documented abuses in the setting of arbitrary standards, testing, labeling and certification. Government procurement in China remains largely closed to foreign competition. China engages in export subsidies, theft of intellectual property, and employs an array of barriers to services and foreign investment. In short, China is notorious for engaging in predatory, anti-competitive practices.

WHO BENEFITS FROM CHINA MFN RENEWAL?

Having established the true nature of our trading relationship with China, rather than some glorified version concocted for media purposes, the obvious question to then ask is: Who benefits from

renewal of China MFN?

American workers, who must compete with sweatshop labor and this flood of Chinese goods into the U.S., certainly do not benefit from China MFN. While the supporters of China MFN are quick to cite the jobs created by U.S. exports, little is said of the good jobs destroyed by this policy. The Administration states that 20,000 U.S. jobs are created for every billion dollars of trade. It is obvious to most Americans that the reverse is also true -- 20,000 U.S. jobs can also be destroyed by every billion dollars in imports. In 1996, with a projected trade deficit of $40 billion with China, 800,000 Americans can expect to lose their jobs because of our trade deficit with China. Who in the U.S.A. calls these casualty figures? No one.

Let me illustrate this point with an example from the U.S. textile and apparel industry. Last year, the U.S. imported nearly $4.5 billion of articles of clothing, apparel and accessories. Many of these goods were made in sweatshops in China, with Chinese workers, mostly women, making maybe 10 cents an hour. You would recognize the brand names -- Nike athletic shoes, Barbie Dolls by Mattel, Sara Lee products, and so on.

In the United States, the textile and apparel industry teeters on the brink of extinction because of trade deficits with China and other nations that support sweatshop labor. Over the past twenty years, approximately 300,000 workers in the textile industry -- mostly women located in rural areas where jobs are scarce -- have lost their jobs. Over 40 percent of the industry is no longer employed. American workers in the textile industry, who might make $5 an hour, simply cannot compete against slave labor conditions in China. For these American workers, China MFN, and another $5 billion textile and apparel deficit with China this year, will mean another 100,000 lost jobs.

If the majority of American workers do not benefit from renewal of China MFN, who does? Supporters of China MFN point to American cost savings for American consumers. But I challenge anyone to come shopping with me at my local department store and show me a price difference between one good made in China and the exact good made in the U.S. There is no price difference.

We are therefore left with a handful of U.S. multinationals, primarily importers which outsource most of their production in China, as the true beneficiaries of China MFN.

Companies like Wal-Mart have a big stake, a billion dollar stake, in the renewal of China MFN. Wal-Mart is, in fact, China's biggest customer, relying on 700 sweatshops located in China to manufacture its products, only then to import these same goods back into the United States. One thousand shipments a year from China end up on Wal-Mart's shelves.

People like David Glass, the CEO of Wal-Mart who made over a million

dollars last year, benefit from the renewal of China MFN. Or the other top five executives of Wal-Mart who together made over three million dollars in 1995.

And more, the renewal of China MFN will benefit the Chinese government, and more specifically, the People's Liberation Army, which dominate China's trading sector and China's economy as a whole. As reported by the CIA, state-owned enterprises account for 50 percent of China's industrial output; collective firms represent another 40 to 45 percent of industrial output. Together, the "state-owned and collective" sector represents over 90 percent of China's industrial economy.

CONCLUSION

In conclusion, U.S.-China policy, rooted in China MFN, is unsustainable, and even dangerous, over the long-term. Renewal of China MFN for another year will do nothing to achieve reciprocity, and even less to develop a free market in China or democratic institutions our nation claims to represent. In fact, given China's record over the past year -- i.e. breaking almost every agreement that China has entered into with the U.S. -- China MFN may even exacerbate tensions with China by reducing the leverage which the U.S. has at our disposal.

On economic merits alone, China MFN should be revoked. China remains a closed economy which actively keeps U.S. exports and investment from entering its market. Reciprocity in our trading relations with China is non-existent. China's idea of MFN is to charge tariffs on U.S. goods that are twenty times greater than U.S. tariffs on China's imports, and to set up a two-tier exchange rate system which serves as both a non-tariff barrier and subsidy. Finally, China is actively seeking to expand its own exports by engaging in predatory practices, such as dumping and producing counterfeit goods.

Most importantly, it should be recognized that China MFN has costs here at home -- lost U.S. jobs, erosion of our manufacturing base, growing debt, to name a few. It is my firm belief that these costs outweigh any benefits accrued to a few U.S. multinational corporations.

A recent Wall Street Journal/ NBC News poll indicated that over 60 percent of Americans demand improvement from China before renewing China MFN for another year. Shouldn't we listen to our people for a change? China remains a closed economy ruled by an authoritarian, Communist regime which regularly disregards the rule of law. This fact is not going to change unless we change our policy towards China. We should start by revoking China's MFN status this year and return to the negotiating table from a position of strength. Let's use our market power to our advantage, and to promote reciprocity, democracy and the rule of law.

The Thousand-Percent Increase: U.S. Trade Deficits with China, 1985-1996

TOP IMPORTS FROM CHINA

- Electrical machinery
- Toys
- Footwear
- Clothing

TOP EXPORTS TO CHINA

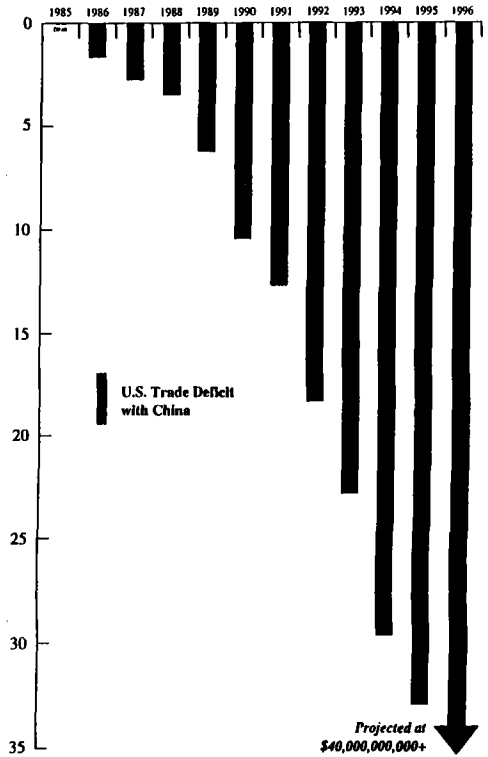
- Nuclear reactors/ machinery
- Cereals
- Electrical machinery
- Fertilizers

Who needs whose market more?

FACT:

33 percent of China's exports go to the U.S.

Only 2 percent of U.S. exports go to China.



Source: U.S. Department of Commerce and the World Bank

READ BETWEEN THE LINES:
China's Imports Into the U.S. Have Exploded As U.S. Exports Trickle Into China
1986-1996

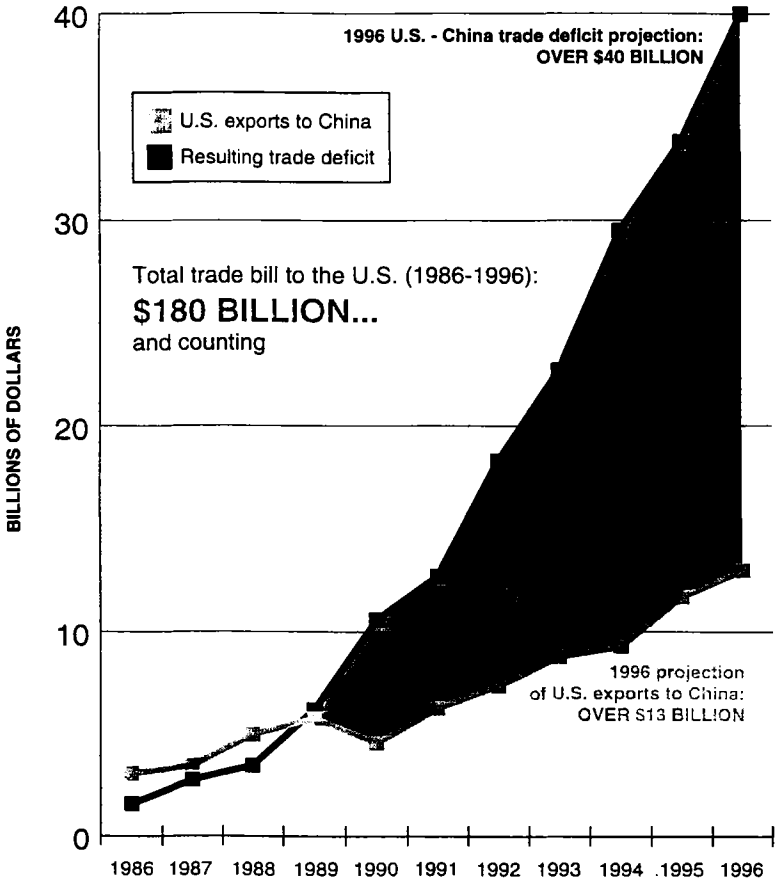


Table A2.8: TRENDS IN EXCHANGE RATES

Year-quarter	Official exchange rate (Yuan/$)	Secondry market rate (Yuan/$)	Weighted exchange rate for exports (Yuan/$)	Real effective exchange rate (official) 1980=10	Real effective exchange rate (secondary market) (1980=10)	Nominal effective exchange rate (official) 1980=10	Nominal effective exchange rate (secondary market) 1980=10
1987-I	3.72	5.25	4.39	4.05	2.87	5.41	3.84
1987-II	3.72	5.3	4.42	3.96	2.78	5.31	3.73
1987-III	3.72	5.46	4.49	4.07	2.78	5.44	3.71
1987-IV	3.72	5.61	4.55	3.97	2.78	5.24	3.48
1988-I	3.72	5.7	4.59	3.97	2.64	5.17	3.38
1988-II	3.72	6.3	4.86	4.13	2.59	5.23	3.09
1988-III	3.72	6.6	4.99	4.67	2.44	5.60	3.16
1988-IV	3.72	6.65	5.01	4.72	2.63	5.48	3.07
1989-I	3.72	6.65	5.01	4.95	2.64	5.67	3.17
1989-II	3.72	6.6	4.99	5.23	2.77	6.06	3.42
1989-III	3.72	6.55	4.97	5.24	2.95	6.36	3.61
1989-IV	3.89	5.9	4.77	4.86	2.98	6.16	4.07
1990-I	4.72	5.91	5.24	3.93	3.21	5.26	4.20
1990-II	4.72	5.81	5.20	3.96	3.14	5.45	4.43
1990-III	4.72	5.8	5.20	3.70	3.22	5.27	4.39
1990-IV	4.97	5.7	5.29	3.33	3.08	4.84	4.24
1991-I	5.22	5.8	5.68	3.19	2.92	4.75	4.33
1991-II	5.31	5.84	5.73	3.33	2.91	4.95	4.33
1991-III	5.36	5.87	5.77	3.30	3.03	4.93	4.51
1991-IV	5.39	5.87	5.77	3.15	3.02	4.79	4.36
1992-I	5.46	5.95	5.85	3.12	2.87	4.80	4.37
1992-II	5.5	6.25	6.10	3.13	2.75	4.84	4.26
1992-III	5.5	7	6.70	3.07	2.46	4.76	3.81
1993-I	5.73	8.41	7.87	3.16	3.17	4.88	3.35

Source: International Monetary Fund and Staff Estimates.

Chairman CRANE. Thank you, Ms. Kaptur.

Let me repeat again for all of the witnesses that any extended remarks will be made a part of the permanent record.

Chris Cox.

STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. COX. Thank you, Mr. Chairman. I have submitted a lengthy statement for the record and so will be brief in this oral presentation.

I do not need to go over any of the litany of offenses against humanity and trade that the Communist government in Beijing has committed in recent years. We need not go over anything other than the highlights to remind ourselves that they have attacked the Philippines by seizing the aptly named "Mischief Reef" in the Spratly Islands, that they conducted a 2-year high-stakes intimidation campaign against the democracy in Taiwan during the Taiwan missile crisis. They fired nuclear-capable missiles in international waters with the effect of shutting down the world's shipping at both ends of Taiwan.

China has more than doubled its military spending, since the collapse of the Soviet Union. It has been acquiring fighter aircraft, helicopters, surface-to-air missiles, and even SS–18 ICBMs from Russia. They are giving ring magnets for uranium enrichment to Pakistan so that they can make nuclear weapons. They are passing on chemical weapons to Iran.

They are, in my home State of California, through the commercial-disguised entities operated by the People's Liberation Army and run for the benefit of the ruling families in Beijing, selling completely illegal, thousands of them, AK–47s to street gangs in San Francisco.

I cannot do nearly the job of hitting even the highlights on the internal repression that you have heard from my colleagues, whether it is the continued occupation of Tibet, the torture of the clergy, the continued escalating crackdown on pro-democracy leaders. There is even an article in today's New York Times about the continued detention, after 7 years of his full sentence, one of the reform leaders of the Communist party.

Suffice to say that MFN cannot bear the weight of all of these policy disagreements that we have, to put it euphemistically, with the People's Republic of China. Yet, while Communist China has become the single most disturbing political and military threat in the world today, the debate over MFN as we have conducted it within and without the administration and Congress has burdened MFN with practically the entire weight of the bilateral U.S.–PRC relationship.

What I want to suggest is that MFN is inappropriate for that purpose, that it simply cannot bear that weight, that if we are counting votes and likely results, we have to recognize that MFN is going to continue. So what are we going to do about it? We need to ask ourselves the same question that Chris Smith just put to the business community. If that is the case, then what, everything is OK, or are we going to do something else?

I would like to suggest something else that is not only completely consistent with but deliberately in furtherance of our pro-free-trade views in America and in the WTO. The purpose of the WTO is to enable members to conduct trade on free market principles by limiting government intervention in the form of state subsidies, excessive tariffs, and other nontariff barriers. The WTO is based on the assumption that the import and the export of goods and services are conducted by independent enterprises, not by fronts for the People's Liberation Army, responding to profit incentives and market forces.

For this reason, the WTO requires for membership that Communist and socialist countries, what we euphemistically call nonmarket economies, reform themselves before they can be admitted to the WTO. A market economy that is decentralized and free is considered a prerequisite to fair trade among WTO members. Hong Kong is a WTO member. It will remain a WTO member even after it becomes a part of China on July 1, 1997.

Taiwan has applied for membership in the WTO and its application is under review in accordance with Article 33 of the latest GATT Agreement. Taiwan has had a free market economy for more than 3 decades. It is the 14th largest trading economy in the world. Its GNP is the 20th largest in the world. It is the world's seventh largest foreign investor. It is America's seventh largest trading partner, and, in fact, it is America's largest export trading partner that is not already a member of the WTO. Taiwan's purchases of U.S. exports are 50 percent greater than the PRC's.

We ought to be supporting Taiwan's admission to the WTO because Taiwan is the example of what Chinese civilization is capable of. Taiwan is the example of democracy, reform of human rights abuses, reduction in tariff barriers. All of the things that we know that China can become, Taiwan is doing, and yet what is the PRC doing? They are militarily threatening Taiwan, trying to intimidate their first free and fair election of a Chinese head of government in 4,000 years of recorded Chinese history.

It costs us nothing to support free trade with our friend and our trading partner, Taiwan. The message will not be lost on the PRC. So I have introduced legislation, H.R. 3569, which I am asking this Subcommittee to report favorably in time for our floor debate and which I know our Rules Committee is likely to make in order so that members who support MFN for Communist China without conditions, who support free trade and oppose punitive tariffs, central planning, and huge government subsidies, who are concerned about Communist China's militarization, the doubling of its military spending since the collapse of the Soviet Union, will have some other way to address these concerns, a way that is not injurious to the United States, that is not injurious to Boeing, that is not shooting ourselves in the foot, but that nonetheless makes the point in a very powerful way.

By moving the debate off of MFN and in this direction, I think we can open up new vistas and new opportunities to influence against communism in China and in favor of freedom, and I thank the Chairman.

[The prepared statement follows:]

Testimony of Christopher Cox

on MFN Trading Status for the People's Republic of China

Before the Subcommittee on Trade of the Committee on Ways and Means

on

June 11, 1996

I want to thank Chairman Crane and the other members of the subcommittee for giving me the opportunity to discuss the vexing issue of Communist China's trading status. I commend you for your timely and thoughtful attention to this vital issue. Unfortunately, due in large part to the failure to address a number of problems regarding Communist China's participation in the international community, the annual MFN question has been burdened with practically the entire weight of the U.S./China bilateral relationship.

Before addressing what I believe the United States must do, let me address the broad array of controversies in the Sino-American relationship. I must say that I am not sanguine about the chances for political liberalization in Communist China, and consider that nation the single most troubling political and military--as well as economic--power in the world at this moment. While not on the order of the Soviet Union in the Cold War, we must make no mistake, that as it is constituted today, the Communist Chinese regime is an enemy of freedom both beyond its borders and within them.

External Aggression and Proliferation

Beyond its borders, Communist China has engaged in both military aggression and arms proliferation. In February of last year, Communist China seized an outpost claimed by the Phillippines on the aptly named "Mischief Reef" in the Spratly Islands. Then the PRC engaged in two campaigns of high stakes intimidation against Taiwan on the eve of Taiwan's first direct presidential election. It tested nuclear-capable missiles in July 1995 and March 1996, in the latter case establishing an effective blockade of the Keelung and Kaohsiung ports at the two ends of the island.

Communist China's aggressive posture should also be judged in terms of potential as well as overt aggression. We should be wary of the officially acknowledged 141 percent increase in defense spending in the PRC since 1989. And the pattern of acquisition of Su 27 fighter aircraft, Mil Mi 17 helicopters, S-300 surface-to-air missiles, and SS-18 ICBMs from Moscow is disturbing indeed in terms of its offensive force projection implications.

In addition to building up its own offensive capability, there are all too many cases of Communist China giving other nations technologies upon which nuclear and chemical weapons rely, and ballistic missiles to deliver those weapons. The PRC gave ring magnets used in uranium enrichment to Pakistan and ingredients for chemical weapons to Iran. It sold M-11 missiles to Pakistan, as well as cruise missiles and ballistic missile components to Iran.

And recently Communist China has engaged in a form of arms proliferation which would have a dramatic, immediate effect on life on American streets today. A sting operation caught two businesses controlled by the People's Liberation Army trying to

smuggle 2000 AK-47s into San Francisco.

Internal Repression

As a threat to freedom within its own borders, the PRC's record is just as striking. The Communist regime continues the decades-old occupation of Tibet. A PRC delegate to the U.N. in Geneva told the U.N. Committee on the Rights of the Child two weeks ago that the Communist authorities had detained the second most important Buddhist spiritual leader in Tibet, the Panchen Lama--Choekyi Nyima. Beijing replaced the child with its own puppet.

Religious repression by the PRC is not limited to Tibet. The Puebla Institute has documented over 170 cases of Christian clergy arrested, tortured, and put in "reform through labor camps."

And, of course, the PRC continues to harass and arrest without due process individual dissidents. The summary sentencing of Wei Jingsheng last December is the most prominent case. The seventh anniversary of the Tiananmen massacre a week ago demonstrated once again the PRC's propensity for detaining figures associated with democracy in order to keep a lid on freedom of expression and association.

Despite the premise that economic development will inevitably lead to political liberalization in the PRC, evidence clearly indicates where the PRC regime's priorities lie. Given a choice between *the free flow of real-time information* in business related journalism and on-line services, and *censorship* as a tool of Leninist political control, the Chinese Communist government has repeatedly opted for the latter in the last six months.

Trade Relations

Having said this about the Communist government's priorities, let me address trade *qua* trade. The burgeoning trade deficit with the PRC--$33.8 billion this past year--is the product of the huge volume of PRC exports to the U.S., and the PRC's tenacity in erecting barriers to American (as well as other nations') access to its market. The Communist government of the People's Republic of China maintains an intricate system of restrictive tariff and nontariff administrative controls to implement its centrally-planned industrial and trade policies, with tariffs on foreign goods, such as automobiles, as high as 150 percent. This pattern continues despite the PRC's commitments in the Memorandum of Understanding on market access which it signed with the United States on October 10, 1992, and reaffirmed in March of 1995.

And the PRC has thus far flouted its February 1995 agreement on intellectual property rights--closing down but four laser disk and video piracy operations last weekend and capturing 40,000 illegal CDS, when the total production of the illegal CDS is in the tens of millions each month. Intellectual property is a classic example of the PRC's refusal to implement the rule of law. If the PRC fails to implement, by the Administration's June 17th deadline, last year's landmark intellectual property agreement with the U.S., the U.S. must follow through on the $2 billion in targeted punitive sanctions it has threatened to levy. Our credibility is at stake. And that credibility has been severely stained by the Clinton Administration in Asia--from the June 1995 reversal on luxury auto sanctions on Japan to the August 12, 1995 "Framework Agreement" rewarding the North Korean nuclear program.

Observers often raise the size of the PRC's economy as a consideration in the decision whether to renew MFN trading status. I just want to stress that because the PRC is so huge in terms of population, resources, and economic production, and because its economy is growing so rapidly, its behavior regarding norms of free trade and other canons of modern international economic cooperation has portentous implications. If the PRC refuses to live by the standards of trade and business which the advanced industrial countries and more and more developing countries live by, its sheer size will have a tremendously disruptive impact on the global economy. Given this capacity to destabilize the world trading system, we need to do everything in our power to get the

PRC to abide by the norms of the rule of law and free trade.

Freeing Ourselves from the MFN Light Switch: A New Approach

I am convinced that the way our policy debate orbits around MFN as an "on" or "off" binary decision is detrimental to U.S. policy making with regard to the PRC. As a light switch which is either "on" or "off," MFN is too imprecise and unsuitable as a vehicle for communicating with the PRC's leadership.

That is why I propose a new approach. Instead of the "on" or "off" choice, I have introduced legislation with Mr. Gilman, Mr. Solomon, Mr. Torricelli, Mr. Lantos, and a number of others to try to use MFN to achieve a worthy aim, the meaning of which will not be lost on the PRC. H.R. 3569 conditions the PRC's continued enjoyment of MFN trading status after March 1, 1997 upon the entry of Taiwan into the World Trade Organization.

In my view, Members of the Ways and Means Committee and of Congress at large should see this initiative as a win-win proposition for the promotion of free trade. It would not stand in the way of the PRC being granted most-favored-nation status, but it would help deliver WTO membership to Taiwan, which it manifestly deserves--especially in comparison to the systematically protectionist PRC.

The contingent MFN renewal for the PRC should convince our Administration, and, hopefully, the PRC, to abandon the policy of keeping Taiwan out of the WTO until the PRC gains accession. It does not involve the contentious issue of sovereignty, since Taiwan has applied for WTO membership as a separate customs territory. And Taiwan's KMT government will be convinced to "come across" on the outstanding issues in its negotiations with current WTO members, which it has held out on so as not to hurt political constituencies in the government tobacco and alcohol monopolies.

The bill is indeed designed to get the PRC's attention--but not by inflaming the one versus two China policy *per se*--because Taiwan would enter the WTO as an economic entity rather than as nation-state. It is designed to do justice and call attention to Taiwan's remarkable success. As you, Mr. Chairman, and I observed in person in April, Taiwan has acted in good faith upon American encouragement and successfully built a booming market economy and a democracy, holding the first democratic presidential election in nearly 5,000 years of recorded Chinese history on March 23. Taiwan is the model we should encourage the PRC to follow. Perhaps rewarding Taiwan will send a clearer message to Beijing than the blanket revocation of MFN for Communist China.

Thank you very much for giving me the opportunity to testify before the subcommittee as it examines the President's request for a waiver under the Jackson-Vanik amendment.

Chairman CRANE. Thank you, Mr. Cox.
Mr. Rohrabacher.

STATEMENT OF HON. DANA ROHRABACHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ROHRABACHER. Mr. Chairman, thank you for allowing me to testify today.

I am a Member of the Subcommittee that deals with Asia and the Pacific in the International Relations Committee, so I follow events in Asia very closely. I will soon be offering the resolution of disapproval for most-favored-nation status for China with a large number of original cosponsors from both parties.

In May 1994, President Clinton told us that an improving economy in China would be accompanied by an improvement in Beijing's respect for human rights. Instead, China's growing economy has only served to underwrite the PRC's enormous military expansion and enrich the Communist nomenclature.

President Clinton was wrong to delink China trade policy from human rights, just as George Bush was wrong in not cutting off most-favored-nation status after the Tiananmen Square massacre. If we had stood up for our principles then, we would likely be re-extending most-favored-nation status to a freer and less threatening China today.

Under the current policies of granting most-favored-nation status, China's human rights record has consistently worsened and its military grown more aggressive. I remind the Members of this Subcommittee that we are losing over $30 billion in our bilateral trading relationship with Beijing in spite of almost $5 billion in loans to China sponsored by the World Bank and the Export-Import Bank. We are financing an attack on the well-being of our own people.

We are told over and over again that China's market is so big and full of such incredible potential that we must close our eyes to the evil side of Communist China.

The question I have for Members of this Subcommittee is, where do you draw the line, which we have heard several times today? Genocide, is that too much to ignore? Or how about Tibet? If they just incinerate all the people of Tibet, would that be on the list of things that, well, we cannot draw the line here because otherwise they will get worse if we cut off trade with them? How about child and slave labor, is that too much? China has 100,000 labor camps and 6 to 8 million slaves working for the State. That is how they make a big profit in dealing with the United States, by the way. That is how their labor costs are kept down forever.

Where do the arguments used last year to justify most-favored-nation status for China differ from the ones that we are hearing today? My colleague and friend, Mr. Kolbe, noted that the arguments are the same this year as they were last year. Yes, that is true. Only the names of the victims have changed.

Do the things in China matter at all in terms of what we are doing here? Since last year, China has launched missiles at our friends in Taiwan, stirred up a conflict over the Spratly Islands, sold nuclear technology and cruise missiles to Iran, left thousands of infants to rot in state-owned orphanages, and blatantly broken

agreements that they signed to protect our intellectual property rights. I could not believe that we have representatives of this administration lauding those agreements. That is just so much scribbling on a piece of paper.

Unfortunately, I could use all my time listing these misdeeds of the Chinese, and I cannot do that. We know hat happened to the Panchen Lama and Harry Wu and Wei Jingshen. We know about the threat to attack Los Angeles with the nuclear weapons and the seizure of 2,000 fully automatic machine guns by U.S. Customs officials that were being smuggled into California by the People's Liberation Army-owned firms.

The fact is, the policy of granting most-favored-nation status for China has not worked. Politically, it is not making them any better democratically, and it is not forcing them to open their markets to American goods. Let us recognize also that this is an economic failure as well as a political failure. Almost everything we send into China except airplanes are raw material. Those are the things that we make profit on. We are sending raw materials that they turn around and put their slave labor into manufacturing and send it back to us and make a profit. In the process, of course, they make a profit and put all of our working people out of work.

This policy is no good for the United States. It is immoral. We need to take seriously the call to examine this policy rather than just blase—some people are just blase about this. Well, so what if the Christians are being murdered? So what? The basic argument is, more people will be murdered unless we keep up the same policy. This is very similar to what Dick Armey tells us. Dick Armey has a saying about it. The definition of insanity is doing more of the same and expecting to get different results.

This policy of extending MFN to China after they move aggressively in the wrong direction, they arm themselves to the teeth, they violate human rights even more than ever before, this is an insane policy for the United States to permit the American consumers to end up footing the bill for arming China to the teeth. They are using the $30 billion that they get off this trade surplus—because of the unfair trading relationship we have established with them, they get $30 billion—they are using it to arm themselves and future generations of Americans will pay dearly if we do not change this policy today.

Thank you very much. I appreciate the chance to testify.

Chairman CRANE. Thank you, Mr. Rohrabacher.

Mr. Scarborough.

STATEMENT OF HON. JOE SCARBOROUGH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. SCARBOROUGH. Thank you, Mr. Chairman and Members of the Subcommittee. I would just like to thank you for allowing me to testify on a very important matter today.

All of us up here recognize how important China is going to be in the 21st century. I think most of us recognize that for the first time in about 500 years, Asia is going to take on a role in this world that may approach an equally important role as that previously held by Western nations. So, we are not naive about China's role in the world.

But, I think most of us are also disturbed, though—and you used a very good word, Mr. Rohrabacher, blase—by the blase attitude and approach that many business leaders have, that many politicians in Washington, DC, have, and many diplomats across the globe have toward China's absolutely horrendous record, not only on human rights but in other areas, as well. We are being told constantly to ignore the theft and intellectual property piracy that is occurring right now in China, to ignore nuclear proliferation. We are being told to ignore human rights abuses.

Somebody mentioned the New York Times article today. Bao Tong, who, of course, was a Tiananmen Square demonstrator, was quoted in a note that was smuggled out of China. "In this cage where I am, there is no law, there is no lawyer, there is no doctor, there is no telephone, and there is no time limit."

And yet, we turn our eyes away from that. We ignore the 60 million deaths in this regime since 1949. Ten times the amount of people that were slaughtered in the Holocaust were killed in China by their own government, and yet we are told that we can continue to deal with these people rationally like we would deal with any other Western nation that has our value system. We cannot.

We are told to continually ignore the persecution of men and women of faith, and we are continually told to ignore all of this and much more for the fevered pursuit of the almighty dollar, and the attitude is nothing more than market share over human rights and money over national security, and we are talking about our National security here, not only people's security in China.

The thing, that angers me the most is I hear people saying, let us not use MFN. There must be some other approach that we can take. What other device is there for Congress? This is the only game in town. If we want to speak out against nuclear proliferation and the continued human rights abuses and the continued slaughter that has occurred in China over the years, this is the only game in town.

The symbolic value of MFN is indisputable. Unlike MFN status of other nations, China has been placed in a special and highly visible category. For the Chinese, it has become a measure of their standing in the world and we in Congress continue to lose sight of this. We are the world's only remaining superpower, and to a degree that we tend to underestimate, our relationship with a given regime tends to confer a degree of legitimacy to that regime.

While I do not believe that withdrawal of MFN status for Beijing will end its legitimacy, for the moment, that legitimacy is rooted in the barrel of a gun. I do believe that conferring MFN status on China will tend to undermine our efforts to stigmatize that regime's deplorable behavior in the international arena.

Beyond that, MFN status also underscores how serious we are, and I think more importantly, how seriously we are going to be viewed in terms of our relationship with China. To date, we have not been a good account of ourselves and it saddens me to say that many of my fellow Republicans must bear at least a heavy share of the blame for this. Unfortunately, many of us Republicans consider disruption of trade with China to be interference with commerce and, therefore, something on the order of violation of the free exercise of religion.

I remember being absolutely shocked, you talk about the Chamber of Commerce in China, our Chamber of Commerce in America docked me for voting against MFN last year. They said I was an enemy of business, basically, because I cared about human rights. We have got to get past this mindset. If we do not, we are going to be paying for it year after year, because if you think it is difficult to say no to a China today that represents 14 percent of our exports, you wait until it represents 16, 18, or 20 percent of our exports.

Make no mistake about it. China will be either the number one or two economy in the world in the next 20 years. When are we going to say no to China? If we are too greedy to say no to China today, we will be too greedy to say no to China in the future.

Mr. Chairman, I thank you for your time. Of course, I have submitted a more thoughtful and concise statement for the record which people can read if they wish. Thank you.

[The prepared statement follows:]

STATEMENT OF HON. JOE SCARBOROUGH

Mr. Chairman, Members of the Subcommittee, I want to thank you for the opportunity to come before you to day to discuss a matter in which I have taken a very great interest. The People's Republic of China, in my view, will be the principle foreign and military policy concern of the United States in the Pacific Region, specifically, and perhaps in the world, generally, well into the next century. Given my position on the National Security Committee, not to mention a genuine intellectual interest regarding China, I consider it a great privilege, as well as a matter of some urgency, to speak to you about China, and about the critical part that the MFN debate will play in the United States' developing relationship with the Beijing regime.

That role is a matter of great symbolic importance. Note that I said of symbolic importance. The adjective would tend to lead one to believe that the matter is therefore not of practical importance. In fact, nothing could be farther from the truth, but MFN's practical import is, in some measure, unclear, and I think is of perhaps secondary consideration for reasons which I will discuss in due course.

The symbolic value is, however, I think, indisputable. Unlike the MFN status of other Nations, both those to whom we routinely extend it, and those to whom we routinely deny it, China has been placed in a special and highly visible category. For the Chinese, it has to some extent become a measure of their standing in the world. We in the Congress, I think, tend to lose sight of this. We are the world's remaining superpower, and to a degree that I believe we tend to underestimate, our relationship with a given regime tends to confer a degree of legitimacy on that regime; almost an imprimatur that becomes a credential of acceptability.

Now, while I do not for a minute believe that our withdrawal of MFN status for Beijing will lend its legitimacy—for the moment that legitimacy is rooted in the barrel of a gun—I do believe that conferring MFN status on China will tend to undermine our efforts to stigmatize that regime's behavior in the international arena. Thus, if we stay with business as usual, I fear that we may, at some future time, find that it is a very risky business in which we are engaged.

Beyond that, though, MFN status also underscores how serious we are—and how seriously we are viewed—in terms of our relationship with China. I am afraid that, so far, we have not given a good account of ourselves, and it saddens me to say that even some of my fellow Republicans must bare at least a share of the blame for this. Unfortunately, a number of my colleagues consider disruption of trade with China to be interference with commerce and therefore, something on the order of a violation of the free exercise of religion. As a result, the United States talks loudly and brandishes a very thin reed. We rattle sabers about how China's behavior is unacceptable, and then when it comes to the vote, we scamper away saying under out breath, "China better watch out the next time." Needless to say, such behavior undermines our credibility not only with China, but with those allies whom we may one day have to lead should China become more hostile.

This last point is at least as important as our relationship to China itself. Keep in mind, once the British and Portuguese relinquish Hong Kong and Macao respectively, Europe's direct and immediate interest in China will become almost a purely economic one, with almost no security overtones to it. When our allies, particularly

Britain and France, who are the only two of our allies whose interests remain global in nature, see us vote market share while we speak of the security of the Pacific rim, they will not hesitate to draw the obvious conclusion. Similarly, when Japan, South Korea, Taiwan, Australia, and New Zealand, among others, see us vote profits over security, particularly at a time when we appear to be looking ever inward, and when the administration speaks of foreign policy as if it was nothing but an extension of trade policy, we can be sure that they will begin to doubt our resolve and will act accordingly. Thus, if the next time that there is a crisis our allies refuse to follow our lead in responding to it, we will have few grounds for asking why.

However, I digress. The issue at hand is China and MFN. The symbolic case is clear. Our seriousness, and the degree to which we will be taken seriously by the Chinese and others, has become wrapped up in the vote of MFN and we cannot escape that fact. If we vote our pocketbooks today, we may well find that we will get more than we bargained for tomorrow.

Let there be no mistaking me here. I do recognize that it will be hard, and that we will pay a price for eliminating MFN. China currently represents 14 percent of our trade. Although we currently run a trade deficit with China, many American businesses, including a few in my own district, do ample and profitable trade with the Chinese. This is a fact, but it is a fact that admits of no conclusion beyond acquiescence in China's aggressive policies. For we are told that cutting off trade with China will hurt Americans more than it will hurt Beijing. Well, if that is true this year, when China represents a 14 percent share of our trade, howmuch more true will it be next year, when China represents 16 percent of our trade? Or the year after, when China represents 18 percent? At what point will we be willing to accept the cost of restraining China?

Sadly, even the best decisions do not have entirely positive outcomes, and eliminating MFN with China may adversely effect some American businesses. However, the ability to inflict necessary pain in the name of long term interests and get away with it is called leadership, and as regards China we are long overdue for some leadership.

Now, I would also add that I am dubious about just how much pain eliminating MFN will cause American business over the long run. Since the days of the open door policy and dollar diplomacy, the United States has assumed that China's billions would be a lucrative and ever expanding market. In fact, in December of 1941, we went to war with Japan in part over China, only to find that in 1996, Japan is a bigger market for us than is China. The last 100 years of Sino-American relations, as the late Barbara Tuchman pointed out in her book, "Stilwell and the American experience in China", do not support the notion that China is a land flowing with milk, honey, and profits. So, I would say that all those predictions of the billions that China trade will represent to the United States must be taken with a grain of salt.

There is one other point to be made regarding this trade matter. Business seems to be of two minds about this. On the one hand it argues that we will not hurt China, but only ourselves, if we cut off MFN, but on the other hand it argues that our trade influences China to behave better. This is a contradiction, to say no more, but it is rooted in a peculiarly American notion of foreign policy. It is, in fact, what I call the Coca-Cola theory of foreign policy. That is, it assumes that if only all the material goods of a consumer society, like Coca-Cola, were flowing in the streets of Beijing, or Moscow, or wherever, that Beijing, Moscow or wherever, would moderate their behavior. It assumes that American policy toward any regime must be therapeutic rather than rooted in the grim realities of international power relationships.

This has proven mistaken time and again throughout out history and yet we continue to believe it. In the case of China, the assumption is wrong on two counts: First, it assumes that the principle concern of the Chinese government is the welfare of its people. To the extent that a booming economy insures that stability of the regime, a regime whose ideological underpinnings no longer exist, there is probably a grain of truth to that. However, at the end of the day, the tanks that rolled through Tiennamen Square, prove that the Chinese leadership is not too concerned about whether or not their people get to watch M–TV and drink Perrier.

The second point is that much of China's current behavior is rooted in the power struggle taking place in Beijing for the succession to Deng Xiao Ping. That power struggle will be resolved, in no small measure, by the Chinese generals and admirals, and will therefore be decided not by the benign competition of international trade, but by the shrill cries of nationalism. This in a culture rooted in a thousand years of thinking of itself as the Middle Kingdom—the center around which all things revolve. Therefore given this, I submit to the Subcommittee that the symbolic value of MFN will be of greater importance than its practical effect.

Indeed, at the very least, the effect of eliminating MFN, in its practical implications, is at best unclear. I well understand that many human rights groups in China wish MFN to be preserved, but I must confess that I subscribe, to a great degree, to John Quincy Adams belief that "Americans are friends of liberty everywhere, but custodians only of their own." The fact is, we cannot hope, in any meaningful sense, to influence China's internal behavior, but we can, by the consistent application of a forceful diplomacy linked to a strong military, influence Chinese policies that threaten or oppose the policies and security of the United States and its allies in the Pacific rim.

In the end, that must be our guide. We face in China today, and unstable regime whose ideology is dead but that does not know enough to fall down. We face in China, today, an emerging world power, by no means the equal of ourselves in any sphere, but that has the potential to challenge the peace and stability of the world, and certainly of that region of the world that is increasingly the most important. China must not be lead to believe that her behavior in this region is not without consequences, both symbolic and practical.

Indeed, in all of this, the only thing we know with any certainty is our own resources and our own resolve. The MFN debate is a test of those resources and that resolve. I say to the Members of this Subcommittee, for the sake of the future, we must not be found wanting.

Thank you Mr. Chairman, I would be more willing to answer any questions the panel may have.

Chairman CRANE. Mr. Hancock.

Mr. HANCOCK. I will make this real brief because we have this vote coming up and I probably will not get an answer. I would just like for you to consider a couple of things.

I read something the other day that in Washington, when they talk about something being complicated, that means that you are going to get a lot of rhetoric, and what have you. Usually there is a way that you could simplify things.

I would like for you just to consider this and see if we could think about this. Tell me if I am wrong. We have three alternatives. One is MFN without any restrictions. We agree with that. Another one is MFN with some restrictions in the human rights area, in other words, putting some pressure on. The other one is just to deny MFN to China and say, look, no MFN until you get your case straightened out. I do not think anybody wants to get into a trade war or anything like that. There is a lot of pressure because of the flow of American investment capital going in, which gets back to your business question.

I just want to pose this question from those three standpoints. Basically, am I right on that, that those are our three alternatives?

Mr. COX. If I might, the purpose of my testimony was to present an additional option, and that is that we can vindicate our interests not only in human rights and international security but also in free trade and commerce by meeting head on the PRC's objection to Taiwan's admission to the WTO. Taiwan is comprised of Chinese people just the same way that the Communist government in Beijing and its billion people are.

The PRC has taken the view that Taiwan cannot be admitted to the WTO, even though admission to the WTO does not require that one be a sovereign nation. Hong Kong, as I mentioned, is already a member and will remain one after July 1, 1997. So, too, Taiwan is applying for admission as a special customs region, not as a sovereign entity.

There is no reason in law or in logic that Taiwan ought not to be a member of the WTO. By acceding to the PRC's extremely unreasonable position that Taiwan cannot come in until it comes in,

since it is not qualified and I do not think anybody on this Subcommittee believes that the PRC ought to be in the WTO, we are capitulating not only on human rights, not only on international security, but on free trade, as well.

I would just add finally that the PRC has made mention of the fact that they care just as much about their claims to militarily have the right to invade Taiwan as they do about MFN, and so I do not think the message will be lost on them.

Ms. KAPTUR. Mr. Hancock, I just wanted to add in the three options that you have outlined the middle one, which is conditional. The purpose of my testimony was to indicate that in addition to supporting the other gentleman up here on the human rights issue, on the economic front, we are not getting a good deal for the United States. You really need to look at the tariff rate and——

Mr. HANCOCK. This would tie in with Congressman Cox's WTO possibility, the economic side of it.

Ms. KAPTUR. It would, and also on the exchange rate.

Mr. HANCOCK. One final thing that I would just like to add——

Mr. SCARBOROUGH. Mr. Hancock, if I could just respond very briefly.

Mr. HANCOCK. One final thing that I would like to ask, and we are going to have to go vote—go ahead.

Mr. SCARBOROUGH. I was just going to say, one problem with a conditional MFN is it has to be approved by an administration that has had a horrendous record of kow-towing toward China, so unfortunately, that is not a practical option.

Mr. HANCOCK. That is probably the biggest problem we have, is getting something approved by the administration.

One final question, and——

Mr. SMITH. Senator, if I could respond briefly to that, because the condition, and everyone has to realize this, is postponement. The day of judgment comes the next year when the record is assessed as to whether or not it got worse, and that is exactly what the Clinton administration did, perhaps with some disingenuousness to its attitude.

The administration averted Congress taking the action that it probably would have taken by issuing an executive order and then sent out mixed signals. I led a human rights mission midway through the review period and was told by every Chinese leader with whom I met: "We are getting MFN. You are going to delink it." I said, "No, no, the administration means it." They were proven right in that regard.

There is a fourth option and that would be limiting or targeting the sanctions on a certain group of industries, for instance, those that are owned and operated by the People's Liberation Army or something along those lines.

Chairman CRANE. Mr. Hancock, if you will permit me, we are down to 5 minutes on this vote.

Mr. HANCOCK. Let me just make this statement and then I am ready to go.

Chairman CRANE. All right.

Mr. HANCOCK. If we had had MFN with Russia over the past 25 or 30 years, go back into history, where would we be now? Would

the cold war be over? Would the Berlin Wall have come down? Let us just think about it.

Mr. ROHRABACHER. I would like to answer that question, whereas I was in the White House during that time period. No one ever suggested——

Chairman CRANE. Mr. Rohrabacher, could you consider answering it on the walk over there to the floor?

Mr. ROHRABACHER. No one suggested giving this to Russia. Had we given this to Russia and treated them like any other country, there would not be a democratic movement in charge of Russia today.

Chairman CRANE. Thank you all for your testimony. We appreciate that.

The Subcommittee stands in recess.

[Recess.]

Chairman CRANE. I would now like to yield to Mr. Younts, then Mr. Cohen, Mr. Snyder, and Mr. Kapp.

You may proceed with your testimony, Mr. Younts, and as I have told other panels here, try to keep your presentations to 5 minutes, and any further remarks you have will be made a part of the permanent record.

STATEMENT OF RICHARD W. YOUNTS, EXECUTIVE VICE PRESIDENT AND CORPORATE EXECUTIVE DIRECTOR, INTERNATIONAL-ASIA AND AMERICAS, MOTOROLA, INC.

Mr. YOUNTS. Thank you. Good afternoon, Mr. Chairman and members of the Subcommittee. My name is Rick Younts, and I am executive vice president and corporate executive director, international, for Asia and the Americas. I appreciate the chance to offer Motorola's perspective on the importance of unconditional renewal of China's MFN status.

International trade creates jobs and sustains economic growth for Americans. Between 1988 and 1995, the percent of Motorola sales outside the United States nearly doubled, from 36 percent to 63 percent. During the same timeframe, Motorola created 40,000 new jobs; 20,000 of those jobs were in the United States.

Motorola has a keen interest in ensuring that there are sustained, positive relations between the United States and China. My responsibilities at Motorola have allowed me to spend a great deal of time in China over the last 5 years. During that time, I have seen tremendous positive changes in that country.

The Chinese have been very open to our products, our processes, and our management styles. With the help of Motorola University, we have been able to establish a productive and effective work force of over 6,000 people who have developed the same values as Motorolans around the world.

Motorola's exports to China have grown significantly in recent years, reaching about $1.2 billion in 1995. These exports support thousands of high-wage American jobs at Motorola and our supplier companies around the country. A fact sheet detailing Motorola's activities in China are included with my written statement.

Motorola strongly supports renewal of China's most-favored-nation status without conditions. MFN is not a preferential treatment. It is the cornerstone of normal bilateral trading relations.

We are heartened by indications of a strong bipartisan support for unconditional renewal of China's MFN status, but as we have heard here today, there are some who want to use the MFN debate to express their concerns about many issues, including human rights, proliferation, intellectual property, market access barriers, and so on. These concerns are legitimate and important. They deserve to be addressed seriously and effectively. But we believe that efforts to use China's MFN renewal to address these concerns would be counterproductive.

Withdrawal or conditioning of China's MFN status would invite Chinese retaliation, which would jeopardize Motorola's exports to China and our business in China. This would give our foreign competitors an unfair advantage and would threaten U.S. companies' ability to compete throughout the Asia-Pacific region. Moreover, there is no good reason to believe that this sacrifice would produce the results which its proponents seek. Conditioning or withdrawing China's MFN status would increase China's isolation and would eliminate the opportunity to influence China's policies for the better.

When Motorola looks at China, we see not only a great commercial market for our technology but also a social obligation that we are taking very seriously. Motorola exposes its Chinese employees to market-driven business and management practices, and to our core principles of respect for the individual and uncompromising integrity in everything we do. We provide tens of thousands of hours of training to our employees, suppliers and government officials at Motorola University in Beijing and in Tianjin.

Motorola is one of the largest donors to the Hope Project, which builds elementary schools in rural China. Motorola now has 17 such schools in depressed areas. Last fall, Motorola became the first foreign company to cosponsor an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners, and we are now exploring other environmental protection and awareness projects with fellow companies.

Finally, Motorola is sponsoring an employee home ownership program which covers construction financing, mortgage financing to the employees, funds for community amenities, and a portion of the mortgage payment and liability. We think Motorola is making a difference.

Withdrawing or conditioning China's MFN status or adopting legislation that would restrict or disrupt United States-China ties likely would make it impossible for us to continue these activities.

More broadly, our ability to contribute to positive change in China demands that ties between the United States and China stabilize and deepen over time. Renewal of China's MFN status over time is the right short-term objective, but over the long term, the United States and China should take the steps necessary to stabilize and normalize their commercial ties.

Withdrawal or limitation of China's MFN status would set back this important bilateral relationship just at the moment when the

United States needs to come to grips with China's emerging great power status. The cost of such action would be paid by American exporters for decades to come, as the credibility of the United States as a trading partner would become an issue every time we sat down to make a sale.

But, the cost to our country extends well beyond the impact on American exporters. We believe that stable United States-China relations serve the long-term interests of both nations.

Mr. Chairman, thank you and the other Subcommittee members for your continued support and leadership in maintaining unconditional MFN status for China and in opposing legislation that would condition or restrict United States-China ties.

We welcome the opportunity to continue to work with you and the Subcommittee in the weeks ahead to achieve our common goals.

Thank you very much.

[The prepared statement and attachment follow:]

Statement of Motorola Inc.
Before the
Subcommittee on Trade
House Ways and Means Committee
June 11, 1996
Washington, DC

Good morning, Mr. Chairman and members of the Subcommittee. My name is Rick Younts, and I am Executive Vice President and Corporate Executive Director of International-Asia and Americas. It is a pleasure to appear before you today to share Motorola's views on the importance of maintaining stable commercial relations between the United States and China.

About Motorola

Motorola is the world's largest producer of cellular telephone, two-way radios and pagers. That accounts for about 60% of our total sales. We're also one of the largest semiconductor companies in the world, which accounts for another 30% of our sales. The remaining 10% is from related areas of electronics. Total Motorola sales have doubled in the past three years, to $27 billion in 1995.

The Importance of International Trade to Motorola

International trade plays a pivotal role in creating and sustaining economic growth for American workers and companies. The importance of being able to trade freely and on fair terms across international borders will become increasingly important as we move toward the 21st century.

The expansion of trade is not a one way street -- increased trade flows of goods, services and investment provides benefits to United States as well as to our trading partners. A few Motorola statistics will illustrate the point. In 1988, 36% of Motorola's total revenues were derived from sales outside the United States. In 1995, that figure was 63% and growing. Over that period, our worldwide revenues grew from $8.25 billion to $27 billion. By the year 2000, we anticipate that fully 75% of our total revenues worldwide will result from sales outside the United States.

Also, between 1988 and 1995, our employee base grew from 102,000 to over 140,000. Of the roughly 40,000 new jobs created, half were created right here in this country. As we have created these new jobs in the US, the proportion of manufacturing jobs relative to the total has remained stable. And we've been able to eliminate such jobs as quality-assurance inspectors and expediters as Motorola's quality and cycle time have improved, so both the "quality" of the manufacturing jobs and the total number of jobs in the US have gone up.

These statistics bear out the fact that access to international markets has allowed Motorola to grow and strengthen its competitive position and it s contribution to the US economy through increased jobs and revenues.

Since 1988, countries containing four-fifths of the world population, or more than 4 billion people, have either moved or begun the transition from closed markets to become integral players in the he global economy. This has created enormous opportunities for telecommunications, one of the most basic forms of infrastructure. Wireless systems enable developing economies to leapfrog old technologies and install modern networks very quickly.

Our most dramatic growth has been in Asia, where sales represented only about 5% of Motorola's total in 1985, and now account for more than 30%. Within Asia, the rapid expansion of the China market has helped to fuel this tremendous expansion.

US-China Relations

Motorola has a keen interest in ensuring that there are sustained positive relations between the United States and China. Motorola's US exports to China have grown significantly in recent years, reaching about $1.2 billion in 1995. These exports support thousands of high-wage American jobs, at Motorola and at our supplier companies around the country. A fact sheet detailing Motorola's activities in China is included with this statement for your reference.

As you can imagine, Motorola strongly supports renewal of China's most-favored nation (MFN) status without conditions. MFN is not preferential treatment. It is the cornerstone of any normal bilateral trading relationship. The US extends MFN treatment to imports from virtually all of its trading partners.

We are especially grateful for your continued leadership in support of MFN extension, Mr. Chairman, as well as the support of other members of this Subcommittee. We are heartened by indications of bipartisan congressional support for MFN renewal. And on May 20, Motorola's Vice Chairman and CEO Gary Tooker had the honor of introducing President Clinton at the International General Meeting of the Pacific Basin Economic Council, where the President announced his intention to renew China's MFN status without conditions again this year.

We would like to believe that this strong showing of bipartisan support for China's MFN renewal without conditions would make it easy to accomplish. But there are many in the Congress who want to use the MFN debate to express their concerns about a range of issues, including human rights, proliferation, intellectual property rights, market access barriers and so on.

These issues are legitimate and important. They deserve to be addressed seriously and effectively. But we believe that efforts to use China's MFN renewal to address these concerns would be counterproductive. Such "messages" may address a certain domestic need, but they also contribute to Chinese perceptions that the United States is intent on pursuing an antagonistic policy of containment. Though this may be the furthest thing from the truth, these actions fuel such perceptions, which unfortunately contributes to an endless cycle of mutual misunderstanding.

Achieving and maintaining good US-China relations require a sustained long-term commitment by both nations. Corporations can and should play a supportive role. Motorola is trying to convey to Chinese policymakers the importance of recognizing that their actions do have an impact on public opinion worldwide, and that they shouldn't behave as though their actions in one area do not affect their interests in other areas. Likewise, American policymakers must understand fully the implications of their actions. If we treat China as an enemy, it will behave as an enemy. No US interests are served by backing into a confrontation with an emerging world power.

Withdrawal or conditioning of China's MFN status would invite retaliation, which would jeopardize Motorola's exports to and business in China. This would give our foreign competitors an unfair advantage in the rapidly expanding Chinese economy, and would threaten Motorola's ability to compete throughout the Asia-Pacific region. Moreover, there is no good reason to believe that this sacrifice would produce the results the US seeks on these other non-trade issues. On the contrary, conditioning or withdrawing China's MFN status would increase China's isolation and would eliminate the opportunity to influence China's policies for the better.

The annual debate over renewal of China's MFN status puts the US Government in the difficult position of measuring progress in artificially short increments. Taking a longer view can yield a different picture. Since Motorola first went to China in 1986, we have seen a rise in the standard of living and improvement in the human condition in China. China has a long way to go to solve some of its social problems, but it has come a long way in a relatively short time compared to where it started.

Motorola does not condone China's actions towards Taiwan earlier this year. Likewise, we support further improvements in China's human rights record. But Motorola believes that withdrawal or conditioning of China's MFN status, or the imposition of unilateral sanctions that hurt American workers or exporters without significantly affecting Chinese policies or actions, is not an effective response to these issues. For this reason, we were relieved that the United States was able to address its recent concerns about alleged Chinese violations of nonproliferation agreements and norms without resorting to unilateral sanctions.

Unilateral sanctions are never our first preference as a means to resolve an issue. Thus, in the case of the current intellectual property rights dispute between the US and China, we remain hopeful that negotiators in both countries will make every effort to resolve the outstanding issues before sanctions are actually imposed. At the same time, Motorola believes that faithful implementation of negotiated commitments is extremely important. If these commitments are not being met satisfactorily, then the issues must be addressed.

When we look at China, Motorola not only sees a great commercial market for our technologies but a social obligation that we are taking very seriously. We believe Motorola's presence in China contributes to improvements in Chinese society in several ways.

Just as we do in every country in which we operate, Motorola exposes its Chinese employees to market-driven business and management practices, and to our core principles of respect for the individual and uncompromising integrity in everything we do. We provide tens of thousands of hours of training to our own employees, suppliers and government officials at Motorola University in Beijing and Tianjin, and through on-the-job

training. Motorola is one of the largest donors to the Hope Project, which builds elementary schools in the poorest parts of rural China. Last fall, Motorola became the first foreign company in China to co-sponsor an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners, and we are now exploring other environmental protection and awareness projects with fellow companies. Motorola is also sponsoring an Employee Home Ownership Program, which covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability.

Our ability to contribute to positive change in China with activities such as these demands that ties between the United States and China stabilize and deepen over time. Renewal of China's MFN status this year is the right short-term objective. But over the long term, the United States and China should strive together to take the steps necessary to stabilize and "normalize" their commercial ties. By "normalization" we mean promoting changes in US and Chinese policy that will allow the two countries to enjoy a commercial relationship regardless of where we stand on other issues.

Normalizing US-China commercial relations would include permanent MFN extension, China's accession to the World Trade Organization (WTO) on commercially acceptable terms, and additional improvements in bilateral trade ties through a step-by-step reciprocal process. Motorola's ability to compete in China on fair terms is essential, and we call on policymakers in both nations to do their part to help us accomplish these vital objectives.

Conclusion

Withdrawal of or limitations on China's MFN status would set back this important bilateral relationship just at the moment when the United States needs to be coming to grips with China's emerging great power status. The cost of such an action would be paid by American exporters for decades to come, as the credibility of the United States as a trading partner would become an issue every time we try to make a sale. Restricting China's MFN status is not *a* worst case for US exports, but *the* worst. But the costs to our country extend well beyond the impact on American exporters such as Motorola. We believe that stable US-China commercial relations are in our company's best interest, but more importantly, serve the long-term interests of both nations.

Mr. Chairman, your continued support and leadership in maintaining unconditional MFN status for China and in opposing any legislation that would condition or restrict US-China trade ties is vitally important for Motorola. We applaud you for conducting today's hearing, and welcome the opportunity to continue working with you and the other members of the subcommittee in the weeks ahead to achieve our shared objectives.

Thank you.

Motorola in China

Overview

Motorola is a leading supplier of advanced telecommunications and electronics equipment in China today. Products sold by Motorola in China include cellular phones, pagers, radio communications systems, and communications and semiconductor components.

The goal of Motorola in China is to serve as a model for cooperative development. Motorola is undertaking a wide variety of initiatives with both its employees and customers to achieve that goal. The company employs nearly 7,000 people in China today. That number is expected to grow to 14,000 by the year 2000.

Motorola's long-standing commitment to training and education are evident in China. All Motorola employees in China receive extensive training in human resource principles of participative management, empowerment, motivation, individual dignity and ethics.

A branch of Motorola University (MU) was established in Beijing in 1993 to train employees, customers, suppliers, and government officials in a range of management, technical and other areas. MU established a second branch in China, in Tianjin, at the end of 1995.

Customers in China include the Ministry of Posts and Telecommunications, provincial telecommunications authorities, municipal and other public safety authorities, financial institutions, educational institutions and private companies.

History and Evolution

Motorola opened a representative office in Beijing in 1986 and has experienced rapid growth since the early 1990s as an active participant in China's transition to a market economy. Motorola (China) Electronics, Ltd. (MCEL), a wholly-owned Motorola entity, was incorporated in March 1992. P.Y. Lai is president of MCEL.

In June 1992, Motorola broke ground on its first major manufacturing facility in the Tianjin Economic Development Authority (TEDA) area of Tianjin. The facility began operation in March 1993. Motorola's Tianjin factory produces pagers, cellular telephones, communications components and semiconductors, mostly for sale in China and other markets in Asia.

In March 1995, Motorola announced its first joint-venture arrangement in China with Leshan Radio Factory for the manufacture of discrete semiconductors. Since then, Motorola also has concluded joint venture arrangements with Nanjing Panda Electronics Group Corporation to produce home computers based on certain PowerPC™ microprocessors, and with Shanghai Radio Communications Equipment Manufacturing, Ltd. to produce pagers.

In September 1995, Motorola announced plans to build a large capacity integrated circuit wafer fabrication plant in the city of Tianjin. The plant will begin manufacture of eight-inch semiconductor wafers with sub-micron line widths by 1997. These products will serve customers in automotive, communications, personal computers, peripherals, and digital consumer markets.

Motorola began operation of its Asia Manufacturing Research Center (AMRC) in Beijing in December 1995. This is the company's first manufacturing research lab outside the United States. Earlier in 1995, AMRC announced a joint manufacturing research project with the Computer Integrated Manufacturing System-Engineering Research Center at "China's MIT," Qinghua University in Beijing.

In addition to production facilities in Tianjin, Motorola investment in China includes headquarters offices in Beijing; branch offices in Shanghai, Guangzhou, Tianjin, Harbin, Nanjing and Chengdu; a Motorola service shop and software center in Beijing, and Motorola University training centers in Beijing and Tianjin. Future plans call for opening sales and service offices in another 20 cities throughout China.

Operating and Financial Results

Motorola's 1995 combined sales to China and Hong Kong reached $3.2 billion, or nearly twelve percent of the company's total worldwide revenues. Motorola's investment of more than $1 billion makes it the largest U.S. investor in China today.
Motorola's exports to China from the United States totaled roughly $1.2 billion in 1995, supporting jobs in many states, including Arizona, Florida, Illinois, and Texas.

Cornerstones

Motorola's operations in China rest on the same two key beliefs that guide all of Motorola's operations worldwide -- respect for the dignity of the individual and uncompromising integrity in everything we do. These beliefs help create an environment of empowerment for all in a culture of participation. The commitment to teamwork and continual learning also are key elements in developing the company's operations in China and its partnership with the Chinese people.

Motorola has a business code of conduct that all employees worldwide are expected to uphold. Motorola has translated its code into Chinese, and this document is used to brief all new hires in China.

In 1994, Motorola University began the Chinese Accelerated Management Program (CAMP), an intensive management training program for high potential Chinese employees. CAMP's 14-month program includes classroom and on-the-job training, as well as a two month overseas posting.

In 1995, Motorola University provided more than 600 training days for customers and government officials, and more than 15,000 training days for employees in China. MU trained more than 500 of Motorola's China-based employees in English, and also conducted customer satisfaction and Six Sigma Quality training courses for employees from 40 Chinese supplier companies.

Motorola brought more than 600 Chinese to its U.S. facilities during each of the last three years for meetings on Motorola technologies, design meetings with engineers and technical training. The company's business units also provided more than 25,000 training days to employees at the Tianjin facility through on-the-job training and machine operator training.

In addition to in-house training, Motorola actively supports higher education in China. The company provided an estimated 2,000 scholarships over the last four years for Chinese students at technical universities, including Qinghua University, Beijing University,

Beijing Posts and Telecommunications University, Tianjin University, Nankai University and Fudan University.

Motorola established three microprocessor/microcontroller labs and five communications labs at universities in China, and will expand this program to 20 universities over the next five years. The company supplied electronics kits and technical manuals to about 30 universities throughout China in the past three years.

Motorola also is contributing to environmental and community efforts in China today. Motorola is the largest donor to the Hope Project in China, having given more than $820,000 to this program that supports elementary schools in rural China.

In November 1995, Motorola became the first foreign company in China to co-sponsor -- with the Tianjin Environmental Protection Bureau -- an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners from throughout the country.

Motorola has begun an employee home ownership program in an effort to attract and retain the best employees in China by providing a high quality living environment. This program, which is encouraged by the Chinese Government, covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability. The first two buildings covered under this pioneering program will be ready for occupancy by the end of 1996.

MOTOROLA

Overview Motorola is a leading supplier of advanced telecommunications and electronics equipment in China today. Products sold by Motorola in China include cellular phones, pagers, radio communications systems and semiconductor components.

The goal of Motorola in China is to serve as a model for cooperative development. Motorola is undertaking a wide variety of initiatives with both its employees and customers to achieve that goal. The company employs nearly 7,000 people in China today. That number is expected to grow to 14,000 by the year 2000.

Motorola's long-standing commitment to training and education is evident in China. All Motorola employees in China receive extensive training in human resource principles of participative management, empowerment, motivation, individual dignity and ethics.

A branch of Motorola University (MU) was established in Beijing in 1993 to train employees, customers, suppliers and government officials in a range of management, technical and other areas. MU established a second branch in Tianjin, at the end of 1995.

Customers in China include the Ministry of Posts and Telecommunications, provincial telecommunications authorities, municipal and other public safety authorities, financial institutions, educational institutions and private companies.

History and Evolution Motorola opened a representative office in Beijing in 1986 and has experienced rapid growth since the early 1990s as an active participant in China's transition to a market economy. Motorola (China) Electronics, Ltd. (MCEL), a wholly owned Motorola entity, was incorporated in March 1992. P.Y. Lai is president of MCEL.

In June 1992, Motorola broke ground on its first major manufacturing facility in the Tianjin Economic Development Area (TEDA). The facility, which began operation in March 1993, produces pagers, cellular telephones, communications components and semiconductors, mostly for sale in China and other markets in Asia.

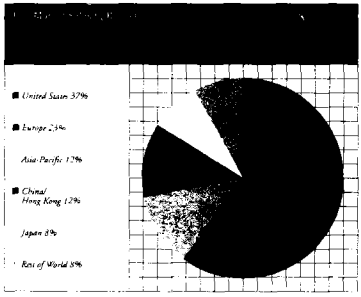
In March 1995, Motorola announced its first joint venture arrangement in China with Leshan Radio Factory for the manufacture of discrete semiconductors. Since then, Motorola also has concluded joint venture arrangements with Nanjing Panda Electronics Group Corporation to produce home computers based on certain PowerPC™ microprocessors and with Shanghai Radio Communications Equipment Manufacturing, Ltd. to produce pagers.

In September 1995, Motorola announced plans to build a large-capacity integrated circuit wafer fabrication plant in Tianjin. The plant will begin manufacture of 8-inch semiconductor wafers with sub-micron line widths by 1997. These products will serve customers in automotive, communications, personal computers, peripherals and digital consumer markets.

Motorola began operation of its Asia Manufacturing Research Center (AMRC) in Beijing in December 1995. This is the company's first manufacturing research lab outside the United States. Earlier in 1995, AMRC announced a joint manufacturing research project with the Computer Integrated Manufacturing System-Engineering Research Center at "China's MIT," Qinghua University in Beijing.

In addition to production facilities in Tianjin, Motorola's investment in China includes headquarters offices in Beijing; branch offices in Shanghai, Guangzhou, Tianjin, Harbin, Nanjing and Chengdu; a Motorola service shop and software center in Beijing, and Motorola University training centers in Beijing and Tianjin. Future plans call for opening sales and service offices in another 20 cities throughout China.

Operating and Financial Results Motorola's 1995 combined sales to China and Hong Kong reached $3.2 billion, or nearly 12% of the company's total worldwide revenues. Motorola's investment of more than $1 billion makes it the largest U.S. investor in China today. Motorola's exports to China from the United States totaled roughly $1.2 billion in 1995, supporting jobs in many states, including Arizona, Florida, Illinois and Texas.



Cornerstones Motorola's operations in China rest on the same two key beliefs that guide all of Motorola's operations worldwide—respect for the dignity of the individual and uncompromising integrity. These beliefs help create an environment of empowerment for all in a culture of participation. The commitment to teamwork and continual learning also are key elements in developing the company's operations in China and its partnership with the Chinese people.

Motorola has a business code of conduct that all employees worldwide are expected to uphold. Motorola has translated its code into Chinese, and this document is used to brief all new hires in China.

In 1994, Motorola University began the Chinese Accelerated Management Program (CAMP), an intensive management training program for high-potential Chinese employees. CAMP's 14-month program includes classroom and on-the-job training, as well as a two-month overseas rotation.

During 1995, Motorola University provided more than 600 training days for customers and government officials and more than 15,000 training days for employees in China. MU trained more than 500 of Motorola's China-based employees in English and also conducted customer satisfaction and Six Sigma quality training courses for employees from 40 Chinese supplier companies.

Motorola brought more than 600 Chinese to its U.S. facilities during each of the last three years for meetings on Motorola technologies, design meetings with engineers and technical training. The company's business units also provided more than 25,000 training days to employees at the Tianjin facility through on-the-job training and machine operator training.

In addition to in-house training, Motorola actively supports higher education in China. The company provided an estimated 2,000 scholarships over the last four years for Chinese students at technical universities, including Qinghua University, Beijing University, Beijing Posts and Telecommunications University, Tianjin University, Nankai University and Fudan University.

Motorola established three microprocessor/microcontroller labs and five communications labs at universities in China and will expand this program to 20 universities over the next five years. The company supplied electronics kits and technical manuals to about 30 universities throughout China in the past three years.

Motorola also is contributing to environmental and community efforts in China today. The company is the largest donor to Project Hope in China, having given more than $820,000 to this program that supports elementary schools in rural China.

In November 1995, Motorola became the first foreign company in China to co-sponsor—with the Tianjin Environmental Protection Bureau—an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners from throughout the country.

Motorola has begun an employee home ownership program in an effort to attract and retain the best employees in China by providing a high-quality living environment. This program, which is encouraged by the Chinese government, covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability. The first two buildings covered under this pioneering program will be ready for occupancy by the end of 1996.

Motorola Corporate Communications
1303 East Algonquin Road
Schaumburg, IL 60196 USA
Phone: (847) 576-5000

Motorola is an Equal Employment Opportunity/Affirmative Action Employer
Motorola and Ⓜ are registered trademarks of Motorola, Inc.

Motorola facilities in China include Greater China headquarters in Beijing, manufacturing in Tianjin and branch offices in Shanghai, Guangzhou, Harbin, Nanjing and Chengdu.

Chairman CRANE. Thank you, Mr. Younts.
Chairman CRANE. Mr. Cohen.

STATEMENT OF CALMAN COHEN, PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. COHEN. Thank you, Mr. Chairman, for this opportunity to discuss the critically important issue of renewal of China's MFN trading status.

I am Calman Cohen, president of the Emergency Committee for American Trade. Like other leading U.S. trade associations and companies, ECAT participates in the Business Coalition for United States-China Trade. For 5 years, the Coalition has led the overall effort of the American business community to support MFN and expanded United States-China trade. I am testifying today on behalf of ECAT, but our views mirror those of the Business Coalition and the over 800 American companies, associations and farm organizations who are members of the Coalition.

Extending MFN is in America's national interest. MFN is the cornerstone of United States-China trade. It is also the foundation of overall United States-China relations. It provides a structure and an architecture which both countries can use to address a host of pressing bilateral concerns ranging from intellectual and property rights in arms proliferation to the improvement of the global environment and strengthening the rule of law.

With MFN, all things are possible between the United States and China; without MFN, the entire United States-China relationship is at risk. The promising future of further expanding American trade with China, to the benefit of both nations, would quickly revert to the bleak antagonism, mutual isolation, and commercial embargoes of the cold war.

Why should you be concerned about extending MFN? Quite simply, the economic stakes are enormous. Asia already accounts for over half of American trade. The Pacific rim includes some of the most dynamic and entrepreneurial economies of the world. In the next century, surging Asian demand for American technology, infrastructure, consumer products, and farm products can support hundreds of thousands of high-wage, high-skill American jobs.

China will be the engine that drives the Asia Pacific regional economy over the next decade. In many key technology sectors, China has the potential to drive global demand—a fact that has not been lost on our foreign competitors.

Today China is the fastest growing market in the world for American exports, purchasing about $12 billion in U.S. merchandise exports annually and nearly $2 billion in U.S. services. China is especially important as a future market for American agriculture. As market-oriented reforms take hold, China is beginning to develop a large middle class which offers a market for American meats, grains, and processed foods.

United States-China trade also supports hundreds of thousands of jobs in American retail establishments, consumer goods companies, ports, and transportation companies. China has emerged as a vital source of imported footwear, toys and apparel for middle-class American households.

In terms of the cost for American consumers, revoking MFN would represent the equivalent of a $302 tax increase for the average American family.

All Americans support the goal of promoting international respect for human rights. American companies are committed to being good corporate citizens. We believe that expanded trade offers the best tool for advancing human rights objectives.

In the last decade, China's free market economic reforms, which American trade and investment help to support, have truly transformed Chinese society. Today China is more entrepreneurial, more dynamic, and I hasten to add, more free. Living standards are rising rapidly. Ordinary Chinese now are free to choose their own place of work, travel, and pursue entrepreneurial opportunities.

Mr. Chairman, we urge the Subcommittee to begin thinking of ways to move beyond the divisive annual debates over MFN which have become increasingly counterproductive. Two decades ago, Congress enacted Jackson-Vanik. This amendment was passed during the midst of the cold war. It was designed to promote freedom of immigration for Soviet Jews. The cold war is over, but U.S. trade law still requires Congress each year to review and vote on the President's determination.

The annual debates over revoking or conditioning MFN have long since ceased to provide leverage on human rights and instead are becoming a serious roadblock to implementing long-term U.S. strategies to deal with an emerging global power.

Mr. Chairman, the focus of U.S. trade law on annual resolutions to revoke MFN has put the administration and congressional leadership in the difficult position of defending and characterizing progress in China in terms of artificial 12-month increments. Whether it is trade, human rights or the global environment, the United States has little choice but to remain engaged with China for the long haul.

The American business community welcomes your leadership, Mr. Chairman, and support and the support of many Members of this Subcommittee for unconditional renewal of China's MFN trading status. This is an important issue. The stakes for American companies and their workers are very high.

We look forward to working closely with you and the Subcommittee on a bipartisan basis in the weeks ahead.

Thank you.

[The prepared statement follows:]

June 11, 1996

STATEMENT OF MR. CALMAN COHEN
EMERGENCY COMMITTEE FOR AMERICAN TRADE
BEFORE HOUSE WAYS AND MEANS
SUBCOMMITTEE ON INTERNATIONAL TRADE

Thank you for this opportunity to discuss the critically important issue of renewal of China's MFN trading status. I am Calman Cohen, President of the Emergency Committee for American Trade (ECAT). ECAT consists of the heads of leading U.S. firms representing all major sectors of the U.S. economy. The annual worldwide sales of our member companies total over $1 trillion and support about 4 million jobs.

Like other leading U.S. trade associations and companies, ECAT participates in the Business Coalition for U.S.-China Trade. For five years, the Business Coalition has led the overall effort of the American business community to support MFN and expanded U.S.-China trade. I am testifying today on behalf of ECAT, but our views mirror those of the Business Coalition and the over 800 American companies, trade associations, and farm organizations who are members of the Business Coalition.

Extending MFN is in America's national interest. MFN is the cornerstone of U.S.-China trade. It is also the foundation of overall U.S.-China relations. It provides a structure and architecture which both countries can use to address a host of pressing bilateral concerns ranging from intellectual property rights and arms proliferation to the improvement of the global environment and strengthening the rule of law. With MFN, all things are possible between the U.S. and China. Without MFN, the entire U.S.-China relationship is at risk. The promising future of further expanding American trade with China to the benefit of both nations would quickly revert to the bleak antagonism, mutual isolation, and commercial embargoes of the Cold War.

Why should you be concerned about extending MFN? Quite simply, the economic stakes for American trade are enormous. Asia already accounts for over half of American trade. The Pacific Rim includes some of the most dynamic and entrepreneurial economies of the world. In the next century, surging Asian demand for American technology, infrastructure, consumer products, and farm products can support hundreds of thousands of high-wage, high-skill American jobs.

China will be the engine that drives the Asia-Pacific regional economy over the next decade. According to the International Monetary Fund, China is already the world's third-largest economy, trailing only the United States and Japan. Its economy has been growing by 10 percent annually. The World Bank has estimated that China needs to invest over $700 billion in new infrastructure over the next decade to sustain its economic growth, including transportation, power, telecommunications, water and sanitation, and environmental projects. Thus, in many key technology sectors, China has the potential to drive global demand -- a fact that has not been lost on our foreign competitors.

Today, China is the fastest growing market in the world for American exports. It purchases about $12 billion in U.S. merchandise exports annually and nearly $2 billion in U.S. services. These exports support over 200,000 American jobs. Leading U.S. exports to China include aircraft, telecommunications equipment, grain, computers, motor vehicles, power generation equipment, fertilizers, and specialty chemicals. Our exports to China have doubled since 1990 and rose by 27 percent last year.

China is especially important as a future market for American agriculture. Earlier this year, Congress enacted a historic "freedom to farm" bill that implements major reforms to our farm subsidy programs. If American farmers are to prosper under a more market-oriented farm program, they need continued access to overseas markets, not trade embargoes. China is already the sixth-largest foreign customer for American agriculture. It is projected to import 12 million tons of wheat and 2.0 million tons of corn in 1996 - 1997. As market-oriented reforms take hold, China is beginning to develop a large middle-class, which offers a market for American meat, grains, and processed food. USDA estimates 75 percent of the future growth in American agricultural exports will be in Asia, of which 50 percent will come from China alone.

U.S.-China trade also supports hundreds of thousands of jobs in American retail establishments, consumer goods companies, ports, and transportation companies. China has emerged as a vital source of imported footwear, toys, and apparel for middle-income American households, replacing other Asian suppliers, like Taiwan, Korea and Hong Kong, which are shifting to production of higher value-added merchandise. In terms of the cost for American consumers, revoking MFN would represent the equivalent of a $302 tax increase for the average American family.

All Americans support the goal of promoting international respect for human rights. American companies are committed to being good corporate citizens wherever they do business. We believe that expanded trade offers the best tool for advancing U.S. human rights objectives.

In the last decade, China's free market economic reforms, which American trade and investment help to support, have transformed Chinese society. Today, China is more entrepreneurial, more dynamic, and more free. Living standards are rising rapidly. Ordinary Chinese now are free to choose their own place of work, travel, and pursue entrepreneurial opportunities outside state-owned enterprises or a work unit. Satellite dishes give millions of Chinese access to foreign television programs. Western books and magazines are widely available. Hundreds of millions of Chinese are experiencing the opportunities and excitement of market capitalism first-hand. While China has a long way to go, the outlines of a civil society are beginning to emerge.

The rise of a market economy in China represents a fundamental long-term challenge to the power of the state. Revoking or conditioning MFN would undermine, not advance, progress toward freedom and democracy and the rule of law. U.S. economic sanctions would undermine the very forces in Chinese society which are pushing for greater liberalization.

Mr. Chairman, we urge the Subcommittee to begin thinking of ways to move beyond the divisive annual debates over MFN which have become increasingly counter-productive. Two decades ago, Congress enacted the Jackson-Vanik Amendment to the Trade Act of 1974. This amendment was passed during the midst of the Cold War. It was designed to promote freedom of emigration for Soviet Jews. The Cold War is over. But U.S. trade law still requires Congress each year to review and vote on the President's determination to extend China's MFN trading status.

The annual debates over revoking or conditioning MFN have long since ceased to provide leverage on human rights, but instead are becoming a serious roadblock to implementing long-term U.S. strategies to deal with an emerging global power. We need to consider better ways to stabilize, improve, and eventually restructure U.S.-Chinese commercial relations.

The focus of U.S. trade law on annual resolutions to revoke MFN has put the Administration and Congressional leadership in the difficult position of defending and characterizing progress in China in terms of artificial 12-month increments. Whether it is trade, human rights, or the global environment, the United States has little choice but to remain engaged with China for the long-haul. Engagement recognizes that both countries will be far better off if they work with each other than if commercial relations are allowed to deteriorate into public recriminations, economic sanctions, and mutual isolation.

There is no greater challenge for U.S. trade policy than bringing China into the global trading system under an appropriate protocol, which would subject Asia's largest country to the same international rules, disciplines, and free market forces which have brought increased prosperity, freedom, and openness to countries around the world.

Mr. Chairman, the American business community welcomes your leadership and support and the support of many Members of this Subcommittee for unconditional renewal of China's MFN trading status. This is an important issue. The stakes for American companies and American workers are very high. We look forward to working closely with you and the Subcommittee on a bipartisan basis in the weeks ahead. Thank you.

Chairman CRANE. Thank you, Mr. Cohen.
Chairman CRANE. Mr. Snyder.

STATEMENT OF DAVID F. SNYDER, ASSISTANT GENERAL COUNSEL, AMERICAN INSURANCE ASSOCIATION

Mr. SNYDER. Mr. Chairman, thank you for the opportunity to testify on behalf of the American Insurance Association in support of unconditional renewal of most-favored-nation status for China.

The American Insurance Association represents over 250 major property and casualty insurers which write $60 billion in premiums annually in this country. Despite our name, many of those companies are foreign-based, and add significantly to the capacity of the U.S. insurance market and to the investment in the United States, which exceeds $550 billion, much of that in infrastructure investment.

I would like to briefly make five points this afternoon.

First, AIA recognizes that America's economic and national security interests mandate continued MFN status for China. Only by building and maintaining a stable, growing trade relationship with China can we expect to have a strong voice in its economic future. The official encouragement in China of a market-based economy and a more open trade regime has resulted in the rapid growth of their economy, an increase in living standards and a historic opportunity for American business to contribute and help mold China's modernization.

Second, because American corporations have made a major stake in China's future, America can have an influence in China's economic progress. We have all seen the export statistics—almost 200,000 American jobs rely on our exports to China. We cannot simply afford to be shut out of that market.

So far, however, China has severely limited access to its markets by U.S. insurers. To our knowledge, in fact, only one U.S. insurer has been granted the authority to do business directly in China. This is not to say, however, that other insurance activities are not taking place. Several AIA members maintain representational offices and have joint ventures. Several AIA members have initiated specialized training for Chinese officials. AIA members have provided training in the United States in loss control techniques.

U.S. insurers have also introduced to China advanced techniques and technology for collecting and utilizing vital risk assessment data. Additionally, AIA members have conducted detailed studies of catastrophic exposures, including damage from earthquakes, typhoons and floods. Our members have studied and reported on insuring China's power industry, computer industry, mining industry and industrial parks to the various ministries.

Third, insurance market liberalization is in China's interest as well as ours. In a more open market, our members could bring more insurance methodology and modern technology to China, which could lead to an expansion of their insurance market. The acquisition of skills in this area would allow those skills to be used elsewhere in critical areas of China's economic infrastructure.

AIA members could complement China's domestic insurance industry and help create new areas of coverage and risk management services and help attract foreign investment. Increased foreign insurance presence could help China to continue to expand its economy because it will help it bring additional investment, investment that often is predicated on the availability of insurance for property, liability, and life insurance.

Fourth, revoking China's most-favored-nation status would have many negative consequences. Obviously, it would raise our average tariff on Chinese goods from 4.6 to 40 percent, which would make trade all but impossible, and potential revenue would be denied U.S. companies, including insurers. Their likely retaliation would cost the United States $14 billion in direct exports plus much of our $17 billion in exports to Hong Kong. Millions of Chinese workers in coastal export factories would lose their jobs just as hundreds of thousands of American export jobs would have to be terminated. And I ask, How would that help achieve any of the objectives that you have heard so far during this hearing?

Fifth, maintaining China's most-favored-nation status is only the beginning in opening its markets, including its insurance markets. The fact remains that the insurance market in China is not for the most part open to the United States and other foreign insurers. Essentially, only one U.S. insurer has been granted the authority to operate directly. Whatever the size or the sophistication of that company, it is not capable of providing the benefits to China that a much more open market could provide.

Accordingly, we urge continuing efforts to achieve broader China market access through the World Trade Organization negotiations and all other appropriate forums. As Secretary Christopher said; "It is a worthwhile thing that if they are going to be members of the international community, if they are going to have the benefit of institutions that have been created in the post-World War II period, there are certain rules that need to be followed for membership. The World Trade Organization is a very good case in point."

"For nations to become members of the World Trade Organization, it is quite natural that the other countries require a certain amount of market access, especially for leading nations such as China. So, we have strongly encouraged their membership in the World Trade Organization, but on acceptable terms, on terms that would provide the kind of access that other great nations provide."

We urge action consistent with Secretary Christopher's comments.

In conclusion, we commend the President, Speaker Gingrich and Senator Dole for their support of renewal of most-favored-nation status for China. They recognize that only through sustained dialog supported by growing trade relations can the United States have a voice in China's economic future. Termination of MFN status for China would only serve to isolate the United States at a time when unprecedented economic growth and reform are occurring in China. China would continue to grow, America's trading competitors would gain market share and jobs, while the United States would lose both.

Most-favored-nation status is, however, the beginning and not the end in providing for adequate openness in the insurance and

other markets in China, and in maximizing the benefits for both the United States and China in increased business of all kinds and insurance investment in China by U.S. insurers. We urge continuing efforts to achieve broader access to the Chinese insurance market through WTO negotiations and all other appropriate forums.

Thank you, Mr. Chairman.

[The prepared statement and attachments follow:]

STATEMENT OF
DAVID F. SNYDER
ASSISTANT GENERAL COUNSEL
AMERICAN INSURANCE ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to testify on behalf of the American Insurance Association (AIA) in support of unconditional renewal of Most Favored Nation (MFN) status for China.

AIA represents over 250 major property/casualty insurance companies which write $60 billion in premiums annually, hold assets of $155 billion and have decades of experience in trade in China. Among AIA members are a surprising number of companies which are foreign owned, for example by companies based in Japan, Great Britain, The Netherlands, Switzerland, Germany and elsewhere. These companies add significantly to the capacity of the U.S. insurance market and to property and casualty insurers' investment in the U.S., which exceeds $550 billion dollars, a substantial portion of which supports infrastructure.

AIA recognizes that America's economic and national security interests mandate continued MFN status for China.

Only by building and maintaining a stable, growing trade relationship with China can we expect to have a strong voice in its future. During the past four years, China's economy has expanded by 56 percent. In 1995, foreign investment in China reached nearly $50 billion - up from $30 billion in 1994. This economic growth has led to sharply rising incomes and living standards for many of China's citizens. But, there is more to be done. China has ambitious plans to improve the country's basic infrastructure and expansion of vocational education opportunities.

When Western Europe, North America, and Japan began establishing modern consumer economies after World War II, they were home to some 340 million, 190 million and 100 million people respectively. Today, China is has a population of 1.2 billion and an economy that is expanding at a great rate. The official encouragement of a market based economy and a more open trade regime has resulted in rapid growth of China's economy, an increase in living standards and a historic opportunity for American business to contribute to China's modernization.

Because American corporations have made a major stake in China's future, America can have an influence in China's progress.

In 1995, U.S. merchandise exports to China exceeded $12 billion, an increase of 26% over 1994. These exports have produced over 200,000 high-skilled, high wage jobs in leading American industries, such as telecommunications, energy, aircraft, and machine tools. Today, China is the most rapidly growing market in the world. American workers and companies can not afford to be shut out of it.

So far, China has severely limited access to its markets by U.S. insurers. To our knowledge, only one U.S. insurer has been granted the authority to do business directly in China. This is not to say, however, that other insurance activities are not taking place.

Several AIA members maintain representational offices and have entered into joint ventures with Chinese companies in Beijing, Shanghai, Guangzhou and numerous other major Chinese cities. Several AIA members have initiated specialized training for Chinese insurance officials, regulators, agents and brokers. AIA members have provided training in the U.S. in loss control techniques to Chinese insurance professionals.

U.S. insurers have also introduced to China the most advanced technologies for collecting and utilizing vital risk assessment data. Additionally, AIA members have conducted detailed studies of catastrophic exposures, including damage from earthquakes, typhoons and floods. Our members have studied and reported on insuring China's power industry, computer industry, mining industry and industrial parks to the various ministries.

In a more open market, our members could bring modern insurance methodology and technology to China which could lead to an expansion of the entire insurance market. This would facilitate China's modernization by making it easier for foreign high technology companies to invest in China. This technical knowledge would be shared with resident employees of foreign insurers. The acquisition of new skills raises the education level and productivity of the work force which

enables this technical knowledge to be spread to critical areas of China's economic infrastructure.

AIA members could complement China's domestic insurance industry and help create new areas of coverage and risk management services which could increase the size of China's insurance market and attract critical, high technology foreign investment. Foreign insurers could add external financial capital, in the form of foreign direct investment and deposit/guarantee funds, to China's economy, to help finance infrastructure projects.

Increased foreign insurance presence could help China to continue to attract foreign investors and modernize. Global investors demand evidence of insurance coverage--such as property, liability, or life insurance--before they invest. This coverage protects their manufacturing facilities in China and assures acceptance of their products in the international marketplace. State of the art insurance services and products, therefore, are critical building blocks in China's future and provide unparalleled opportunities for America.

Revoking China's MFN status would have many negative consequences.

Revoking MFN would raise our average tariff on Chinese goods from 4.6 to 40 percent, which would make trade all but impossible, and potential revenue would be denied U.S. companies, including insurers. If MFN were revoked, China would lose about $44 billion in exports to the U.S., which is nearly a third of its total world sales. Their likely retaliation would cost the U.S. $14 billion in direct exports plus much of our $17 billion in exports to Hong Kong. The consequences for both of our nations would be extremely grave. Millions of Chinese workers in coastal export factories would lose their jobs, just as hundreds of thousands of American export jobs would have to be terminated.

Maintaining China's MFN status is only the beginning in opening its insurance market.

The fact remains that the insurance market in China is not, for the most part, open to U.S. insurers. This lack of market access is harmful to China by unnecessarily reducing the benefits of insurance market liberalization, and also to the U.S. and U.S. insurers. Accordingly, we urge continuing efforts to achieve broader China market access through World Trade Organization negotiations and all other appropriate forums. As Secretary Christopher said on May 17, 1996:

> It is a worthwhile thing that if they're going to be members of the international community, if they're going to have the benefit of institutions that have been created in the post-World War II period, there are certain rules that need to be followed for membership. The World Trade Organization is a very good case in point.
>
> For nations to become members of the World Trade Organization, it's quite natural that the other countries require a certain amount of market access, especially for leading nations such as China. So we have strongly encouraged their membership in the WTO, but on acceptable terms; on terms that would provide the kind of access that other great nations provide.

We urge action consistent with Secretary Christopher's comments.

Conclusion

We commend the President, Speaker Gingrich and Senator Dole for their support of renewal of unconditional MFN status for China. They recognize that only through sustained dialogue, supported by growing trade relations, can the United States have a voice in China's future. Termination of MFN status for China would only serve to isolate the United States at a time when unprecedented economic growth and reform are occurring in China. China would continue to grow, America's trading competitors would gain market share and jobs, while the U.S. would lose both.

MFN status is, however, the beginning and not the end in providing for adequate openness in the insurance market in China and in maximizing the benefits for both the U.S. and China in increased insurance business and investment in China by U.S. insurers. We urge continuing efforts to achieve broader access to the Chinese insurance market through WTO negotiations.

Mr. Chairman, thank you for this opportunity to testify in support of unconditional MFN status for China. I would like to submit the attached May 30, 1996 letter from Mr. Robert E. Vagley, AIA's President, into the Record, along with two graphs which illustrate America's growing stake in China and conclude by urging this Subcommittee to support American economic and national security interests by renewing MFN for China.

AMERICAN INSURANCE ASSOCIATION

1130 Connecticut Avenue N.W.
Suite 1000
Washington, D.C. 20036
(202) 828-7100
(202) 293-1219 FAX

May 30, 1996

The Honorable Newt Gingrich
Speaker
United States House of Representatives
2428 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Speaker:

The American Insurance Association is a trade organization representing more than 250 property and casualty insurance companies, which employ more than 150,000 people, write $60 billion in premiums, and pay nearly $2.2 billion in state taxes and licensing fees each year. The AIA has its headquarters in Washington, D.C., and has representatives in every state. AIA's International Committee is comprised of high-level member company executives whose jobs are to oversee international developments and policies for their companies.

It is on behalf of our International Committee that I am writing you to express our members' concerns about U.S. proposals to impose trade sanctions against the Chinese and Chinese public statements that they will exclude American companies from business opportunities in China if the U.S. imposes trade sanctions or attaches conditions to renewal of China's MFN status.

While our members understand the complex mix of issues facing the Administration and Congress in the renewal of China's MFN status this year, we strongly believe that China should be granted unconditional MFN status without imposition of other trade sanctions. This recommendation does not, of course, preclude continued Sino-American discussions on multiple levels. Given the U.S. presidential election this Fall and succession issues within the Chinese leadership, this is a time of multiple political sensitivities on both sides and hence a time to do everything possible to maintain a bilateral dialogue.

If I can help answer any questions you may have regarding our members' position on this issue, please do not hesitate to call.

Sincerely,

Robert E. Vagley

Robert E. Vagley
President

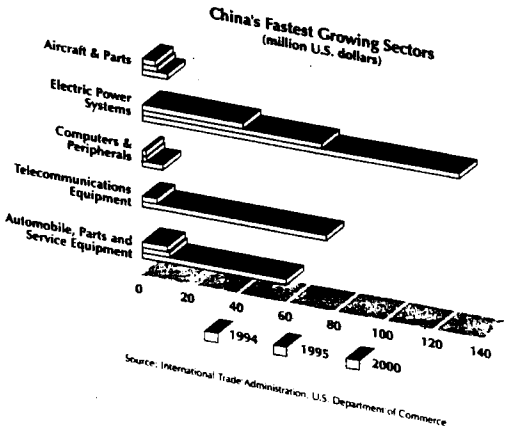
WALTER E. FARNAM
CHAIRMAN

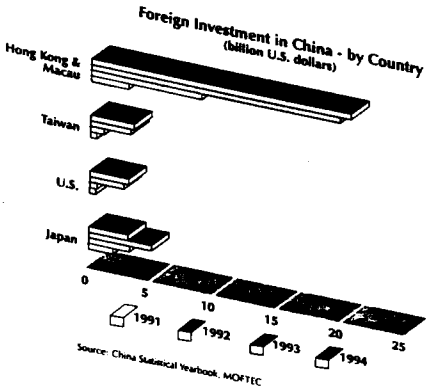
DONALD R. FRAHM
CHAIRMAN ELECT

JOE L. STINNETTE
VICE CHAIRMAN

ROBERT V. MENDELSOHN
VICE CHAIRMAN

ROBERT E. VAGLEY
PRESIDENT


China's Fastest Growing Sectors
(million U.S. dollars)
Aircraft & Parts
Electric Power Systems
Computers & Peripherals
Telecommunications Equipment
Automobile, Parts and Service Equipment
0
20
40
60
80
100
120
140
1994
1995
2000
Source: International Trade Administration, U.S. Department of Commerce


Foreign Investment in China - by Country
(billion U.S. dollars)
Hong Kong & Macau
Taiwan
U.S.
Japan
0
5
10
15
20
25
1991
1992
1993
1994
Source: China Statistical Yearbook, MOFTEC

Chairman CRANE. Thank you, Mr. Snyder.
Chairman CRANE. Mr. Kapp.

STATEMENT OF ROBERT A. KAPP, PRESIDENT, UNITED STATES-CHINA BUSINESS COUNCIL

Mr. KAPP. Thank you, Congressman Crane, and thank you for letting me join you again this year, the third year in a row that I have had the pleasure of representing the United States-China Business Council and its 300 member companies at a hearing of this Subcommittee.

As we begin, I wanted to make sure that I called your attention to an attachment that I submitted with my testimony, prepared by the United States-China Business Council, called "U.S. Corporate Practices in China: A Resource Guide," which we hope will provide a useful guide to some of the ways in which American companies today operating in China have adopted socially constructive and positive activities and programs as a part of their presence in the People's Republic.

Most of the points that are in my written testimony have been touched on not only by other speakers today, but by other speakers in other years, so I will not dwell on them at length. In order to give the most fluent presentation, let me read a little bit of something that I prepared for another hearing last week, which I hope will actually speak back to some of Mr. Rangel's points, while introducing a little bit of a perspective on the way we look at China and the way we approach China as a business community and as a country.

It is important to view China as a work-in-progress and not as a portrait frozen in time. The image of a static frozen Chinese monolith is simply mistaken and coexists uneasily with demonic images of a China in the midst of uncontrollable and unstable change.

Businesspeople in particular have experienced intimately, for better or worse, the bureaucratic fluidity, the uneasy mixing of advanced globalism and narrow xenophobia, the policy shifts, and the burst of entrepreneurial energy that characterized China's approach to what they call "the outside world."

Our experiences in business tell us: First: that an ancient, secretive and deeply bureaucratic and long autocratic society is profoundly in flux; second, that the transformation of the economic condition of a population five times our own, a population which, incidentally, will increase by 300 million between the year 1980 and the year 2010, from grinding poverty and colossal misery to even the lower rungs of the middle-income ladder, is the work of many decades; third, that old habits of paralyzing bureaucratic sterility and "government by personal connections" decline slowly and die hard; fourth, that the rule of law as Americans conceive of it has not hitherto existed in China and may not, evolve as a close replica of our system in the future; and fifth—and this one I want to dwell on because it is a complicated sentence, but it is a point that I think is especially relevant to the Congress—that China can act in ways that Americans wish it to act, and can even do things we press it to do, but that it is futile to expect China to proclaim

publicly that U.S. pressure caused it to take the actions we desired of them.

I would like nothing better than to persuade all the members of the previous panel of this hearing to come around to our point of view on MFN. But even if they ever did so, could I reasonably expect that they would stand up and say, "We have changed our minds on MFN because of what Bob Kapp told us"? Absolutely out of the question. Similarly, there are many cases in which China has acted in ways that we would like to see them act, but we cannot sit and wait for the Chinese to say to the world, "We did it because the Americans told us to"; it is simply not going to happen.

The final points are that American participation in China's economic transformation is compatible with and supportive of American ideals and widely shared American hopes for China's future, but that the Chinese drama is, at bottom, China's to play and not ours to direct; that off-again, on-again encounters with China, punctuated annually be periodic searing blasts of public denunciation of China's and social behavior, are a recipe for persistent disappointment; that the economic and trade ties between the two countries which now, since the collapse of the Soviet threat, provide the essential foundation for the maintenance of United States-China normal intercourse on the wide range of global and regional issues that we must address, are robbed of crucial predictability by the omnipresent threat of MFN destruction; that it is possible, through long, laborious, constant effort and the gradual development of effective communication and confidence, for U.S. and Chinese counterparts ultimately to make progress and find common ground, but that it is nearly impossible to do so without that heavy commitment of time and effort.

We believe that China's trajectory has not been a straight line. It will not be a straight line in the future. It may take decades for many far-reaching questions in China's development in all sectors to be answered clearly.

We in the business community sense at close range the see-saw debates that lie below the surface of daily life in China as China ponders its daunting choices—toward greater globalism or more doctrinaire nationalism; toward an even more rapid marketization of the Chinese economy with its attendant risks of social dislocation, or toward more conservative policies protective of longstanding state sector interests; toward fuller cooperation with the United States and the industrial democracies, both bilaterally and in multilateral institutions, or chart a narrow and less accommodating stance aimed at the United States.

We believe that America and American companies developing business with China have opportunities to play a constructive role in China's evolution along lines compatible with our hopes and values, but we recognize that we cannot and should not presume to design China's course for the Chinese and that we will fail if we presume to do so.

We know all too well that our competitors around the world are waiting in the wings to snap up the very large and growing business opportunities that the United States will cast away if basic, normal economic relations between our countries are ruptured. We know full well that the United States must and does defend its core

interests in relations with China as with any country, but we feel that the aborting of large and rapidly growing economic ties between us is the very opposite of an effective strategy in this regard.

We know that a deep reservoir of good will exists in the United States toward China, and in China toward the United States, and in that regard, as I conclude, we urge that Congress and the White House jointly and in a bipartisan manner rededicate themselves to the cultivation of the positive aspects of a long and complex United States-China relationship. American companies do it; local communities do it; colleges and universities do it; foundations and nongovernmental organizations do it; families do it. The U.S. Government in a bipartisan manner can and should do its part as well.

Thank you, Mr. Chairman. In conclusion, let me simply say to those who would kill MFN, destroy a $60 billion trade relationship, and bring American-Chinese relations to their knees, when you deliver the gift contracts and jobs to our foreign competitors around the world, I hope very much that you will not fail to sign the card.

Thank you.

[The prepared statement and attachments follow.]

The booklet, "U.S. Corporate Practices in China: A Resource Guide," is being held in the Committee's files.]

The United States-China Business Council

1818 N Street, NW • Suite 200 • Washington, DC 20036 Telephone: 202/429-0340 Fax: 202/775-2476

Testimony of Robert A. Kapp, President
United States-China Business Council
Before the Subcommittee on Trade and Human Resources, Committee on Ways and Means
U.S. House of Representatives
June 11, 1996

Mr. Chairman:

Thank you for the opportunity to return to your hearing room to offer the perspectives of the U.S. business community at this year's hearing on U.S.-China Trade and the renewal of normal tariffs on imported products from the People's Republic of China.

The US-China Business Council is the principal organization of American companies engaged in trade and investment with the People's Republic of China. Supported by a growing roster of more than 300 major U.S. companies, the Council continues this year to urge, as it has in the past, the maintenance of stable, normal economic relations between the U.S. and China.

We are in the seventh year of this process. There is little to be said that has not been said in some form before. The size and dynamism of overall U.S.-China commercial relations has continued to increase over the past year. The relevance of U.S.-China business to people in all walks of American life, in all of our states, has continued to intensify. U.S. merchandise exports to China, for example, rose 27% in 1995 over 1994, and together with exports to China through Hong Kong account for nearly a quarter of a million U.S. jobs. The year-on-year trade and investment numbers for 1995 are indeed new, and they are impressive.

The two nations have, however, had a difficult year in government-to-government relations, both in the field of international trade and in non-trade areas. The sense of exasperation with each other's behavior is more evident now in both countries than it was a year ago. To the long-discussed issues of human rights, proliferation and trade frictions have recently been added heightened feelings of concern in many U.S. quarters over the future of mainland-Taiwan relations and over the implications for U.S. security of the development of Chinese regional and global military strength. In China, the tensions of the past year have apparently led to a growing concern over the long term intentions of the United States as China continues its rapid economic growth.

Under these circumstances, the corrosive influence of the annual MFN exercise in which Congress is now engaged is not helpful to the resolution of outstanding U.S.-China issues in any field.

Let me thus briefly discuss a series of points relating to MFN revocation and renewal. I am happy to discuss them further in question and answer.

1. First, the most obvious point of all still bears repeating: MFN equals NST. "Most Favored Nation" equals "No Special Treatment." Of the nearly two hundred nations and territories with whom the U.S. trades, only seven -- all of them insignificant trade partners -- do not enjoy MFN-level tariffs on their goods entering the U.S. Many countries enjoy U.S. tariffs lower than MFN-level tariffs. MFN is not a special favor, not a gift, not "preferential trade treatment." It is the bedrock of this country's normal, routine trade with the world.

2. Economics and trade are the foundation of U.S.-China relations. The Soviet threat is gone. Our two giant nations occupy a crowded and troubled globe. Ignoring one another is literally impossible. Burgeoning economic relations, despite individual trade disputes, are the main channel for the preservation of stable relations between the two countries; they form the foundation for cooperative relations in other vital fields. If economic and trade relations are cut off, the full range of U.S.-China interactions will be compromised. That is not in the U.S. national interest.

3. It is time, as one Senator remarked at a hearing last week, to reject hypocrisy on the China MFN issue. The presence of major human rights abuses, now and in the past, in other nations with which the United States conducts normal trade relations is no secret. To this day, the U.S. maintains MFN with nations whose international conduct it deplores and denounces in the strongest terms.

Here is an example from the recent past. One of the most moving and praiseworthy developments in Taiwan's political development over the past few years has been the willingness of Taiwan's leaders to come publicly to terms at last with the facts of the military suppression in 1947 of a popular protest uprising by the people of Taiwan against the very party regime whose descendants still govern Taiwan -- a suppression in which twenty thousand people are now estimated to have been killed. The public acknowledgment of that tragedy today is one of the finest testimonials to the political openness that has come to Taiwan in recent years. Yet it is worth noting that forty five years of silence elapsed between the time of the tragedy and its emergence into public view. During that time the United States did absolutely nothing to respond punitively to what was well known to have happened.

4. Revoking MFN will have very serious economic consequences. It will bring U.S.-China trade and economic relations essentially to a halt. Nearly a quarter of a million U.S. jobs are directly attributable to U.S. exports to China, both direct and via Hong Kong. Chinese imports to the U.S. account for additional jobs in the transportation, distribution, services, and retail sectors, offering goods of desired quality at economical cost to American buyers and consumers including those with the most limited means. A just-completed study estimates the potential cost to American consumers of the shutdown of Chinese imports at up to $29 billion. The study finds that American exporters would lose large and growing markets to third-country competitors, at the risk of nearly 200,000 U.S. jobs.

5. Taiwan and Hong Kong, together with the People's Republic of China, today form "Greater China"; the impact of catastrophic damage to U.S.-mainland trade spills over upon the very territories that some of MFN's most virulent opponents admire and wish to support the most. Hong Kong delivers its appeal each year to Congress to preserve normal U.S.-China trade and keep Hong Kong out of harm's way. Governor Chris Patten has made the same case this year during his recent visit to Washington, urging Congress to save Hong Kong from the havoc that MFN revocation would wreak on the territory as it approaches the politically sensitive moment of transition to Chinese sovereignty. The leader of the Democratic Party in Hong Kong, Mr. Martin Lee, has himself called for the continuing of MFN. While the authorities on Taiwan have not formally expressed themselves on the subject, well-placed private figures with impeccable government contacts have done so, as in the case of an important article in the Wall Street Journal last May 7. Taiwan investors have put $25 billion into mainland facilities, many of them producing for U.S. markets goods that formerly went from Taiwan to the United States. I urge those who would revoke MFN as a means of expressing solidarity with Taiwan in the face of threats from the People's Republic to contact quietly their Taiwan government friends for their views on MFN renewal. I am confident that most would advise leaving MFN untouched.

6. U.S. business knows perfectly well that dealing with the PRC is not easy, and that stable and successful cooperation with China is the work of years of patient and laborious effort. In fact, with years and even decades of direct experience working at all levels of Chinese society and government, we believe that American businesses understand the challenges of building successful relations with PRC counterparts better than many other Americans who view China through the lens of theory or the filter of U.S. media coverage. The Chinese business environment is always challenging, sometimes daunting. Certain business sectors experience particularly acute difficulties: the current intellectual property rights battle is a case in point. Aspects of China's recent economic and commercial policy development are troubling, even as other aspects are encouraging.

There is no need to list here the concerns of American companies one by one; suffice it to say that nearly every U.S. firm in China has experienced problems on some issues and would like to see China's commercial behavior change in particular ways.

Nevertheless, the essential point is that with virtually no exceptions the more than 300 major companies that make up the US-China Business Council agree: destroying normal trade relations by revoking MFN would be profoundly counterproductive. MFN revocation is simply not an appropriate response to specific difficulties in the trade and business environment.

8. It has recently been asserted that the value of the annual Congressional MFN debate lies in providing a venue for the publication and criticism of Chinese abuses in such fields as human rights and labor rights. Such publicity, it is argued, has a constructive effect in forcing the rate of progressive change inside China.

But Congress doesn't need to threaten the breakdown of U.S.-China economic relations just in order to have a hearing. While we believe very strongly that highly public and politicized denunciations of the Chinese government are likely to lessen rather than increase the likelihood of U.S.-China cooperation on most outstanding problems, the Congress can hold hearings and make statements about China anytime it likes, without perpetually threatening to kill normal economic relations worth sixty billion dollars, throw hundreds of thousands of Americans out of work, and impose substantial new burdens on American consumers.

Finally, let me urge the many Members of Congress genuinely concerned over the problem of personal moral responsibility to consider the likely effects of a decision to try to wash America's hands of further relations with China by killing normal economic intercourse: the breakdown of normal bilateral communication on all issues, both commercial and noncommercial; the deepening of confrontation between the U.S. and China on all outstanding issues and on newly arisen problems; the strengthening of the most nationalistic and anti-American elements within China's political leadership and civilian elites; the wreaking of economic destruction on the most internationally-oriented sectors of Chinese economy and society; delivery of an economic body blow to Hong Kong on the eve of its transition to Chinese sovereignty; the list goes on.

I do not see how dismantling the vast and generally productive economic relationship between the United States and China can provide, to conscientious legislators justly anguished about the ethical implications of their decisions, the comforting assurance that they have satisfactorily kept their hands uncontaminated by conditions they deplore.

To the contrary: those who are genuinely animated by a personal desire to be true to their personal ethical beliefs might well ask themselves how they, holding elective office, can work in positive directions to expand and intensify the range of U.S.-Chinese interactions both commercial and non-commercial.

There is much to consider, much to do. American businesses do their part, and the constructive role that U.S. business activity in China does play today merits acknowledgment.

American local communities and cities do their part. American non-governmental organizations do their part. American colleges and universities have made enormous contributions. Chinese in an increasingly pluralized society can do their part, and an increase in their efforts jointly with American efforts to rebuild normal and fruitful relations would be profoundly helpful.

MFN renewal this year guarantees none of that progress. MFN revocation, however, precludes it. Let us renew "NST" -- "No Special Treatment" trade with China now, work to end the annual MFN controversy, and move on to the more strategic challenges of life on a small planet with a big and much too unfamiliar neighbor.

Thank you.

The United States-China Business Council

1818 N Street, NW • Suite 200 • Washington, DC 20036 Telephone: 202/429-0340 Fax: 202/775-2476

MFN FACT SHEET

(June 1996)

✦ **What is MFN?** Most Favored Nation (MFN) refers to the standard or "general" tariff treatment the US extends to other countries in return for reciprocal tariff treatment for US exports. MFN has been extended to China on a reciprocal basis every year since 1980. MFN is not a special privilege or reward, nor is MFN the *most* favored tariff treatment the US provides. Special tariff treatment, *more favorable* than MFN, is provided to over 31 countries and territories (and as many as 151 countries and territories should the Generalized System of Preferences (GSP) program be renewed) under the following special tariff programs:

North American Free Trade Agreement (NAFTA)
Agreement on Trade in Civil Aircraft
Automotive Products Trade Act
Caribbean Basin Economic Recovery Act
United States-Israel Free Trade Area
Andean Trade Preferences Act

Under these programs, designated products may be imported at reduced or duty-free rates. China is **not** eligible for any of these programs.

✦ **Who has MFN?** Over 160 countries have MFN trading status with the United States, including such pariah states as Iran, Iraq, and Libya (although the US has imposed other trade sanctions on these countries).

✦ **Who doesn't have MFN?** It is far easier to identify who doesn't have MFN with the United States:

Afghanistan	Cuba	North Korea	Serbia/Montenegro
Cambodia	Laos	Vietnam	

Under the Jackson-Vanik amendment to the Trade Act of 1974, a measure originally directed against the Soviet Union, MFN is denied to any "non-market economy" determined by the President to restrict free emigration. The President may waive the Jackson-Vanik restrictions if he determines the country permits free and unrestricted emigration or if he believes MFN would promote free emigration.

In recent years, the annual debate on China's MFN status has provided a forum for members of Congress to register their concerns on a broad range of bilateral issues extending far beyond the narrow criteria described in Jackson-Vanik. However, threatening MFN withdrawal has proven to be ineffective in addressing any of these issues.

✦ **The mechanics of MFN extension/withdrawal:** China's MFN status expires on July 3, 1996. By law, the President must inform Congress no less than 30 days prior to that date of his intention to renew or withdraw normal trading privileges.

Congress may overturn a decision to extend MFN to China by passing a joint resolution of disapproval--a straight "up or down" vote on MFN extension. Note, no Congressional action is required to support extension. The joint resolution to deny MFN is privileged and must be considered under "fast track" procedures; it may not be amended or bottled up in committee.

Should the Congress decide to pass a joint resolution to deny MFN to China, it would have to do so within 60 calendar days of July 3, in other words, by September 1, 1996.

If a joint resolution were to be passed, the President could veto the measure. The bill would then return to Congress, which could override the veto by the traditional two-thirds majority. An additional 15 legislative days are allotted for consideration of a veto override.

If a joint resolution is passed and the veto is overridden, MFN trade status for China would be withdrawn, commencing 60 days after the disapproval resolution is enacted into law. Apart from the joint resolution of disapproval, the Congress may at any time pass free-standing legislation withdrawing MFN or conditioning future extension. House Ways & Means and Senate Finance are the key congressional committees responsible for considering MFN-related legislation and resolutions.

✦ **What would withdrawing MFN mean?** US duties on goods imported from China would rise to the rates established in the 1930s under the highly protectionist Smoot-Hawley Tariff Law. The tariff for Chinese-made products would leap from an average rate of 5% to an average rate of nearly 50% (tariff rates for certain items would soar to more than 100%). Leading US imports from China such as footwear, toys, and apparel would become dramatically more expensive for American consumers. US importers and retailers would be forced to source the same products from other, more expensive manufacturers abroad.

In addition, since MFN is extended on a reciprocal basis, China would withdraw MFN treatment for US exports, blocking access to one of the United States' fastest-growing export markets and putting over $25 billion in committed US investment at risk. In 1995, US merchandise exports to China totaled nearly $12 billion (up 27%), and another $5 billion worth of US goods sold to Hong Kong were re-exported to China. These exports support more than 200,000 high-skill/high-wage American jobs. Leading US exports to China include aircraft, power generating equipment, telecommunications equipment, computers, grain, cotton, and fertilizer.

MFN is the cornerstone of US-China commercial relations. Withdrawing MFN from China would effectively suspend the commercial relationship with the United States' fifth largest trading partner, and one of our fastest-growing export markets.

Founded in 1973, the US-China Business Council is the principal organization of American corporations engaged in trade and investment with the People's Republic of China. Its membership encompasses approximately 300 businesses with facilities throughout the United States. The Council is headquartered in Washington, DC, and maintains offices in Beijing and Hong Kong.

Top Twenty-Five US Imports From China in 1995
(US$ millions)

HTS#	Item	1995 Import Value	MFN Tariff Rate	Non-MFN Tariff Rate
95039000	Other toys, reduced-size models and similar recreational models	1,228.02	Free	70%
64029918	Nonwelt footwear with outer soles of rubber, plastics	1,184.14	6%	35%
64039990	Nonwelt footwear with outer soles of rubber, plastics	1,119.25	10%	20%
95021000	Dolls, representing only human beings and parts and accessories thereof	794.83	Free	70%
95034100	Stuffed toys representing animals or non-human creatures and parts	736.77	Free	70%
64039960	Nonwelt footwear with outer soles of rubber, plastics	713.66	8.5%	20%
42031040	Articles of apparel and clothing accessories, of leather or composition leather	603.13	6%	35%
85252030	Cordless handset telephones	535.82	4.8%	35%
84733010	Parts and accessories of machines under heading 8471	476.04	Free	35%
67029035	Artificial flowers, foliage, and fruit and parts thereof	466.84	9%	71.5%
61109090	Sweaters, pullovers, sweatshirts, waistcoats (vests)	463.68	6%	60%
64039160	Nonwelt footwear with outer soles of rubber, plastics	413.59	8.5%	20%
64029140	Footwear not elsewhere indicated, covering the ankle	400.89	6%	35%
39269098	Articles of plastic not elsewhere indicated	392.81	5.3%	80%
85271111	Radio-tape player combinations, non-recording	382.51	2.2%	35%
95034900	Toys representing animals or non-human creatures	379.56	Free	70%
64039190	Nonwelt footwear with outer soles of rubber, plastics	369.89	10%	20%
94053000	Lighting sets used for Christmas trees	360.27	8%	50%
95037000	Other toys put up in sets or outfits	348.74	Free	70%
62061000	Silk womens' or girls' blouses, shirts or shirt-blouses	348.16	7.4%	65%
84733050	Other parts and accessories of machines under heading 8471	338.55	Free	35%
95038000	Other toys or models incorporating a motor	323.43	Free	70%
84145100	Table, floor, wall, window, ceiling or roof fans	322.20	4.7%	35%
85199900	Sound reproducing apparatus not elsewhere specified	318.05	2.3%	35%
27090020	Petroleum oils and oils from bituminous minerals	317.77	10.5cts/bbl	21cts/bbl
Total Value		13,338.60		
Average Tariff Rate (Weighted)			4.3%	45.9%
Total US Imports from China in 1995		45,555.43		
Total Value as Percentage of Total Imports		29.28%		

The United States-China Business Council

1818 N Street, NW • Suite 200 • Washington, DC 20036 Telephone: 202/429-0340 Fax: 202/775-2476

What if MFN Were Revoked?

June 1996

Sometime before Labor Day, and probably before the Fourth of July, Congress will vote on a Resolution of Disapproval to overturn President Clinton's decision to renew normal tariff treatment (commonly called Most Favored Nation, or "MFN" status) for China. Debate on the resolution will be heated; virtually every area of disagreement in U.S.-China relations will be raised; and Chinese policies and practices will be denounced by advocates of MFN revocation.

But what would MFN removal accomplish and what would it fail to achieve? If MFN were revoked, we would see:

1. A sharp cut in trade -- Commerce with our 5th largest trading partner (nearly $60 billion in 1995) would slow to a trickle because it would no longer be economical for the two sides to trade with each other. The price of US imports from China would rise as the average tariff rate on Chinese products would climb from 5% to nearly 50%, shifting sourcing to more expensive producers in other countries. These higher prices would cost American consumers $29 billion per year, or an average of $302 per American household.

2. Swift retaliation -- China would revoke MFN treatment for US goods, reducing US exports to China, and threatening more than 200,000 American jobs. China would buy from the United States only those goods that are absolute necessities and which are unavailable from any other source. We would thus lose one of our fastest growing export markets -- US exports to the PRC soared 27% in 1995. More importantly, the loss of MFN would jeopardize American companies' competitive position in what is clearly going to be the most important emerging market for decades to come.

3. Deterioration of the overall US balance of trade by about $20 billion -- While current US exports to China of $12+ billion per year would drop almost to zero, and opportunities for rapid expansion of our exports would evaporate; our importers would turn to other low-cost producers abroad for the shoes, toys, and cheaper textiles and apparel we presently buy from China.

4. Threaten US investment -- The loss of MFN would destroy the economic foundation for bilateral ties. The $28 billion US firms have committed and the $10 billion actually invested in China would be put at risk. Many of these US ventures are dependent on sourcing US-made inputs, which would carry prohibitively high tariffs (if MFN were revoked). All would be susceptible to discriminatory treatment from Chinese officials and citizens, if the United States were to withdraw MFN.

5. Worsening relations -- US-China relations would suffer a major setback as a result of our virtual declaration of economic war on China. China could exercise its veto authority on the UN Security Council to thwart US-sponsored initiatives such as the de-nuclearization of the Korean Peninsula and peace-keeping in Bosnia. Cooperation on proliferation issues, environmental programs, and other issues of global concern likely would falter.

6. Regional instability -- Loss of MFN for China would be harmful to both Hong Kong and Taiwan. The Hong Kong economic growth rate would be cut in half, unemployment would double, and confidence in the territory's future, at this critical time in its transition to Chinese sovereignty, would be shattered. Taiwan's economic and security interests likewise would be jeopardized. Taiwan is the second leading source of foreign investment in China. The bulk of Taiwan's investment is in export-processing industries that sell to the United States. In fact, all of China's regional neighbors benefit greatly by China's continued economic growth, reform, and integration into the regional and global economies.

7. Suspicion and distrust of the United States -- Above all, MFN withdrawal would provide a powerful political weapon for hard liners in Beijing who remain suspicious of China's market reforms and its integration in the global economic system. MFN withdrawal might spur them to curtail or slow the pace of reform. MFN withdrawal would confirm their fear that economic integration is a threat to PRC sovereignty. The United States, political dissidents, and reform-minded officials in China would be blamed by the political leadership in Beijing for the economic hardships which undoubtedly would result. Popular sentiment in China would turn against us.

What would MFN revocation **not** achieve?

There would be no resolution of **any** outstanding US-China disputes in trade, human rights, security affairs, or any other field.

Serious problems remain in the US-China relationship. Each should be addressed in an appropriate and effective manner. Lumping all our complaints into one basket -- MFN -- and then tossing it away is no way to resolve our differences. Killing US-China trade might make some Americans feel good for a little while, but as a means of effectively dealing with US-China differences, such a move amounts to no more than bad politics and terrible economics.

Chairman CRANE. Thank you, Mr. Kapp.

Chairman CRANE. Let me pose a question to any or all of you. I have been to Shanghai, and I was overwhelmed with the economic progress and activity that was so highly visible during that visit, which was about 3 years ago; it was stunning. And it appeared to touch the lives of many. I left our group and strolled around local neighborhoods with my camera, taking pictures, and there were cheerful children playing in neighborhoods, neighborhoods well-kept, well-dressed people.

What percentage of the total Chinese population has thus far been absorbed in those areas where this kind of economic development has occurred so far? Do any of you have any idea?

Mr. KAPP. Well, Congressman, as a person who works on China and little else, maybe I can at least start off the response to that.

China's economic development is very rapid, but uneven. The cities and the coastal areas of China, such as Shanghai where you were visiting, have experienced the most rapid modernizing development and the most striking increase in prosperity since reforms began in the late seventies, and that is in very significant measure because they are the closest to and the most able to deal with the outside world and foreign business opportunity.

In the interior, the record is more mixed, and one of the things of great concern to the Chinese leadership today is that there appears to be a widening gap between the rate of improvement of economic condition in the interior and that on the coast—something that the regime is addressing itself consciously in the current, what is called "the Ninth 5-year Plan."

Having said that, if one does visit at least the cities of the interior, one finds somewhat in miniature and in a more modest degree many of the same changes that struck you so forcefully in Shanghai—massive amounts of construction in progress infrastructural improvements, the introduction of modern public works for the first time, like sewerage and telecommunications and so forth.

In the countryside, again, there are still 100 million people or so whom the Chinese themselves recognize to be living in conditions of dire poverty, but the number is down by a couple of hundred million in the space of 10 years, and the Chinese have, legitimately, claimed some real success in bringing so many people out of dire poverty in a short period of time.

Chairman CRANE. Does anyone else have an observation on that point?

Mr. YOUNTS. Just a comment. I would echo what Bob has said. In my 5 years of going to China, I have seen remarkable changes in the cities, including in the far north and the west; the progress in those areas is much less than in the coastal communities, but progress is nonetheless occurring at a very rapid rate.

Mr. COHEN. I would just simply add to those comments that the types of changes that you observed and others are commenting on are the very kinds of changes that all Americans want to see in China. We believe that they lead to increased choices for individual Chinese about where to live, and where to work. It means increased personal responsibility and increased personal freedom, and from that perspective, we see it as very positive.

Chairman CRANE. I was told that on almost a daily basis, there are impoverished people from inland China migrating to the cities which are enjoying tremendous economic growth and being absorbed within a relatively short period of time. I do not know what the percentage of growth is in those dynamic economic southern provinces, but at least it is a very positive indication.

Let me ask another question, and this has to do really with Motorola's involvement in some projects over there, one of which is the schools in the remote rural areas. How many U.S. corporations like Motorola are involved in developing these—these are grammar schools, are they not?

Mr. YOUNTS. Yes, Mr. Chairman, they are grammar schools. We are currently focusing our efforts on the elementary schools, grades 1 through 8 in the rural or depressed areas of China. To date, Motorola is one of the largest supporters of this program, having committed almost $1 million over the last 3 years to these programs. We now sponsor 17 schools in depressed areas. We have been talking to other corporations with a presence in China to support this organization. We have recently done a major audit on this program to make sure of where the funds are going, and we visit these schools each year. We think it is an excellent opportunity to improve the basic education of children in areas where they would not otherwise get education.

We believe that in the last 24 months, we have brought 2,800 children, who had dropped out, back to school. So, we believe we are making a difference. And we are approaching other companies, not only from the United States, but other countries as well, to participate in this program. We think that over the long term, it will make a significant difference.

Chairman CRANE. I was told by some American business representatives from China who were over here in the United States last year that under Chinese law, if you do business over there, you have to maintain clean and proper working conditions, you have to pay for overtime and provide health care for your employees. Is that a guideline that applies also to domestic Chinese businesses the same way it does to foreign businesses?

Mr. YOUNTS. I'm not sure.

Mr. KAPP. I would say yes, but with some differences stemming from the nature of foreign invested and domestic businesses. State-owned enterprises traditionally, as was said by an earlier witness, provided to the worker cradle-to-grave social services—leisure activities, old age care, medical services—nursery care for the kids; every aspect of that was provided as a function of the fact that one held a job in a state-owned enterprise.

What the Chinese are going through now—and if you think we have Social Security problems, you really ought to invite some of your colleagues from the Chinese legislative bodies over to talk about this—what they are going through now is an attempt to create where none has existed before a network of institutions that we would call a safety net of funded retirement and pension and health insurance systems to take the place of the state-subsidized program that everybody more or less engaged almost for free, They have concluded, as so many other countries have concluded, that China simply cannot afford to pay for it all out of state funds any-

more. The massive subsidies to the state sector are what are driving the Chinese budget into the hole so badly.

So, I include in my recommendations that Congress move more decisively to engage with China itself and to look toward constructive ways of developing cooperation and further interchange with colleagues in the PRC on subjects such as this. No area could be more relevant for the sharing of ideas and the discussing of mutual problems and differences than the area of the building of a social safety net in China for hundreds upon hundreds of millions of people who have not had it before.

Chairman CRANE. Mr. Cohen.

Mr. COHEN. Mr. Chairman, for many of our companies in the Emergency Committee for American Trade, I would note that the standards for their facilities in China, are higher than those required under Chinese law and regulation. Frequently, when they put up a facility in China, they are following the same standards that they would use if the plan were in Illinois or another State in the United States when it comes to safety or when it comes to the way things are laid out. And as a result, they have a record that many of them are very proud of indeed.

Chairman CRANE. Well, the thought that crossed my mind was if there is any differential—that you have a couple of Chinese buddies who are having dinner tonight at the end of the day's work, and one is working in a Chinese facility and the other is working for, say, Motorola, and the one complaining about his work environment ought to be acquainted with Motorola's opportunities for him.

Something else that fascinated me was that book that you folks have published—I guess it is not for circulation back here—talking about Chinese employees at Motorola owning their own apartments after 5 years. How is that program structured?

Mr. YOUNTS. We currently have a program that we call EHOP, the Employee Homeowner Opportunity Program. We have set up a program whereby, after 10 years, the employee will own his home. After 5 years, they begin gaining the equity, and after 10 years, they own their own home. It is a shared program whereby the employee puts up so much of the money, we put up so much of the money. We are financing the building of the homes.

The Chinese government is watching the program very closely. One of the biggest problems they have socially with the shift away from the Iron Rice Bowl, is to provide housing for all of their people. This program is a way out of that situation, so it is being monitored very heavily by the Chinese Government.

We will have our first 600 people in apartments by the end of this year. All employees, regardless of rank at the company, will be eligible for the program. Right now, we are backlogged about a year and a half in terms of construction with signups already.

So, we believe that this is an excellent program not only from a social standpoint, but obviously, it makes good business sense. We are providing a lot of training to our employees, and we are interested in retaining those employees, so it is a good business decision as well as a good social decision.

Chairman CRANE. Well, I want to comment—yes, Mr. Snyder.

Mr. SNYDER. I just want to add, Mr. Chairman, that even though insurance companies have largely been closed out of the market in

China so far, they have conducted a number of specialized training opportunities for Chinese insurance officials, and we have done special studies on providing adequate coverage for some of China's fundamental infrastructure. I think that those who believe that trade is good in and of itself and then, even better, because it may lead to the accomplishment of other larger objectives, need to continue to make the case in this country and also in China.

What we have found from the insurance market in the United States is, in fact, that we benefit significantly by the presence of foreign insurance companies who add financial capacity. That, in turn, provides not only insurance protection, which means you can buy more of it, and it is more competitive, but the money that is collected is then invested back in the United States in terms of the building of our own infrastructure. The huge percentage of insurance company investments supports the infrastructure in the United States through the purchase of government bonds and other kinds of public works financing.

This same sort of thing could operate in China, but it is something that needs constant reinforcement. So it is within not only our interest, but theirs, to open their markets.

Chairman CRANE. I want to commend Motorola, too, on initiating the environmental pursuits that you have done to get the attention not just of the government officials, but trying to attract other businesses into participation in that area.

One of the points that I have made many times in regard to this kind of activity by an American presence is that there is the quotation from Ben Franklin, "A good example is the best sermon." I think that this presence of American business on the mainland has the potential of the fulfillment of things that, at least heretofore, we have found no other vehicle that works like just the advancement of our fundamental business principles, and there are positive spillover effects. So, I commend all of you for what you are doing.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

To be honest, I am more concerned about jobs in the United States than I am in China, but I have reached the point of believing that these Republicans are not going to help me much in creating any Federal programs to do it, and we are not going to increase taxes. So, I am convinced that the only way we can get more jobs in the United States is by supporting free trade and expanding our economic base.

I would hope that you would exclude me from that group of people who believe that through sanctions, we can have other countries behave as we are, as a democracy. It has been a problem in the United States, but I have not been a part of that problem.

Having said that, I was very interested in this "saving face" example that you have given. Coming from a community where we did not have the luxury of the sophistication of saving face, it is he who is in the driver's seat. And I gather that, basically, your testimony is that the Chinese are stealing American property rights in a variety of areas and they feel awkward in changing the nature of this theft; but notwithstanding that, since we cannot hurt

them without hurting ourselves, we might as well just continue to do what we are doing.

I can only accept it because I have not found better tools to deal with China. I can understand why we cannot expect them to draft their own laws based on the U.S. Constitution. But, it just seems to me that if you have a trading partner which is not being fair with you, which ships you its goods but denies you the opportunity to ship into their community in a competitive way, which really refuses to hold discussions, which threatens American industry, and which holds us in utter contempt for bringing it up, something is wrong.

I thought—and I hope I am wrong—that you were finding some type of a reason why we had to understand this type of thing.

Mr. KAPP. No. I am glad you came back to this, Congressman, so that we can pick up on some of your thoughts from earlier today.

Ambassador Barshefsky and her deputy Assistant U.S. Trade Representative Lee Sands are not out there, holding the Chinese government's feet to the fire with a June 17 deadline, and $2 billion in sanctions waiting to go into effect within 6 days, because the United States business community or anybody else thinks they do things differently in China than we do, and what is a little theft of intellectual property?

Mr. RANGEL. I mean, Mr. Kapp, I cannot find a better way than the administration has found at this point to show our concern. I just thought that those of you who deal with the Chinese might be able to better explain to me how people can do these things, without fear of the fact that we are going to retaliate.

I mean, we are trading partners, it is of mutual benefit, and here, we find someone doing this, and now we have to threaten them, and then they threaten us. I just think that this type of thing violates every principle this country stands for, notwithstanding whether they become satellites of the United States of America or not. They can stay whatever they are. But I cannot go home to those firms that find that their biggest property value has been their research and that this can be distributed and redistributed while they argue—what is their argument, Mr. Kapp? What are they saying?

Mr. KAPP. Mr. Rangel, if I can be absolutely certain that it is absolutely clear on the record that I am about to try to convey to you the views of the Chinese, and that they are not necessarily my views or those of my council, I would be happy to try.

Mr. RANGEL. Well——

Mr. KAPP. The Chinese say; "We accept the global view that modern international trade and commerce require the protection of intellectual property. Ten or 15 years ago, we had never heard of it. In a socialist society where everything is owned by the public, there was no such thing, but today we accept it. We are joining the world. We want into the WTO. We want to exchange knowledge and techniques and modern production methods with the world's advanced economies. We accept it. We have created a patent law, we have created a copyright law, we have a crackerjack Patent Administration in Beijing. But please understand that we have 3 million square miles, we have 1.3 billion people—and that the act of

enforcing what we agree are established international norms of behavior in this regard is a daunting task in a country like ours.

When we signed that IPR agreement last year, the Chinese agreed at our insistence to create a new bureaucracy of discovery and enforcement on the intellectual property side of 900,000 people, according to my back-of-the-envelope arithmetic last year.

The Chinese are saying to the rest of the world; "We cannot do it allover night."

For our part, we are saying; "Sorry, that is not good enough. We have an agreement; you signed it, you made commitments, and we have domestic law to back it up. If you do not live up to the agreement, the sanctions will go into effect, and you are going to pay heavily for it."

Mr. RANGEL. Am I mistaken in my belief that these reproduction factories have been discovered, identified, and revisited, and that the Chinese—I read that four of the disc reproduction places were closed—but I thought they had known that; American businesspeople have taken them on tour as to where these things are. So, you are saying they do not have the ability to enforce, and that may be so, as it relates to all of China, but I thought it was a lack of will to enforce where they knew where the counterfeiting factories were.

Mr. KAPP. Again, Congressman, I was trying to convey what the Chinese have said to us, not the views of myself or my council. The U.S. business community stands with——

Mr. RANGEL. You are pretty good at expressing those views.

Mr. KAPP. Well, the business community is very strong, absolutely unbending, on the fact that respect for intellectual property and protection of intellectual property rights are fundamental tenets of modern global business. If you are going to play in the global economy, no matter what country, you have got to stick to the rules, and we have supported the administration's positions in that regard.

Mr. RANGEL. OK. I would like to talk or meet with your group to see whether they can come in and fine-tune some way to assist these people——

Mr. KAPP. But remember that this is an MFN hearing, and the thing that we wanted to try to bring home is that the discussion of this issue, on which we do have a big problem, and concerning which we have laws and have threatened sanctions, is an entirely separate matter from the question before this Subcommittee and the Congress these weeks, i.e., whether we throw the entire trade relationship with China down the tubes by canceling normal, nondiscriminatory most-favored-nation trade with them. That, we feel is a separate matter.

Mr. RANGEL. You keep saying that it is separate. We kind of thought most-favored-nation was something special. Certainly, I did not hear all of these voices about bad policy with respect to Cuba—I know all of you find it consistent with your present thinking that sanctions generally do not work—but I am not talking about sanctions, and I am not talking about not treating them as ordinary trading partners. I am just saying that your depiction of how the Chinese would think is what annoys me. But, I am going to have to find some way to meet these people halfway, internation-

ally. The Chinese use face-saving and not understanding and their status as a developing nation as sophisticated excuses. On the other hand, we just do not give the Cubans this much opportunity to be that sophisticated. Thank God we have people like Mr. Crane to bring some balance to our policy as relates to places like China.

But we expect some help from those companies that you represent that are doing extremely well in China as opposed to those U.S. companies which are catching hell doing business in China.We need help from all who support your position that we should not take an extreme posture and cutoff trade with China. But, they need a lot more help from our American friends, as well as our European trading partners.

Thank you, Mr. Kapp.

Mr. KAPP. Thank you, Mr. Rangel; sorry to have taken so much of the other panelists' time.

Mr. YOUNTS. At the risk of beating a dead horse, I would echo Bob's comment in the sense that, in the last 10 years, the concept of intellectual property has first been introduced to China, so it takes a little bit of time.

I can only relate to you an incident of a couple of years ago, talking with the Academy of Science folks there, when we were talking about intellectual property. After a 2-hour discussion, they were finally believing the concept—because we talked about their technology and the importance of protecting their technology—and in that context, it really came home to the Academy of Science.

I think it is going to take a while to get this level of understanding to the provinces, so there will not be the requirement of a massive enforcement effort, which is itself very hard to do.

We currently have two IPR lawyers in Beijing, working with the people in the enforcement agencies, not only in Beijing, but in the provinces, and we have been extremely encouraged—as a matter of fact, more encouraged than we have seen in other Asian countries—with the support we have gotten to protect our trademark and intellectual property, copying of Motorola pagers and so forth. But, it is a full-time job, and we spent a lot of time educating the provincial governments as well as the Beijing government on the importance of the issue.

So, I think it is a little more than just holding the hammer over their head; I think we have to help them understand and help them get the necessary regulatory processes in place to control this activity.

They have now bought into the concept in Beijing, and I think they are taking it seriously.

Mr. RANGEL. My only question, Mr. Younts, is would you be that sensitive and understanding if Motorola products were being reproduced as fast as software, the video movies and the music disc recordings—and knowing that you would still want to hang in there and change things around—I just do not find that sensitivity with the firms that are being victimized.

Mr. YOUNTS. We do have a lot of copycat pagers and cellular telephones, batteries and battery chargers, particularly in Guangdong. What we have discovered is that most of these companies are financed by Hong Kong and Taiwanese companies, not the Chinese companies. But we have the same problem. I would suggest—and

maybe we can talk to some of your companies in terms of helping to solve the problem—that we go there and help them address the issue as opposed to just holding a hammer over their head.

Mr. RANGEL. It is my further understanding that the reproductions are of equal quality to the American products. Did you find that with your Motorola copycats?

Mr. YOUNTS. No, sir, and unfortunately, that is a problem. It is not of the same quality, and some of the products, particularly the batteries and so forth, are dangerous products if not done correctly. So, we are concerned about having bad products out there——

Mr. RANGEL. But, your problems would not be as great—I want someone to feel the pain of the other industries. I want to see all of our American businesses go there and expand there and throughout the world.

Mr. COHEN. Mr. Rangel, if I might just add that ECAT, the Emergency Committee for American Trade, represents a broad cross-section of the business community. It includes companies that produce software, as well as CDs. It supports the efforts of the government to fight for protection of intellectual property rights.

We do not in any way say to our government that these are not things that should be defended. These are rights that are very essential to the commercial interests of the United States. All of our ECAT companies are not equally affected, but we are not in any way withdrawing from making that very strong point; it is in our collective interest, and as a business community and as an ECAT organization, we are very firm on that point.

Mr. RANGEL. Well, I missed your testimony, but was that included, Mr. Cohen?

Mr. COHEN. It does not. We have put out a statement that is on the public record, and I will get a copy of that to you.

[The following was subsequently received:]

Emergency Committee for American Trade 1211 Connecticut Ave. N.W. Washington, D.C. 20036 (202) 659-5147

NEWS RELEASE

For Release:
Wednesday, May 15, 1996

Contact: Calman J. Cohen
202/659-5147

WASHINGTON, D.C., May 15, 1996

STATEMENT OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Duane L. Burnham, Chairman and Chief Executive Officer of Abbott Laboratories and Chairman of the Emergency Committee for American Trade, released the following statement today:

"Member companies of the Emergency Committee for American Trade are engaged in numerous trade ventures with enterprises in China and strongly support expansion of U.S.-China trade ties, including the extension of China's most-favored-nation trading status. Strong intellectual property protection is vital to the continuing success of the commercial interests of ECAT companies throughout the world.

We hope that a U.S.-China accord shortly can be reached that settles the outstanding intellectual property rights issues to the mutual advantage of the United States and China."

*****

Mr. RANGEL. Well, I would encourage all of you to get those statements up front in your initial testimony, because we will end up at the same place, but to the degree of all of us understanding that, we are American, and what is happening to these firms could happen to your firms, and you will be looking all around for help.

So I would appreciate it, Mr. Cohen, if you could tell the industry that our back is against the wall, and we cannot find any better tool to work with than what has been developed by the administration, and that has been rejected. But still, if we can all read from the same page as American firms, because they lose jobs, I lose jobs.

Thank you, Mr. Chairman.

Mr. SNYDER. Congressman Rangel, if I might just add very quickly, that sort of a flexible approach—no one answer necessarily deals with all the questions—is very, very important.

We felt that granting most-favored-nation status, or continuing it, made sense in the long term. It is good for trade, and it gives us some credibility and an entre into China, both politically and economically.

On the other hand, we feel that the World Trade Organization and other negotiations provide the circumstances under which important issues can be presented. We should insist that China plays by the same rules all other great nations do, including access, abiding by the rule of law, and other things like that.

The hope is that if we have not unduly made negative points on issues that, frankly, can hurt us as much as them, we can build some credibility with them in terms of our relationships and the molding of their modernized society. Then we have better circumstances under which these other trade, political, and national security points can be more effectively delivered and, hopefully, abided by.

Mr. RANGEL. I assume that all of you support the President's sanctions?

Mr. SNYDER. On IPR, yes indeed.

Mr. KAPP. On intellectual property, or on renewal of MFN.

Mr. RANGEL. The present sanctions that go into effect and——

Mr. KAPP. If a satisfactory agreement is not reached, of course, we understand that that is what lies at the end of the road. The purpose of the threat, of course, is to reach agreement, and any time sanctions are levied, there is a price to pay by the sanctioning nation as well as by the sanctioned nation. We wish Ambassador Barshefsky and Assistant USTR Lee Sands the greatest success in getting to a successful conclusion to those negotiations before sanctions are necessitated.

Mr. RANGEL. OK. I will just conclude by asking all of you who do business with the Chinese to please share with them how important it is with Americans and Members of Congress in terms of trying to reach some agreement on these issues; work with them and——

Mr. COHEN. We have not minced our words. We have stated to those with whom we meet from China that these are important negotiations, and that China must find a way to follow through on what they have committed. We are doing just that, Mr. Rangel.

Mr. RANGEL. I thank all of you.

Thank you, Mr. Chairman.

Chairman CRANE. I want to thank all of you for your testimony, and keep up the good work. We look forward to a successful continuation of MFN, but I would hope that we might take a long, hard look at changing that designation for one thing and, second, making it permanent.

Thank you all for your testimony.

Chairman CRANE. I would like now to invite Mark Anderson, Mike Jendrzejczyk and Lodi Gyari to come forward. We will proceed in the order on the printed agenda, with Mr. Anderson first.

Mr. Anderson.

STATEMENT OF MARK A. ANDERSON, DIRECTOR, TASK FORCE ON TRADE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. ANDERSON. Thank you, Mr. Chairman.

Mr. Chairman, Mr. Rangel, the AFL–CIO appreciates your kind invitation to present its views on U.S. trade policy toward China and its opposition to the granting of most-favored-nation trading status. This opposition, expressed for years to both Republican and Democrat administrations, is based on China's continued denial of basic worker and human rights and a nonreciprocal, unfair trading relationship that is harmful to U.S. workers.

Despite 15 years of accommodation, Mr. Chairman, exemplified by the uninterrupted granting of MFN status, there is nothing today that suggests China is willing to act in accordance with international grading rules or basic democratic principles.

Despite provisions of Jackson-Vanik that require an agreement that provides for reciprocal, nondiscriminatory treatment, access to the Chinese market for U.S. goods and services remains severely and unfairly restricted, while the U.S. market is open to an ever-growing volume of Chinese exports. Investment in China is conditioned on harmful export and technology transfer requirements, intellectual property rights continue to be violated, textile agreements are not honored. These practices have resulted in a massive shift in the balance of trade, with our country now suffering under trade deficits that reached $34 billion last year.

I would point out, Mr. Chairman, somewhat in contradiction to earlier testimony today, that the composition of United States-China trade is, if anything, more troubling than the overall deficit. Of the 20 American industries running the biggest trade surpluses with China, only one—aerospace—produced high-value, complex products that generate the best-paying jobs. The rest are raw materials and lower value-added products, such as pulpwood and hides. The largest U.S. deficit, however, is for high value-added electrical machinery.

This shift in trade and the unfair Chinese practices that helped to bring it about has real consequences for U.S. workers and domestic production. In 1994, for example, China violated a bilateral agreement by requiring the domestic production of automobiles and parts as substitutes for imports. To sell on the Chinese markets, foreign companies have to invest and produce locally. U.S. exports are restricted.

This policy has resulted in a significant worsening in the U.S. trade balance with China, with U.S. exports to China falling and U.S. imports rising. In 1993, just before the policy went into effect, the United States had a surplus in auto trade with China of some $521 million. In 1995, the United States ran a deficit of $454 million—a reversal of $1 billion in just 2 years. We are of the view that this deficit could mushroom in a short time, as growing investment in China competes with U.S. production in both the domestic and export markets.

While the public debate on MFN tends to focus on imports and exports, much of the passion in this discussion is a result of corporate decisions to use China as a low-cost production location. They fear that real action on the part of the U.S. Government to combat China's unfair practices might jeopardize existing or planned investment, which some estimate to be as high as $25 billion.

We should be clear. U.S. multinational companies, the major force behind MFN extension, have adapted to Chinese investment requirements, transferring not only capital but valuable technology and jobs. Using low-cost, depressed Chinese labor, they are establishing or contracting with manufacturing export centers that compete directly with U.S. production. Their support for MFN extension is principally about protecting those investments and not about expanding U.S. exports and employment or promoting democracy in China.

Indeed, we have reached the point, Mr. Chairman, where the most ardent defenders of Chinese communism are U.S. capitalists.

Finally, Mr. Chairman, no progress has been made in the area of human rights. Chinese prisons are filled with political and religious dissidents, independent unions are banned, and China continues to produce and export goods made in their forced labor system, the Laogai, despite a bilateral agreement that was negotiated to end that practice.

The United States may not be able to change Chinese behavior, but it certainly does not have to support it.

Mr. Chairman, for these reasons, the AFL–CIO urges your support for the disapproval resolution and the withdrawal of MFN status for China.

Thank you.

[The prepared statement follows:]

Statement of Mark A. Anderson, Director, Task Force on Trade
American Federation of Labor and Congress of Industrial Organizations
Before the Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
on Most Favored Nation Status for the Peoples Republic of China
June 11, 1996

Mr. Chairman, members of the committee, the AFL-CIO appreciates this opportunity to present its views on U.S. trade policy toward China and its opposition to the granting of most favored nation (MFN) trading status. This opposition, expressed for years to both Republican and Democratic administrations, is based on the continued denial of basic worker and human rights in China, and the nonreciprocal, unfair nature of the trading relationship that exists between the two countries.

While the congressional debate will correctly focus on the specifics of the U.S.-China relationship, it will also, through that examination, address a series of more fundamental questions: What are the conditions under which the United States trades with the world? Are there any standards or rules that should be observed? Are certain narrow commercial interests identical to the interests of the nation as a whole? The relationship with China puts those questions and others in sharp relief, and how they are answered will tell us a lot about this country's adherence to basic principles and whether or not the growing internationalization of the economy can be structured to benefit and not harm working Americans.

A continuation of MFN status for China would represent a regrettable misunderstanding of recent history, and will further solidify a trading relationship that is harmful to U.S. workers. Despite 15 years of accommodation, exemplified by the uninterrupted granting of MFN status, there is nothing today that suggests that China is willing to act in accordance with international trading norms or basic democratic principles.

In this regard, it is difficult to understand why companies operated by the People's Liberation Army (PLA) are allowed to continue to do business in the United States. The PLA General Logistics Department has a company in southern California, the PLA General Staff Department has its headquarters in Atlanta, and the People's Armed Police have a company in Michigan. NORINCO, officials of which were recently caught trying to illegally import into the U.S. 2,000 AK-47's, has some eight subsidiaries in southern California and New Jersey. It appears that we now have the perverse situation of American consumers unwittingly subsidizing the Chinese army. This is simply not right.

Legal requirements allow for MFN treatment only with the existence of a trade agreement that provides reciprocal, non-discriminatory treatment. Access to the Chinese market for U.S. goods and services is severely and unfairly restricted, while the U.S. market remains open to an ever-growing volume of Chinese exports. Investment in China is conditioned on harmful export and technology transfer requirements. Intellectual property rights continue to be violated. Textile agreements are not honored as the U.S. Customs Service estimates that $4 billion in illegal textile transshipments originate in China. These practices, together with the unwillingness of the U.S. to address them, have resulted in a massive shift in the balance of trade, with the U.S. now suffering under trade deficits that reached $34 billion last year. U.S. jobs have been lost, and downward pressure on wages has intensified.

U.S. multinational companies, the major force behind MFN extension, have adapted to Chinese government policies and invested billions of dollars in China, transferring not only capital, but valuable technology and jobs. Using low cost, oppressed Chinese labor, they are establishing or contracting with manufacturing export centers that compete directly with U.S. production. Their support for MFN extension is principally about protecting those investments, and not about expanding U.S. exports and employment or promoting democracy in China.

It is clear that no progress has been made in the area of human rights. Chinese prisons are filled with political and religious dissidents. Independent unions are banned, and China continues to produce and export goods made in their forced labor system, Laogai, despite the bilateral agreement which was negotiated to end that practice.

All the above suggests that a continuation of the policies in place for the last fifteen years would merely be a triumph of hope over experience. A new approach is needed to achieve a reciprocal, nondiscriminatory trading relationship and support those working toward the emergence of a free and democratic China. Seeking these goals is not only intrinsically correct, but also in the direct self-interest of

the U.S. Freedom, democracy and adherence to international standards are necessary attributes if China, the largest country in the world, is to join, in a positive way, the world community. We are under no illusions that this will occur quickly or easily, and certainly the primary force for change must originate in China itself. But experience also tells us that external pressure can play a significant role in accelerating the process of change.

Indeed, much of the current debate about China policy has a very familiar ring. Many who urge an extension of MFN for China sound remarkably similar to the advocates of "constructive engagement" for South Africa in the 1980's, or those who thought that the oppressive nature of governments in Eastern Europe was of no consequence, as long as they paid their bills. Those views were demonstrated to be wrong then and they are equally wrong now.

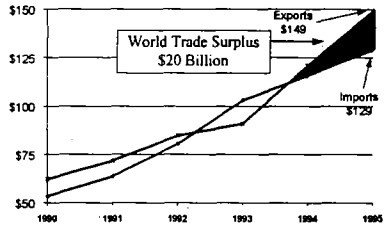
China's World Trade Position

In 1994, the World Bank described China's trade strategy as "mercantilist, motivated by achieving export growth for the sake of generating foreign exchange without sufficient regard to costs, and linked with attempts to contain import growth." In many respects this approach has been quite successful.

International trade now accounts for 40 percent of China's total economy, with hard currency reserves reaching $73 billion. In recent years, Chinese exports have grown at three times the average world rate, making China one of the world's ten largest exporters. As a result of this strong export growth, together with restrictions on imports, China enjoyed an overall trade surplus of $20 billion in 1995 (Figure 1), while the U.S. recorded an overall deficit of $160 billion.

Figure 1

China's Trade With the World, 1990 to 1995
(Billions of Dollars)

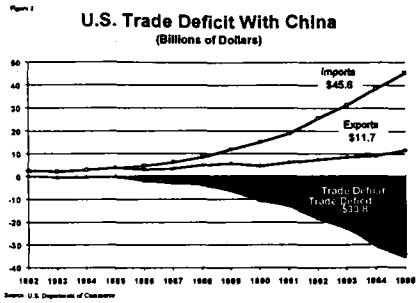


Source: U.S. Department of Commerce

On a scale that the rest of the world is just beginning to comprehend, China is rapidly expanding its industrial capacity. Until now, growth has come mostly from producers that took advantage of the country's immense pool of oppressed workers, where wages average about $100 per month. Increasingly though, these companies are moving to more advanced products. Manufactured goods, which account for 82 percent of Chinese exports, are no longer dominated by traditional labor-intensive products. For example, exports of electrical and machinery products exceeded textile exports for the first time in 1995, and are expected to total $100 billion within four years. Exports of color TVs, auto parts, cellular phones, engines, power generators, computer equipment, and a host of other high-value-added goods will grow substantially.

U.S.-China Trade

Over the last dozen years, U.S. merchandise trade with China has deteriorated from rough balance to a deficit that reached $33.8 billion in 1995 (Figure 2). While exports amounted to $11.7 billion, imports reached $45.6 billion and represented 31 percent of China's worldwide exports. In contrast, U.S. exports to China were only 2 percent of total U.S. exports. At $11.7 billion in 1995, U.S. merchandise exports to China were lower than exports to countries like the Netherlands, Belgium, and Singapore and ranked thirteenth among countries that import from the U.S. However, the $45.6 billion in imports from China ranked fourth among countries that send goods to the U.S.



The makeup of the $33.8 billion merchandise trade deficit with China is also cause for concern. (Figure 3) Of the 20 American industries running the biggest trade surpluses with China in 1995, only one, aerospace, produced high-value, complex products that generate the best paying jobs. The rest are raw materials and lower value added products such as fertilizers, cereals, food residue and waste, ore slag and ash, and pulp wood--the kinds of goods that developing countries send to industrialized countries. The largest deficit however, is for electrical machinery, equipment and parts.

Trade Balance of Top 20 Articles of U.S.-China Trade, 1995

Figure 3

U.S. Surplus		U.S. Deficit	
Article of Trade	$ (mil)	Article of Trade	$ (mil)
Fertilizers	1,200	Electrical Machinery And Equipment And Parts	6,615
Aircraft, Spacecraft, And Parts	1,151	Toys, Games And Sports Equipment	6,151
Cereals	1,144	Footwear, Gaiters And Parts	5,814
Cotton, Including Yarns And Woven Fabrics	691	Articles Of Apparel And Clothing Accessories	3,272
Animal Or Vegetable Fats And Oils	393	Articles Of Leather; Saddlery And Harness	2,533
Pulp Of Wood Or Other Fibrous Cellulosic Material;	183	Furniture; Bedding, Cushions Etc.; Lamps And Lights	1,919
Manmade Staple Fibers	153	Nuclear Reactors, Boilers, Machinery	1,433
Raw Hides And Skins (Other Than Furskins) And Leather	105	Articles Of Apparel And Clothing Accessories, Knit	1,371
Aluminum And Articles Thereof	92	Plastics And Articles Thereof	1,272
Copper And Articles Thereof	81	Optical, Photographic, Cinematographic, Measuring,	823
Miscellaneous Chemical Products	70	Prepared Feathers And Down And Articles	642
Meat And Edible Meat Offal	35	Made-Up Textile Articles, Needlecraft Sets	634
Residues And Waste From The Food Industries	10	Ceramic Products	532
Ores, Slag And Ash	8	Articles Of Iron Or Steel	448
Live Animals	8	Mineral Fuels, Mineral Oils And Products	413
Oil Seeds And Oleaginous Fruits	6	Tools, Implements, Cutlery, Spoons And Forks	348
Manmade Filaments, Including Yarns And Woven Fabric	5	Clocks And Watches And Parts	345
Tobacco And Manufactured Tobacco Substitutes	3	Miscellaneous Manufactured Articles	343
Nickel And Articles Thereof	3	Vehicles, Other Than Railway Or Tramway	330
Impregnated, Coated, Covered Or Laminated Textiles	2	Miscellaneous Articles Of Base Metal	311

Source: U.S. Department of Commerce

China's Trade Regime

The inequitable and discriminatory nature of Chinese trade and investment policies has been a major contributor to America's growing bilateral trade deficit. China has explicitly followed an export led growth strategy, implementing policies that have nothing in common with free trade or open markets. This is particularly true for so-called "pillar industries," industries that the Chinese government has targeted for development. For these industries, which include autos and trucks, aerospace, machinery, electronics, engineering, petro chemicals and building materials, China uses a combination of import protection, investment requirements, and export support.

Tariffs

China uses prohibitively high tariffs, in combination with import restrictions and foreign exchange controls to protect its domestic industry and restrict imports. Tariffs facing goods entering China in 1995 ranged as high as 150 percent, while the average nominal import tariff exceeded 35 percent. While some reductions have apparently taken place, tariff rates remain extremely high for sectors such as chemicals and transportation equipment in which China is seeking to build internationally competitive industries. Auto tariffs for example, are 100 percent.

The published tariff however, may not even apply as different ports of entry often charge different duty rates on the same products. Because there is flexibility at the local level in deciding whether to charge the official rate, actual customs duties are often the result of negotiation. This is also true of various forms of taxation. Allegations of corruption are numerous.

On the whole, tariff reductions have been the greatest on the sort of raw materials and high-technology items that China needs to import in order to sustain its economic growth. Least changed are the tariffs on consumer and manufactured goods which China prefers to make itself.

Non-Tariff Measures

These measures include import licenses, import quotas, discriminatory standards, lack of transparency, foreign exchange requirements, import substitution requirements, as well as the non-market operation of China's state-owned or-directed enterprises.

The levels of imports permitted under these measures are the result of complex negotiations between the central government and Chinese ministries, state corporations and trading companies. Non-tariff barriers are administered by the State Economic and Trade Commission (SETC), the State Planning Commission (SPC), and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Negotiations to end these practices have not been successful.

U.S. INVESTMENT IN CHINA

"...multinationals that have followed Beijing's rules may use their Chinese factories, rather than U.S. plants, to meet the huge demand for goods in the developing world." (Business Week, March 4, 1996, p. 60)

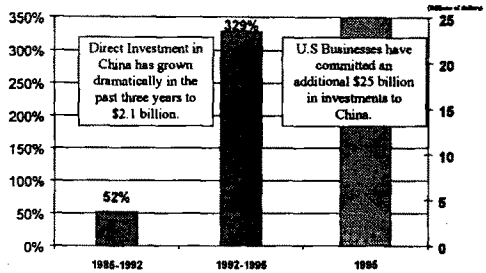
"We want them to bring their technology to the soil of the People's Republic of China." Yuan Sutai, China's Ministry of Electronics Industry. (Wall Street Journal, December 7, 1995)

While the public debate on MFN tends to focus on imports and exports, much of the passion in this discussion is a result of corporate decisions to use China as a low-cost production location. They fear that real action on the part of the U.S. to combat China's unfair practices might jeopardize existing or planned investment. China has masterfully exploited this fear by conditioning access to the world's largest potential market on a whole series of investment performance requirements that include import substitution, export performance, trade balancing, technology transfer, local content and domestic sales restrictions.

U.S. investment in China has grown rapidly over the last three years and is valued at $2.1 billion for 1995. This however, is just the beginning. Committed investment is reported to be an almost unbelievable $25 billion. (Figure 4)

Figure 4

U.S. Direct Investment Position in China, 1985 to 1995



Source: U.S. Department of Commerce, U.S. China Business Council

Efforts on the part of the U.S. to negotiate the elimination of many of these investment requirements has been unsuccessful. When agreements have been reached, they are ignored by the Chinese government. For example, a Memorandum of Understanding on market access was reached in 1992, which committed China to a variety of actions, including pledging that it;

> *...will not condition the issuance of import licenses upon either the transfer of technology or meeting requirements related to investment in China...The Chinese government confirms that it has eliminated all import substitution regulations, guidance and policies and will not subject any products to any import substitution in the future.*

Despite these commitments, USTR's 1995 National Trade Estimate Report on Foreign Trade Barriers reports that:

> *In 1994, China announced the first in a series of industrial policies that include clear import substitution requirements and in some other sectors, such as pharmaceuticals, China has also adopted import substitution requirements. China's auto policy, designed to build a modern automobile industry in China, explicitly calls for production of domestic automobiles and auto parts as substitutes for imports, and mandates strict local content requirements--forcing the use of domestic products, whether comparable or not in quality or price.*

These policies and the U.S. acceptance of them have real consequences for U.S. workers and domestic production. Prior to the publication of its auto policy in 1994, China officially imported more than 300,000 vehicles. Today, imports have been reduced to tens of thousands. The U.S. trade balance with China has also suffered significantly with U.S. exports to China falling and U.S. imports rising. In 1993, just before the policy went into effect, the U.S. had a surplus in auto trade (vehicles and parts) with China of $521 million. In 1995, the U.S. ran a deficit of $454 million--a reversal of $ 1 billion in just two years. With the massive amount of auto-related investment that is taking place in China, the deficit could mushroom in a short time.

China is following a very careful economic strategy that is based on a protected domestic market, foreign investment and exports, and U.S. companies are falling over each other in a rush to accommodate Chinese demands by investing in production facilities and transferring advanced technology. Make no mistake, their support for China and the continuation of MFN has nothing to do with fair trade, human rights, increased U.S. exports, domestic employment, corporate responsibility or U.S. national security, and everything to do with the profits they project through producing and selling in China.

It is this lure of profit that brings U.S. companies to join with Chinese businesses, state-owned enterprises and even the Chinese military in establishing new state-of-the-art production facilities in China. We have reached the point where the most ardent defenders of Chinese communism are U.S. capitalists.

U.S. Corporate Activity in China

The following is an illustrative list of the kind of U.S. economic activity and investment currently taking place in China. While U.S. exports are no doubt associated with much of these investments, it is clear that their principal focus is to increase Chinese production. And that production will compete directly with U.S. exports, not only to China, but to other countries as well.

Agribusiness/Pharmaceuticals

Archer Daniels Midland, Cargill, Continental Grain and **Monsanto Co.** already have or are exploring production opportunities in China despite growing exports from U.S.-based production facilities. **ADM Co.** has committed an estimated $80 million to a seven-plant processing complex in Shanghai. **Continental Grain** has over 25 joint ventures in China. **Monsanto,** despite having its products pirated, recently announced plans for an agricultural-chemical plant in China (Business Week, May 20, 1996).

Pfizer Inc. established a joint venture in 1994 with a total investment of $50.4 million. The joint venture produces mainly antibiotics which are substitutes for imports. According to company estimates, these products helped China save about $20 million in foreign exchange in 1994 (Business Weekly, China Daily Publications, January 15, 1995).

Aerospace

Boeing Corp. is unarguably the most successful U.S. exporter to China, holding some 70% of the Chinese civilian aircraft market. Even this success is beginning to have a high price as Chinese demands for offsets and technology transfer intensify. For example, tail sections for the Boeing 737 are made in China in the same plant in which Chinese military aircraft are built.

On the other hand, **McDonnell Douglas** has had one of the best-known and most unsuccessful ventures in China. In fact, a former **Douglas** executive (modestly) claims "[I]n the end we were betrayed" (Wall Street Journal, May 22, 1996). **Douglas** was actually one of the first companies to transfer massive amounts of technology, setting a standard for others that followed. The president of the company's operations in China stated "We're in the business of making money for our shareholders. If we have to put jobs and technology in other countries, then we go ahead and do it" (New York Times, February 25, 1995, p. 39).

Not only had **Douglas** transferred technology but they trained Chinese engineers for domestic production. Jobs were also part of the equation as **Douglas** agreed to let Chinese workers assemble planes from imported U.S. kits. In addition, **Douglas** agreed not to solicit Chinese airlines to buy planes manufactured in the U.S.

Later, China's aviation authority used a $4.5 billion carrot, a program to manufacture transport aircraft, the so-called "Trunkliner," to further pursue technology transfer. Before an agreement was signed, the Chinese first pushed **Douglas** to help China produce plane parts and Chinese authorities insisted on the spread of technology. This "diffused production" in the words of Joseph Kahn of the Wall Street Journal, "had just one major beneficiary: the Chinese military" (Wall Street Journal, May 22, 1996).

A special relationship apparently developed between **Douglas** and China's military. Engineers were often taken from the original MD-82 venture and were placed on military or air-force projects. Chinese officials sought **Douglas'** help in acquiring dual use machine tools to further missile and special aircraft development.

In the end China canceled the fabled "Trunkliner" project. To preserve some semblance of a relationship, **Douglas** with the help of late commerce secretary Ron Brown, was able to sign a contract for 40 MD-90s--20 of which will be produced in Shanghai.

Vehicles And Parts

GM holds 30 percent of a joint venture with Jinbel Automobile Co. to build one-ton pick-up trucks in northeast China.

GM recently won the right to negotiate with a joint venture partner in China to build 100,000-150,000 mid-size cars in China with Shanghai Auto Industrial Corporation. According to **GM** Overseas Corp. vice president Robert Rice, **GM** would "spare no effort to introduce the most advanced production technologies to China and help China develop high-grade automobiles" (Journal of Commerce, June 10, 1995).

GM's Delphi parts division has recently announced that it plans to establish more than 20 parts production plants in China in the near future. Several plants were opened by **Delphi** in 1995 on top of

others already in operation. Those plants produced drive shafts, wiring harnesses, ignition systems and engine control systems.

Delphi licensed production of wiring harnesses, spark plugs, starter motors, alternators, and steering gears to Chinese producers several years ago. It will produce as many as a million maintenance-free batteries next year and sell them throughout Asia in addition to within China.

Chrysler makes Jeep Cherokees and a utility vehicle in Beijing with a partner.

Ford has parts plants scattered around China. It builds audio and electronic parts in Shanghai, and is also making instrument panels with Shanghai Automotive Industry Corporation and safety glass for windshields with Yao Hua Glass Works.

Tenneco Automotive, a leading supplier of auto parts, launched its first joint venture in 1995. The investment and technology is expected to triple the Chinese partners existing production. The products, mainly shock absorbers, will supply auto producers in China. Local content requirements of up to 80 percent require that Western suppliers team up with domestic companies (Business Weekly, China Daily Publications, November 20, 1995).

Delco Electronics under **Hughes Corp.** is negotiating with Chinese suppliers to establish joint venture manufacturing auto parts in China.

Borg-Warner makes gearboxes and **Allied Signal** makes fuel systems. **TRW** makes engine valves in a joint venture. **Dana** makes drive shafts in Tinjin with Shul Hing Manufacturing Company and makes filters in Tinjin as well. **Goodyear** makes tires and hoses with joint venture partners. **United Technologies Automotive** produces electrical distribution systems in China with European and Chinese partners. **Kaiser Aluminum** helped build two aluminum wheel casting plants in China.

Kaiser established two joint ventures that will develop deep-processing of aluminum for use in building and industrial settings in two of China's provinces (Guizhou and Sichuan). The two production lines and technology will be imported from **Kaiser** (Xinhua English Newswire, March 30 1995).

Electronics

Motorola recently became one of the first foreign companies to build a wholly owned semiconductor plant in Tianjin, China, a $720 million investment. The new investment is designed to enhance existing Chinese capacity in producing semiconductors. Mass production is scheduled to begin in 1998, with products to be marketed domestically as well as abroad (China Daily, September 25, 1995). Last October, **Motorola** announced a joint venture with Nanjing Panda Electronics Group Corporation to produce personal computers. **Motorola** has investments (or planned investments) in China worth $1.2 billion, producing goods like cellular phones, and in February 1996 announced plans to build a new plant in China to produce pocket pagers.

Hewlett Packard opened a $29 million inkjet printer manufacturing plant in the economic development zone of Waigaoqiao. The plant will at first produce 20,000 printers a month, with production expected to reach 200,000 a month within two years, and generate revenues of $100 million annually. All machines are supposed to be exported--though expectations are that 30 percent will be sold to the domestic (Chinese) market (Journal of Commerce, May, 14 1996).

Whirlpool from 1994-95 has established four joint ventures in China to make and sell refrigerators, microwave ovens, washers and air conditioners. These operations will export products to other countries in Asia and elsewhere. In 1994, Whirlpool invested $107 million in two of those joint ventures. Workers in a Whirlpool manufacturing plant in Indiana have a pending trade adjustment claim with the Dept. Of Labor's Trade Adjustment Assistance Office.

In 1994, **AT&T** announced a series of deals that totaled $150 million in investments in China. China insisted that **AT&T** Bell Laboratories must make most of the equipment there (Washington Post, April 29, 1994). **AT&T** is manufacturing both corded and cordless telephones in Guangdong province for export to the United States. Business projections for it's operations in China show earnings of $3 billion by the year 2000. **AT&T** led the resistance to a human rights proposed "code of conduct" for U.S. companies, stating it "would be viewed by the Chinese government as another attempt to influence Chinese domestic politics and would be detrimental to U.S. business" (Multinational Monitor, April 1996).

General Electric, which has 13 businesses and $150 million invested in China already, announced in May its 14th operation. The alliance will allow China to produce the most advanced colored ultrasound equipment in the world and greatly expand exports (Xinhua English Newswire, April 24, 1996).

Hughes Electronic Corp. announced in late 1995 that it plans to invest up to $1 billion in China over the next decade. **Hughes** stated much of the investment will be in the fields of telecommunications, space, electric vehicles and automobile parts. **Hughes**, which has signed a contract to make a communications satellite for China, will provide equipment for a ground control station in Beijing and train Chinese satellite controllers and analysts (Xinhua English Newswire, October 10, 1995).

Duracell began construction of an alkaline battery manufacturing plant in China during 1995 in addition to forming new subsidiaries. Another battery company, **Ultralife Batteries**, sold to the China Development Program manufacturing equipment, training and factory start-up support. The company had already transferred technology under the first phase of the program in fiscal 1993. Production of its Chinese-based subsidiary was to be producing batteries by the first quarter, 1996.

In 1994, **Pulse Engineering Inc.** completed the transition of their manufacturing operations to the People's Republic of China.

During 1994, **CopyTele** signed a letter of intent with **Shanghai Electronics Components Corporation** ("S.E.C.C.") to form a joint venture in Shanghai, China. The company has been advised that S.E.C.C., an electronics components company, is wholly owned by the government of China. The joint venture will develop, manufacture and market products worldwide in the telecommunications field.

Ault Corp. fiscal 1995 sales benefited from the exceptional growth of its Aultra line of low-cost transformers, manufactured through subcontracting arrangements in the Peoples Republic of China. A California based-computer company, **AST Research Inc.**, is selling PCs domestically that were assembled in China (Business Week, December 12, 1994, p.57). **GTI** established its third plant and utilized another subcontractor in China "responding to competitor and customers needs." **VeriFone** in 1994 stated in its annual proxy that "to meet growing demand, **VeriFone** began building a high-volume manufacturing center in Kunshan, Peoples Republic of China."

Miscellaneous Manufacturing

Eastman Chemical, which entered the Chinese market in 1979, and produces a growing number of specialty and industrial chemicals, plastics, and fibers announced in April that it plans to invest $200-400 million in China over the next decade. **Eastman** announced it was working with the Chinese government and potential joint-venture partners on several projects that will feature Eastman's "state-of-the-art-technology" (Xinhua English Newswire, April 4, 1996).

DuPont Co. has plans to increase its stake in China from current investments totaling $350 million to $1 billion over the next five years.

Otis Elevator Co. first entered the China market with a joint venture in 1984, and has since established four major ventures in Tianjin, Beijing, Guangzhou, and Shanghai. Despite having its headquarters in Connecticut, 89 percent of the company's workforce resides outside the U.S (Xinhua English Newswire, March 11, 1996).

Fedders Corporation, the largest home air conditioner manufacturer in North America, recently sent up a joint venture in Zhejiang Province. The venture plans to manufacture up to 500,000 units by the third year of operation. The air conditioners will be sold domestically as well as abroad (Xinhua English Newswire, November 11, 1995).

VF Corporation, the parent company of Lee Jeans announced a joint venture in China where it will begin to manufacture Lee Jeans.

Worker Rights and Labor Standards in China

The Chinese government crushed the loose worker groupings that developed during the 1989 democracy movement. Leaders are either dead, in jail or keeping an extremely low profile. Independent unions remain banned, working conditions are deteriorating, and the government's reliance on forced labor continues.

Even attempts by worker activists to promote a discussion of labor rights issues under China's legal framework have landed most of them in jail. The plight of Zhou Guoqiang, a leading advocate of this approach and a close associate of Han Dong Fang, is typical of what has happened to the few Chinese labor activists that tried to kept the movement alive after 1989. Secretly detained by the Public Security Bureau for six months in 1994, Zhou was then sentenced after a show trial which was held at a remote prison camp. He is presently in ill-health and may not survive his prison sentence.

Freedom of Association

The primary vehicle by which workers protect their rights is through membership in an independent trade union. In China, this is simply not possible. The February, 1994 issue of the All China Federation of Trade Union's official magazine defined trade unionism this way: "The premise for unions [in China] is to carry out the tasks of the party." In 1990, the ACFTU reacting to orders from the Communist Party in the wake of the 1989 Democracy Movement sent out the following circular, "Unions in China should resolutely uphold the unitary leadership of the party. Unions at all levels should maintain a high degree of unanimity with the party politically, in ideas and actions." At 1995 anniversary celebrations, the ACFTU General Secretary used this same quote to reaffirm the ACFTU's subordinate role to the party.

The party retains control of the ACFTU through the top-down selection of its officers, provincial and national level. A party document states:

> *the administration of union cadres by the party is an unchangeable principle. The ACFTU should work together with the Organization Department of the Central Committee of the Chinese Communist Party in laying down regulations concerning cadre management and in the nomination, investigation, election, approval and allocation of unions leaders.*

Collective Bargaining

While collective bargaining remains impossible for workers employed by state enterprises, there are efforts underway to give the appearance of union organization and bargaining in the new mixed sectors, which are dominated by foreign investment. The State Department's Human Rights Report notes that according to Chinese government data, 86 percent of all foreign or mixed enterprises have union representation. The reality however is that the ACFTU presence in these enterprises is to control workers, not to serve their interests.

A recent report by Australian academic, Anita Chan, confirms the overall impression that sham unions are being created in China on a massive scale. She notes that in many unions either the factory managers or their subordinates are chosen to become the leading union officers. For example, she documents that in a township near Hong Kong, all union leaders are managers of the factories. At some of these factories, workers are not informed of the new union or invited to join. In the Minhang district of Shanghai, 67 percent of union leaders are on the managerial staff of companies, 20 percent are Communist Party officials and 13 percent are managers or deputy managers.

The hollow nature of China's unions is also demonstrated at the district level. In China's economic zones, the trade union bureaucracy is often the same as the local government bureaucracy. For example, the deputy trade union leader in the Pudong development zone in Shanghai is the director of the Pudong Economic and Trade Bureau. In Nahui county of Pudong, the local trade union leader was the manager of the local government's industrial zone and the deputy director of a county joint venture shoe factory. Other information indicates that the government assigns staff to ACFTU regional offices and pays their salaries.

By participating in this charade, many U.S. investors are directly complicit in the continued suppression of Chinese workers.

Labor Standards

Labor standard laws are routinely violated by China's new class of employers. For example, the human rights report notes that, "As in other areas of China, officials admit that some foreign investors in special economic zones are able to negotiate sweetheart deals with local partners which effectively bypass labor regulations." Studies conducted in the past year of China's toy, garment, and electronics industries, in which there is heavy foreign investment, all paint the same picture: excessive hours worked, violation of minimum wage laws, poor health and safety conditions, physical abuse by managers, and illegal levies and deductions. The report on the electronics industry noted for example, that eight of 14 factories surveyed paid less than the legal minimum wage. In one factory, researchers found that workers were forced to work an average of 80 to 90 hours of overtime a month, far exceeding the legal limit of 36 hours.

Migrant workers from other parts of China are special victims. Exploitation for many begins even before they reach their jobs since they are required to pay recruiters in order to get jobs in the first place. These payments can be very large and may take years to payoff leading to a form of bonded labor. Migrant workers are often subjected to physical intimidation by factory supervisors who feel free to inflict punishments since local authorities often see migrants as threats to the local security situation.

Occupational safety and health conditions in most Chinese factories are very poor. So called three-in-one factories (which contain production, storage and dormitory facilities), though outlawed because of fire safety, operate in the thousands in southern China. Workers are routinely asked to handle hazardous chemicals about which they know little and breath fumes in poorly ventilated factories. This past summer, surveys conducted by the Hong Kong Christian Industrial Committee, found that most toy industry workers were not protected from noxious fumes caused by spray paints and glues, toiled in factories that did not meet fire prevention regulations and/or building safety codes, and worked without adequate training on dangerous machinery that lacked protective equipment. In describing a recent fire in Southern China that led to a number of deaths, one Chinese industry association official from the north called working conditions in the South "super-exploitation" that far exceeded the normal excesses to which he was accustomed.

Child Labor

There is a growing body of evidence that the use of child labor is growing in China. This evidence is based on reporting of individual incidents rather than surveys since the Chinese government has little interest in exposing the problem. As in other labor standards areas, the Chinese have adopted legislation that follows international norms. Children under 16 are prohibited from working in industry, yet local authorities routinely ignore the regulations. One of the most common practices is for recruiters to secure forged identification documents which they distribute to girls of 14 and 15. They then are placed in joint venture and township enterprise factories which produce goods for foreign markets.

Forced Labor

China continues to use forced labor as a part of its production system and makes no apologies for the practice. Since it makes no distinction between political prisoners, which number in the tens of thousands, and "regular criminals" they too become a part of the system.

In October, 1991, China officially "banned" the export of products produced by prison labor. In August, 1992, the U.S. signed a Memorandum of Understanding with China, amended in 1994, which purported to establish a process through which the U.S. could investigate allegations of forced labor used in goods that are exported. That process was to include U.S. access to suspect facilities in China. The implementation of the agreement has been unsatisfactory, and forced labor produced goods still find their way to the export market. Some are transshipped through Hong Kong, with the names of products changed to correspond with non-prison factories.

The continuation of forced labor exports is particularly reprehensible since the importation of such goods into the United States is illegal. At very least, adequate resources should be made available to the U.S. Customs Services to ensure compliance with U.S. law.

Conclusion

The AFL-CIO does not seek the isolation of China, or the elimination of trade and investment. We seek a relationship that will benefit working Americans; a relationship that puts the U.S. on the side of the oppressed, not the oppressors; a relationship where the rules of trade are fair and equitable; and a relationship that understands that this country has interests that are more important then the balance sheet of an individual company.

Merely maintaining the status quo will accomplish none of these goals.

The AFL-CIO urges your support for the disapproval resolution and the withdrawal of MFN status for China.

Thank you.

Chairman CRANE. Thank you, Mr. Anderson.

Chairman CRANE. The next witness, Mr. Jendrzejczyk.

STATEMENT OF MIKE JENDRZEJCZYK, WASHINGTON DIRECTOR, HUMAN RIGHTS WATCH/ASIA

Mr. JENDRZEJCZYK. Thank you, Mr. Chairman, for inviting us to testify again before the Subcommittee on Trade. My name is Mike Jendrzejczyk, and I am the Washington director of Human Rights Watch/Asia.

Last week, Mr. Chairman, marked the 7th anniversary of the Tiananmen Square massacre. Most of the sanctions imposed against Beijing since that brutal event have been lifted, and I think it is fair to say that China's leaders have made rather rapid progress in shaking off the stigma of Tiananmen Square. They have aggressively sought China's acceptance and full integration into the international community as a great power.

Furthermore, using access to China's markets and to investment opportunities, the Chinese government has largely insulated itself from effective international pressure to improve human rights.

The United States and the other G–7 countries, lacking a coherent, multilateral approach for promoting human rights and the rule of law in China, have been subject to lobbying and manipulation as Beijing plays off one major trading partner against another. Although President Clinton has delinked trade and human rights, China clearly has not.

For example, this past April, at the UN Human Rights Commission in Geneva, China successfully used trade and aid deals to prevent even a mild resolution criticizing its human rights record from even coming up for a vote.

Mr. Chairman, I think it is fair to say that none of the witnesses you have heard today would really favor in the long run isolating China. Certainly, we do not disagree with President Clinton's broad objectives and goals for United States-China policy as outlined in his speech two weeks ago. However, we would challenge the President's assertion that its constructive engagement approach, whatever its other merits, does offer a long-term viable strategy for improving China's human rights practices.

With his decision again to renew MFN unconditionally, the President has again rejected the use of economic pressure to improve human rights, while of course, the administration is I believe effectively thus far wielding that pressure on behalf of intellectual property rights. I would also note that it is ironic that the Chinese government claims to have difficulty finding factories manufacturing pirated CDs and videotapes, but seems to have no difficulty hunting down political, religious or labor dissidents and throwing them into labor camps or forcing them into exile.

Mr. Chairman, we believe the annual MFN debate does provide a useful opportunity for Congress to scrutinize United States-China policy as well as to focus attention on China's dismal human rights record. Yes, it is a blunt instrument, but we do believe it would be premature to do away with this annual renewal process, especially when no one knows what is coming around the corner after Deng Xiaoping passes from the scene. At the very least, we think the process should be retained as a kind of insurance policy.

We have consistently taken the position that the United States should use various forms of economic and political pressure to promote human rights in China and Tibet both on a multilateral and a bilateral basis. Unfortunately, the Clinton administration, with its decision to back down after the President issued an Executive Order in May 1993 linking trade and human rights, has pretty much, nullified the impact of this direct linkage.

However, we do believe there are other steps the administration can and should be taking, and they are outlined in detail in my testimony, but I would like to briefly summarize them now.

First, we think the United States should try to limit the flow of World Bank funds to China for non-basic human needs projects and purposes. The World Bank as of this June will give for this fiscal year some $2.9 billion in funds to China—more than to any other government in the world. We believe that the United States should use its influence as it has done previously in the case of Vietnam and as it is doing now in the case of Iran, to prevent such loans from coming up for consideration. At the same time, we think the administration should seek to channel World Bank funds to help solve in a constructive way major social problems such as the one you mentioned earlier, that is, of migrant laborers.

Second, we believe that Congress should insist on voting on China's entry into the World Trade Organization, and we believe the President should be required to certify that certain trade and human rights conditions have been met before China can join the WTO. We think it is impossible to separate China's behavior as a reliable trading partner from its willingness to abide by international human rights standards. A government that routinely violates its own laws the crack down on dissidents will also fail to honor contracts with foreign agreements or IPR agreements or, as it is doing now, try to restrict the flow of economic and business information from foreign news services.

Third, we hope the administration—and we understand this is actively under consideration—will propose that relations with China and Hong Kong be on the agenda for the G–7 Summit Meeting later this month in France. We think that this is a crucial opportunity, the first such opportunity perhaps, that we can realistically hope to take advantage of since the Tiananmen Square crackdown, to develop a coherent multilateral approach among our main G–7 partners. We hope that the G–7 final communique or chairman's statement will include strong language not only calling for respect for human rights, but also for full compliance with the Joint Declaration on Hong Kong.

Finally, Mr. Chairman, in his talks next month in Jakarta with the Chinese Foreign Minister, we hope that Secretary Christopher will make it clear that the possibility of any summit meeting between President Clinton and Jiang Zemin can only be considered if there is significant progress on human rights in China and Tibet.

We are deeply concerned that in its eagerness to establish greater dialog between Washington and Beijing, the administration not trade away the substantial leverage and symbolic value of such high-level visits without receiving human rights concessions in exchange. We also, of course, hope that this will be on the agenda for Tony Lake's upcoming visit to Beijing.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Testimony before the House Ways & Means Committee
Subcommittee on Trade
On Most Favored Nation Trading Status for China
By Mike Jendrzejczyk, Washington Director
Human Rights Watch/Asia
June 12, 1996

Thank you, Mr. Chairman, for inviting us to testify today on Most Favored Nation (MFN) trading status for China and the implications for human rights in China and Tibet. My name is Mike Jendrzejczyk, and I am the Washington director of Human Rights Watch/Asia (formerly Asia Watch), a private, independent human rights monitoring organization. Human Rights Watch has consultative status at the United Nations, and we have long been active in monitoring and reporting on human rights issues in China and Tibet.

In my testimony, I would like to comment on U.S. policy towards China and the current debate over renewal of MFN for another year. I will then present a brief description and analysis of recent human rights developments in China and Tibet. Finally, I will make some specific recommendations for consideration by Congress and the Administration.

Last week marked the seventh anniversary of the massacre in Tiananmen Square on June 4, 1989 and the subsequent crackdown on pro-democracy students and workers across China. Most of the sanctions imposed against Beijing since that brutal event have been lifted, and I think it is fair to say that China's leaders have made rather rapid progress in shaking off the stigma of Tiananmen Square. They have aggressively sought China's acceptance and full integration into the international community as a great power -- despite an atrocious human rights record. Using access to China's markets and to investment opportunities, the Chinese government has largely insulated itself from effective international pressure to improve human rights.

The U.S. and other G-7 countries, lacking a coherent, multilateral approach for promoting human rights and the rule of law in China, have been subject to lobbying and manipulation as Beijing plays off one major trading partner against another. Though President Clinton delinked trade and human rights with the MFN decision in May 1994, China clearly has not. Beijing successfully used the prospect of a huge Airbus jet deal to silence the French government when Premier Li Peng visited Paris this past April: all references to human rights were deleted from the official toasts and speeches.

During months of intensive lobbying worldwide, China employed the carrots and sticks of trade and aid deals to line up votes at the U.N. Human Rights Commission in Geneva. In late April, a procedural motion was adopted by the Commission (by a vote of 27-20 with six abstentions), preventing a resolution mildly critical of China's human rights record from even being debated or voted upon. The Clinton Administration and the European Union deserve credit for cosponsoring the resolution, but its defeat underlines the urgent need for the G-7 leading industrial countries to develop a common human rights agenda and strategy that cannot be so easily undercut by Beijing's substantial economic clout.

U.S. Policy on China:

Mr. Chairman, in his speech on May 20, 1996 to the Pacific Basin Economic Council, President Clinton outlined a set of broad goals and objectives for U.S. China policy. He correctly noted that today, "China stands at a critical crossroads. Will it choose the course of openness and integration, or veer toward isolation and nationalism?...Our interests are directly at stake in promoting a secure, stable, open and prosperous China" that embraces and abides by international rules of behavior and "evolves toward greater respect for the basic rights of its own citizens." We certainly would not disagree with those broad goals; isolating China would be in no one's interest. But we would strongly challenge the President's assertion that the administration's "engagement" policy, whatever its other merits, offers a viable strategy for helping to bring about improvement in China's human rights practices. With his decision on May 31, 1996 to renew MFN unconditionally, the President has rejected the use of economic pressure to promote human rights. One must question what tools the Administration has left or whether it has simply abandoned any serious attempt to address human rights at all.

The Administration intends to replace pressure with "frank dialogue." But what does that mean in practice? Criticizing the detention of Wei Jingsheng without making any concrete effort to bring about international access to Wei and other prisoners? Asking for information on lists of prisoners without thinking through any mechanism by which the Chinese government's response can be independently verified? There is no meaningful bilateral dialogue on human rights now underway, nor does the Administration seem to be giving much thought to what such a dialogue could or should achieve.

The Administration seeks to downplay human rights as a point of tension in U.S.-Sino relations, while setting the stage for more frequent and higher level contacts between the U.S. It is possible that an improved "atmosphere" may somehow moderate Beijing's abusive treatment of dissidents. It is equally possible that improved relations with the U.S. will convince China that there is no cost to suppression of fundamental rights. We accept the premise that contact and diplomatic discussions can be useful. But again, toward what end? The State Department apparently refuses to use talks about a possible presidential summit -- probably the single most important political concession the U.S. can give to China -- to clearly define what it expects in terms of concrete human rights improvements by China *before* any such meeting can take place.

Finally, the Administration plans to increase trade with China and support Beijing's entry into the World Trade Organization (WTO), arguing that in the long term, "freer enterprise (will) fuel the hunger for a more free society." (Quote from the President's Pacific Basin speech.) But the Administration has also said it is opposed to any formal linkage between its decision on China's bid to join the WTO and human rights considerations, despite the fact that Beijing's observance of global trading rules is heavily dependent on its ability and willingness to enforce laws and carry out other basic human rights obligations.

Moreover, there is a fundamental contradiction in current U.S. policy. On intellectual property rights, the U.S. is willing to threaten limited, targeted trade sanctions of $2-3 billion, including increased tariffs on goods produced by state enterprises. These are the very kind of sanctions the Clinton Administration said in 1994 were legally questionable and practically infeasible to impose in response to severe human rights violations. (Ironically, an editorial in the state-run China Daily accused the U.S. of threatening tariffs over intellectual property rights as a "dirty trick" motivated by the failure of the U.S.-supported resolution on China at the U.N. Human Rights Commission.)

So what are we left with? In terms of human rights, the U.S. will focus on stimulating legal exchanges and legal reform in China -- a laudable enterprise, and later in my testimony I will offer an assessment of some recent legal reforms. But the State Department acknowledges that such efforts are in the very early stages of development and may have little impact on ending serious human rights abuses occurring right now.

Human Rights Developments in China and Tibet:

In the two years since the President's "delinking" decision, there has been no improvement in human rights in China and Tibet. Quite the contrary: in recent months, Chinese authorities have ordered increased surveillance of so-called "counter-revolutionaries" and "splittists" (Tibetans, Uighurs and other national groups) and given even harsher penalties for thus judged guilty of violating its draconian security laws. Just as China has largely succeeded in muzzling effective human rights criticism abroad, it has silenced most, if not all, of the important dissident communities inside China including political and religious dissidents, labor activists, and national minority populations. Their members have been exiled, put under house arrest, "disappeared," assigned to administrative detention, or subjected to economic sanctions and systematic discrimination in schooling and employment. Dissidents also continue to suffer criminal charges, long prison sentences, beatings and torture.

Without sustained, consistent international pressure on human rights, Beijing has little or no incentive to moderate or restrain its repressive policies.

China's behavior seems related, at least in part, to the government's development strategy that has stimulated inflation, unemployment, and the withdrawal of the social welfare safety net for millions of Chinese citizens. This has led to increasing disparities between income

levels and overall economic development in the southern and coastal areas and interior provinces, and between urban and rural areas. Corruption and higher levels of crime have added to the potentially volatile mix. In this environment, large numbers of strikes and labor stoppages, as well as peasant riots, have increased the government's and Communist Party's sense of insecurity and paranoia. Thus Beijing seems determined to crack down hard on any potential sources of instability or open political opposition.

China observers have noted that Deng Xiaoping's policies have created two separate but parallel Chinas. On the one hand, there is the "new China" of entrepreneurs, neon nightclubs, and luxury cars. But behind this bright facade is the "old China" of failing state-owned factories filled with angry workers; poor peasants in poverty-stricken rural areas; prisons where murderers and democracy activists are kept together; and an army and government of veteran revolutionaries can imagine no way to stability except through political repression. Will Deng's strategy of liberating economics while suppressing politics eventually lead to greater prosperity and openness, or will mounting internal pressures lead to a cycle of chaos and repression? This is the underlying question that must be addressed in devising policy towards China.

The Chinese government seems particularly sensitive at this time to the perceived threat posed by dissidents from different constituencies who might band together. It is also fearful of domestic critics building links with "hostile" organizations overseas, and even governments, to obtain support for alleged conspiracies against the government. This might help to explain the incredibly harsh fourteen-year prison sentence given to veteran pro-democracy activist Wei Jingsheng last December. It may also help explain Beijing's recent actions imposing further restrictions on freedom of expression and communications channels, such as access to the Internet and worldwide web.

Examples of recent Chinese government actions:

-- Police recently detained Wang Donghai and Chen Longde. They searched Wang's house and seized various documents and papers in the southern province of Zhejiang. Along with five others, they had signed and circulated a petition to the National People's Congress demanding an end to corruption, a reversal of the verdict against the 1989 student movement, and calling for the release of prominent political prisoners such as Wei Jingsheng and Wang Dan. A former leader of the 1989 movement, Wang Dan was detained in May 1995 in conjunction with a similar petition to the government circulated last spring, and has disappeared since then. Over fifty people were detained in conjunction with the 1995 petition campaign; more than twenty are still imprisoned.

-- On May 27, 1996 Bao Tong, former Communist Party official and top aid to party chief Zhao Ziyang, was released from prison in Beijing after serving a seven-year term for "leaking state secrets" but was immediately taken out of the city where he has been kept under house arrest west of Beijing. It is not yet clear whether and when he can return home, and what restrictions will be imposed upon him; his political rights remain suspended for another two

years as part of the original sentence. Bao Tong, in his mid-60s, suffered from serious medical problems while in prison but the authorities refused his family's many requests for his early release on medical parole -- as well as quiet appeals from the State Department and White House.

-- Persecution of released dissidents remains intense. One of them, Liu Gang, who served a six year prison sentence in labor camp, was released in June 1995. But he was under constant surveillance, required to give weekly "thought reports" to the police, forbidden to have contact with foreign reporters, and blackballed from both universities and job possibilities. The police told him the only profession open to him was that of a beggar. His family members and friends were also harassed and interrogated. Liu Gang finally escaped from China and came to the U.S. last month. We are delighted that the U.S. Attorney General made it possible for him to obtain emergency residency status here, but we are equally concerned about many formerly imprisoned activities who remain behind, living under unbearable circumstances.

-- In February 1996, Xinhua, the official Chinese news agency, announced new regulations on the Internet that puts the state in charge of "overall planning, unified criteria, classification management and promoting development" of international computer networks. The State Council must approve all interactive networks, and individuals and organizations using them must be registered with the police. Provincial security officials have also issued sweeping rules and restrictions aiming at severely limiting international computer links. In addition, Xinhua has announced it will supervise foreign wire services selling economic information in China, screening their reports for "false economic news and attacks on China."

-- Repression in Tibet has escalated during the last year. In a report we co-published with the Tibet Information Network in March 1996, entitled Cutting Off the Serpent's Head: Tightening Control in Tibet 1994-1995, we estimate that there are now more Tibetans in detention for political offenses than anytime in the last six years, a total of at least 600. Torture continues to be widespread and goes unpunished by the Chinese authorities. A new edict published in April 1996 is aimed at discrediting the Dalai Lama as both a religious and political leader, banning his photo both in monasteries and schools and in private residences. Several protests have taken place in recent weeks and Ganden, one of three main monasteries in Lhasa, was sealed off by the police. During an incident there on May 6, 1996 a number of monks were arrested and three were shot and wounded, one seriously. There is an unconfirmed report that two monks may have been killed. Fighting broke out at Ganden and monks threw stones when a group of Communist Party cadres attempted to banned all photos of the Dalai Lama in Buddhist temples. The government had earlier announced that all politically active monasteries would be closed, and that it was imposing restrictions on the number of new monks and nuns that could be ordained.

In a separate reported incident on May 14, 1996, at least eighty people, including thirty young nuns, were seriously injured by police beatings. Earlier mass arrests occurred in July 1995 in conjunction with the selection of the new Panchen Lama; at least thirty-two monks were

arrested and some were severely tortured. Only recently, after repeated denials, have the Chinese authorities admitted that Gendun Choekyi Nyima, the seven-year-old child identified as the reincarnation of the tenth Panchen Lama is, in fact, in official custody.

Legal Reforms:

In March 1996, the National People's Congress enacted some limited but potentially important legal reforms, adopting an Administrative Punishment Law and amending the Criminal Procedure Law (CPL) for the first time since 1979. The changes in the CPL, which take effect on January 1, 1997, would shift the presumption of innocence, requiring a verdict of innocence if there is insufficient evidence to convict; it would also impose more stringent limits on time in detention prior to formal arrest. The reforms would also permit a defendant access to a lawyer during interrogation and indictment. However, access to legal counsel is not allowed until after the "first interrogation" -- when the use of torture is commonplace -- and in cases where state secrets are involved, the investigating unit must approve a request to retain a lawyer.

But these new legal protections may be eroded by procedural defects, legal loopholes, and police ignorance, and a failure to vigorously press for their full implementation. For example, despite the legal guarantee that no organ or individual may interfere with the independence of the courts, there is nothing to prevent the Communist Party from doing so. Public security bureaus may still hold suspected criminals for up to one month before applying for judicial review and an arrest warrant.

On the positive side, the CPL does limit the power of the police to act without supervision. And the new Administrative Punishment Law, which comes into force on October 1, 1996, offers new protection to those subject to administrative punishment, such as the right to a hearing. It also attempts to rein in "rampant illegal fines and other disorderly penalties" given out by some local government authorities.

Clearly, pressing for further legal reforms, as well as the effective enforcement and implementation of those already adopted, should be a high priority for the U.S., the World Bank, private organizations of jurists, and other governments. But given the track record of Chinese officials for flagrantly violating existing legal protections and safeguards -- including those contained in China's constitution -- it would be a mistake to assume that steps towards building the rule of law will automatically lead to significant human rights improvements absent other forms of pressure.

Hong Kong:

At midnight on June 30, 1997, China will assume sovereignty over Hong Kong. Concern is growing among Hong Kong's citizens, the elected legislative council, and members of the business community about China's willingness to fulfill its commitments under the Sino-British Joint Declaration on Hong Kong of 1984. The Declaration promised that Hong Kong would

"enjoy a high degree of autonomy" after 1997. But in recent months, Beijing has threatened or actually taken steps towards overturning each of its obligations under the Joint Declaration. It has, among other things:

-- Declared its intention to repeal of key provisions of Hong Kong's Bill of Rights;

-- Announced that it will appoint a provisional legislature to replace the Legislative Council (Legco) elected last September, perhaps as early as the beginning of 1997, thus establishing a rival government and triggering a constitutional crisis in Hong Kong;

-- Called on the Hong Kong government to "discipline" RTHK (Radio Television Hong Kong) for failing to cooperate with the demands of the China-controlled Preparatory Committee, responsible for matters related to the transition to Chinese rule;

-- Stated that top civil servants will be required to take a loyalty test pledging their obedience to the laws enacted by Beijing's hand-picked legislature, although it has since stepped back somewhat from this position;

-- Threatened the independence of the courts in Hong Kong by putting in the hands of the appointed legislature power to confirm judges for the Court of Final Appeal that will replace the Privy Council, and limiting the number of foreign judges on the Court.

The U.S. has a direct stake in the future of civil liberties, human rights and democracy in Hong Kong. As stated in the United States-Hong Kong Policy Act of 1992, "The human rights of the people of Hong Kong are of great importance to the U.S....A fully successful transition in the exercise of sovereignty over Hong Kong must safeguard human rights in and of themselves. Human rights also serve as a basis for Hong Kong's continued economic prosperity." Congress has a crucial role in pressing the U.S. to give a higher priority to Hong Kong in the months ahead. We would urge, for example, the Senate to adopt a "sense of Congress" resolution in the coming weeks -- one year before the handover -- noting the recent ominous trends, especially the threat against Legco, and highlighting Beijing's obligations towards Hong Kong under the Joint Declaration and relevant international human rights conventions.

Recommendations for U.S. Policy on China:

The annual debate over MFN renewal provides a useful opportunity for Congress to scrutinize U.S. China policy, as well as to focus attention on China's horrendous human rights record.

Human Rights Watch/Asia has consistently taken the position that various forms of economic and political pressure are needed to promote human rights in China and Tibet. We believe the U.S. should act both on a bilateral basis -- given its unique role as a superpower and as China's largest single export market -- and in the context of a long-term, multilateral strategy shared by Beijing's other major trade and aiding partners.

Unfortunately, the Clinton Administration has virtually nullified the impact of any direct linkage between MFN and human rights, such as the attachment of human rights conditions on

MFN renewal. It has done so by undermining and then repudiating its own previous policy of linkage, following the President 1993 Executive Order outlining human rights conditions for MFN renewal which China clearly failed to meet. U.S. credibility on human rights, and other matters, was seriously damaged. However, other measures to exert economic and political pressure should be actively explored, including the following:

1) The U.S. should seek to limit the flow of World Bank funds to China for non-basic human needs projects by exerting its leverage on an informal basis (as it has in the case of Iran and previously, in the case of Vietnam) to prevent large infrastructure or project loans from reaching the Bank's Executive Directors for consideration. Issuing occasional token or abstention no votes on human rights grounds is insufficient. China now receives more money from the World Bank than any other country: in the fiscal year ending June 1996, it received approximately $2.9 billion in Bank funds. We welcomed the recent decision by the U.S. Export-Import Bank not to issue export credits for the Three Gorges dam, in light of both the environmental and human rights impact of the massive infrastructure project.

At the same time, the Administration should try to channel World Bank funds to help support constructive solutions to serious human rights problems with broad social implications in China, such as those affecting millions of exploited migrant laborers and the ill-treatment of children in state-run orphanages urgently in need of additional resources.

2) The Congress should insist on having a vote on U.S. support for China's bid to join the World Trade Organization. We believe that Congress should require the President to certify that China has implemented certain specific human rights and trade reforms, demonstrating Beijing's willingness to comply with global rules and standards, before he agrees to their WTO membership. Informally, the Administration has told China that its human rights practices are endangering prospects of persuading Congress to agree to WTO entry; it did this at the time Wei Jingsheng was put on trial and sentenced last year. This linkage should be made formal and specific. It is impossible to separate China's behavior as a reliable trading partner from its willingness to comply with universal human rights norms. A government that routinely violates its own laws to crack down on dissidents is equally willing and able to cheat on IPR agreements, fail to live up to contracts with foreign investors, or restrict business information on the internet. It is also possible that parliaments in other countries, for example in Europe, may impose similar conditions on their governments' vote on China's WTO membership, thus adding a crucial multilateral dimension to U.S. policy.

3) The Administration should propose that relations with China, and the future of Hong Kong, be on the informal agenda for discussion at the G-7 summit meeting in Lyon, France from June 27-29. There has been no consensus on China policy and human rights among the G-7 since the immediate aftermath of the Tianamen Square crackdown. As China goes through a critical political transition process, this is a strategic time to send coordinated signals. In addition, the future of the rule of law and democratic government is at stake in Hong Kong. The G-7 final communique or chairman's statement should include strong language calling for

significant improvements in human rights in China and Tibet, and full compliance with the Joint Declaration on Hong Kong.

In addition, we hope the G-7 will issue a joint demarche for the release of Wei Jingsheng, and will use the opportunity of this meeting to agree on a common, private human rights agenda with concrete benchmarks, such as restarting talks with the International Committee of the Red Cross and opening up Tibet to independent human rights monitors. All the G-7 should then agree to promote this agenda, using a combination of bilateral and multilateral tools. It is particularly important that the U.S. urge Japan to use its leverage with Beijing.

4) During his talks next month in Jakarta with the Chinese foreign minister about a possible summit meeting in the U.S. between President Clinton and President Jiang Zemin, or a potential visit to China by Vice President Al Gore, Secretary of State Christopher should make it absolutely clear that these meetings can take place only if there are meaningful steps taken by Beijing to improve human rights in China and Tibet. This should also be on the agenda for Anthony Lake's upcoming trip to Beijing. We are deeply concerned that in its eagerness to establish greater dialogue between Washington and Beijing, the Administration not trade away the substantial leverage and symbolic value of such high-level visits without receiving human rights concessions in exchange.

Chairman CRANE. Thank you, Mr. Jendrzejczyk.

Chairman CRANE. Next, we will hear from Mr. Gyari.

STATEMENT OF LODI G. GYARI, PRESIDENT, INTERNATIONAL CAMPAIGN FOR TIBET

Mr. GYARI. Mr. Chairman, thank you very much for this opportunity to testify. I am also, as a Tibetan, very grateful to the U.S. Congress for the strong bipartisan support that you have given to my people.

Mr. Chairman, for the last 36 years, I have remained a person without a home, not being able to go back to my home country. More than 1 million of my people—and we are only 6 million people—have died as a result of China's occupation.

We are a very religious people. More than 6,000 of our monasteries were destroyed. But in spite of all that, I am not here today to do China bashing, I am not here to ask you to isolate China. In fact, I think no one is talking about isolating China, as some of your colleagues mentioned.

Several months back, when the Dalai Lama met with President Clinton, I was honored to be there, and I remember very clearly His Holiness telling President Clinton that this very idea of isolating or containing China is, first of all, not relevant, is impractical, but is even immoral. Any individual has a right to prosper, a right to progress, so therefore, for any individual or nation to try to contain or try to isolate is not only impractical but immoral. So therefore, obviously, I am also not here to suggest that we isolate China.

In fact, Mr. Chairman, years ago, many of the Western nations were not willing to go near China. We, and particularly the Tibetan leader, the Dalai Lama, were calling, urging the Western leaders, 20 years ago, not to isolate China, but to try to bring China into the fold of this big family of human beings.

But here today, I want to mention to you, Mr. Chairman, that we heard from the administration, and we heard from business leaders, and it is very clear to all of us that your relationship with China, the relationship between the United States and China, is not working, and that relationship is very important. That relationship is not working in spite of the fact that China has been given MFN; that has not been taken away from her. In fact, every sanction that was there—I have been in this city for 6 years—I saw, one after the other, being lifted. In fact, you did everything the Chinese wanted. In fact, you made your leaders lose face.

The earlier panel talked about losing face. Somehow, this notion that only the Chinese have face to lose is something that I really cannot understand. I think that we, as respectable people—everyone has face to lose; no one wants to lose face. Mr. Chairman, I think Americans are very tolerant people, and I respect that. But I saw your Secretary of State go to Beijing, representing your Nation as the foremost foreign policy spokesperson, being made to lose face by the same business leaders who came to testify in front of the CNN cameras in Beijing, as if it is only the Chinese who lose face and not the United States.

I think it is very important that the United States, the only remaining superpower, also not lose face. I think your not losing face is very important because we believe that America represents

some of the ideas that we also respect, including freedom and democracy.

So, Mr. Chairman, I hope that together, the business leaders, the Congress and this administration will also make sure that, while not making China lose face, you will not lose your face. I think that that is very important.

Let me go back to say that last week, your colleagues in the other house, in the Senate, also held hearings, and some of us were fortunate to be able to testify there. Secretary Winston Lord also testified, and in answer to Senator Moynihan's question about the situation in Tibet, Secretary Winston Lord expressed great concern about the situation, for which I am very grateful. Also, I am very grateful that he mentioned Tibet today. But then, he replied by saying that there is no leverage that we can use, and that made me think, because we are told that if you give all the things that China wants, then you will have leverage. This is what I was led to believe 2 years before by the President of the United States, that we are going to give the Chinese MFN, we are going to de-link MFN with human rights because we are going to use other vehicles, and this is going to make it possible for us to be able deal with the Chinese in a more reasonable manner.

So that 2 years after, when we hear the administration tell us that they have no leverage, I must say that this policy has failed, Mr. Chairman, and I think we now have to look for alternate ways of how you want to deal with China.

Therefore, I strongly feel that we must give serious thought to some of the ideas that have been expressed today. In the past, we at the International Campaign for Tibet have not gone to the extent of asking for revocation of MFN, because I do agree that MFN is a double-edged sword. We do agree that it also harms a segment of the Chinese people that we do not want to harm. We also agree that it can harm a segment of the people in Taiwan and Hong Kong, and obviously, that is not our intention. So therefore, in the past, we have always favored a middle path. We feel that there are ways outside of the two extremes—revoke it completely or give it unconditionally, but condition it so that some of the issues that we are all concerned about will be addressed.

Therefore, in the next 3 weeks, we are going to look very closely to see if there is another alternative that we can ask for. Not finding one, of course, I think the only alternative that will be left is to maybe even support revocation, but at this point, we are still creatively wanting to see if the Congress can give leadership by coming up with a solution which can deal with the problems that we want to deal with, but at the same time, save MFN.

This is our position at this stage.

However, it is also very important, Mr. Chairman, that people like yourself take into consideration all the views that have been discussed here today and, if possible, even conduct more hearings, because your relationship with China is crucial for the 21st century, for all of us. It is not enough that we have—with all respect—this is a capitalist society, and I respect when the business leaders come here and say that they can make tons of money. It is very good; we should respect that.

I also respect when Members of Congress say they have to support MFN because they have electorates in their States, in their districts. That is also absolutely right because that is what you are here for; you are here to represent the people who have voted for you. But, I do not find it acceptable when some business leaders or, for that matter, even some leaders, when they tell us that they are doing all of this, giving China MFN, giving China everything, because it is good for China's people, or it is good for the Tibetan people. It certainly is not.

I know it is not good for the Tibetan people because we are going through a period in Tibet just like the Cultural Revolution period. As I sit here and testify before you, our people are being arrested, our monks are being shot, and our monasteries have once again been closed. We are not even allowed to keep in our homes photos of the Dalai Lama, who is our supreme religious leader.

The second-highest leader of Tibetan Buddhism, Panchan Lama, a young boy, 7 years old, is being detained by the Chinese government, and the politburo of China have selected their own Panchan Lama.

So all of these things are going on, and if anyone tells me that the relationship with China is great, and that what we are doing is for the good of the Tibetan people or for the Chinese people, that I cannot accept.

Also in the last several days, on the Senate side, some Members even brought up the name of Wei Jingsheng, one of the greatest human rights activists in China, who is still under detention, using his name to justify giving MFN. I think such a thing is immoral. This person is still suffering. This person is still under detention. And to use something that he is supposed to have said to justify giving MFN to China I think is not right.

I can tell you sir that, yes, there are dissidents who do favor giving MFN, and they have some valid reasons. But, I also know through a very reliable source that there are many members of the central Committee of the Communist Party of China—there are at least a few people that I know of who are members of the Standing Committee of the National People's Congress who want you to be tough. I am talking about people who are members of the Communist Party of China. Obviously, I will not disclose their names, because it would be like sending them to 16 years of imprisonment.

So therefore, you have to look from every angle. This is very important for all of us. We should not just be guided by greed, because it is bottomless greed. We should also not be guided by short-term interests by political leaders or politicians. This is something that is very crucial to the relations of the United States with China.

China is important. No one disagrees with that. It is so important that you should really not rush through and just be guided by either the businesspeople or, for that matter, not even by those of us on this panel. But you should give it very serious thought.

I do have my written statement, which I have submitted for your record, and I would also like to join with Human Rights Watch Asia and say that we also strongly believe that even China's admission to the WTO should be discussed, and I think that this

Congress should definitely make it a condition, before China is allowed to join, that some of the fundamental issues that we have discussed here are respected by the Chinese.

Then, there is also some talk about calling things not "MFN" but "NTR" or "normal trade relations." It does not matter—whatever you want to call it. Even if it is normal trade, under the present circumstances, I think China does not deserve it, even if you want to call it "normal trade," because if I understand what the United States stands for, under the present circumstances, even if it is "normal" trade relations, I do not think she deserves it.

And then, let us not try to make it unimportant. Some people say, "That is not important; let them give it." It is important. It is important, and therefore you have these hearings all the time. It is important because the American corporate world is spending so much time trying to make sure that China gets MFN. MFN is very important for China right now, so your taxpayers are keeping alive the world's last remaining Communist authoritarian government on this planet, and that government is keeping thousands of my people in prison, they are torturing my people, they are closing down my monasteries, and they are also torturing innocent Chinese citizens.

Today, you can read in the newspaper that one of the few Chinese party members who dared to speak out has been officially sentenced, but is not allowed to go home. Why are they afraid of this one person? Why are they afraid of this young, 7-year-old Tibetan boy? It clearly shows that there is something a bit wrong there, sir.

With that, I know that I am running out of time, but I do wish to thank you once again for this opportunity. you have a very important role to play, and I hope that you will be guided by farsightedness and wisdom and will take all matters into consideration before the Subcommittee makes up its mind.

Thank you, sir.

[The prepared statement and attachment follow:]

Testimony of Lodi G. Gyari
President, International Campaign for Tibet

before the Subcommittee on Trade
House Ways and Means Committee
Hearing on U.S. - China Trade Relations and
Renewal of China's Most Favored Nation Status

Tuesday, June 11th, 1996

Thank you for providing me this opportunity to testify before you on the situation in Tibet and on Most Favored Nation (MFN) trading status for China.

My name is Lodi Gyari and I was born in Nyarong in the Tibetan province of Kham. I am President of the International Campaign for Tibet, a Washington-based, non-governmental organization dedicated to the promotion of human rights and democratic freedoms for the people of Tibet. I am also Special Envoy of His Holiness the Dalai Lama and have served in both the Tibetan Parliament and Cabinet in Exile in Dharamsala, India.

I would like to once again express my deep appreciation to the U.S. Congress for its tremendous leadership on the issue of Tibet. The numerous resolutions passed by you and your colleagues condemning human rights violations in Tibet and providing financial and other assistance to Tibetan refugees have given significant encouragement to the Tibetan people. It is fair to say that the Tibetan people owe a great debt of gratitude to the U.S. Congress for supporting their ongoing struggle for basic rights and for recognizing that the plight of the six million Tibetans is an important American interest.

Mr. Chairman, given that this Subcommittee will be considering President Clinton's request for a MFN waiver for China, I regretfully must report to you that there have been no positive developments in China's policies towards Tibet over the past year and that the human rights situation in Tibet has in fact deteriorated.

Recent Crackdown

The most severe wave of repression since martial law was imposed in 1989 is now occurring in Lhasa, Tibet's capital, as a result of a drive by Chinese authorities to remove all photographs of the Dalai Lama from monasteries, schools, businesses and private homes. This campaign against His Holiness began in April of this year when an announcement was made that monasteries and temples would be banned from displaying photos of the Dalai Lama. Pictures of the Dalai Lama had been allowed since 1979 as part of a Chinese decision to allow religious expression in Tibet.

According to news reports and human rights organizations, two truckloads of injured Tibetans were taken to hospitals in Lhasa in mid-May by a police escort. It is presumed

that these Tibetans were injured when they resisted the imposition of the photo ban. In another incident earlier last month at Ganden Monastery, located near Lhasa, at least three monks were shot and wounded and another monk was severely beaten by police sent to enforce the ban. The number of monks arrested during this incident is said to vary from 7 to 70. There are reportedly only a few monks left at the monastery and Chinese officials have announced that they plan to keep it sealed for at least 2 to 3 months.

Chinese police have also begun sweeps of hotels, restaurants and shops in Lhasa, ordering that photos of the Dalai Lama be taken down. Reports also indicate that officials have conducted house to house searches to inspect whether pictures of the Dalai Lama were on display. This crackdown is part of an ongoing campaign by the Chinese government to restrict religious expression in Tibet and to discredit the Dalai Lama, not only as the political leader but also as the spiritual leader of the Tibetan people.

Panchen Lama

Just two weeks ago, the Chinese government admitted for the first time that they are holding Gedhun Choekyi Nyima, the 7 year old boy named by the Dalai Lama as the 11th Panchen Lama, the second highest ranking religious figure. The young boy, believed to be the "world's youngest political prisoner", and his family have been held in a secret location in China for over a year. In total disregard of the Tibetan people's traditions and beliefs, the Chinese Government announced in November 1995 that they had found the "real" Panchen Lama and have since attempted to impose their selection on the Tibetan people.

Restrictions on Religious Practice

In addition to China's abduction of the Panchen Lama, there has been a heightened campaign by the Chinese Government to repress the spread and practice of Buddhism in Tibet. Authorities have set a limit on the number of monks and nuns in all monasteries and have halted the unauthorized rebuilding of monasteries destroyed during the Cultural Revolution. Beijing has also vowed to close problematic monasteries and jail "separatist" monks and nuns. New restrictions have also been imposed on youths joining monasteries and government officials have been prohibited from practicing religion.

Political Prisoners

There are close to 700 documented political prisoners in Tibet today. This does not account for the hundreds, maybe thousands, of prisoners whose names have not been determined. These political prisoners include hundreds of monks and nuns who have been detained solely for expressing their religious and political beliefs. One political prisoner, Ngawang Choephel, was arrested last year while making a documentary video about traditional Tibetan music. Ngawang did not live in Tibet and was visiting from India in order to conduct his study. In 1992-93, he studied at Middlebury College in Vermont as a Fulbright scholar.

Population Transfer

The greatest concern of the Tibetan people continues to be the tremendous influx of Chinese settlers into Tibet. Many of the settlers come to Tibet as a result of economic and other incentives provided to them by the Chinese Government. In addition, the prospect of economic opportunity is luring Chinese entrepreneurs to Tibet's towns and cities. As a result of this influx, the number and influence of Chinese in Tibet is marginalizing the Tibetan people politically, economically and culturally.

Negotiations

His Holiness the Dalai Lama has stated that the only way to bring about a peaceful resolution to the situation in Tibet is through a mutually-acceptable negotiated settlement between the Chinese and Tibetan people. To this end, he has issued several forward looking proposals, including the Five Point Peace Plan and the Strasbourg Proposal, in which he has agreed not to raise the issue of independence during negotiations. However, the Chinese Government has refused to respond positively to his proposals and continues to disregard the Tibetan people's fundamental rights.

At this time, I would like to submit for the record the testimony of His Holiness who recently appeared before the Foreign Affairs Committee of the Danish Parliament to express his views about the current situation in Tibet and about the process of change which is occurring in China.

Clinton Administration Policy on MFN for China

Mr. Chairman, when President Clinton decided in May 1994 to abandon his policy of linking human rights conditions to renewal of China's MFN status, he threw away a powerful tool in the United States' arsenal to press for significant improvements in human rights in China and Tibet. We at the International Campaign for Tibet were greatly disappointed by the President's decision to back down from a policy which could have produced results, had he stuck with it. If any one country has the ability to influence China's policies towards Tibet, it is the United States.

Prior to the President's decision two years ago to de-link human rights and trade, we had been informed that a very high level Chinese delegation made a low profile visit to Washington, headed by a former Chinese Ambassador to the U.S. During their visit, this delegation expressed its concern about the condition in the President's Executive Order of 1993 which called for the Chinese to "preserve Tibet's distinct religious and cultural heritage" in order to continue to receive MFN from the US. The delegation reportedly sought suggestions on how they could meet the minimum requirement of this condition regarding Tibet in order to not jeopardize their MFN status. This episode demonstrates that until the President blinked and it became clear that he would continue to provide MFN status to China whether or not they met the conditions in his Executive Order, the Chinese were prepared to make the necessary improvements in Tibet. Perhaps the situation in Tibet would not be as bleak as it is today if the President had stuck to his policy. This lost opportunity has had dire consequences in Tibet where over the past two year the Chinese have felt more emboldened that ever to repress the Tibetan people.

It is imperative that we not forget that today it is China who is benefiting from its trade relationship with the U.S. and that they would still go to great lengths to ensure the continuation of their MFN status. As Members of this Subcommittee know, the Chinese enjoy a $34 billion trade surplus with the U.S. While we have never advocated revocation of MFN for China, we do believe that trade leverage can be used as an effective instrument for bringing about progress on human rights in China and Tibet. Therefore, we have in the past supported the efforts of Congress to use the annual renewal of China's MFN status to attach conditions on this renewal, such as calling for the preservation of Tibet's unique culture and religion and supporting negotiations between the Tibetan Government in Exile and the Chinese government on the status of Tibet.

In terms of this year, we favor using renewal of China's MFN status and other means of leverage, such as China's entry into the World Trade Organization, to press for significant improvements in human rights conditions in China and Tibet. We believe it is time that U.S. leverage be used effectively with China In the last two years, every sanction on the Chinese government has been lifted and yet we haven't seen any positive response from China. Given the fact that the MFN issue has not been handled well by the Administration, we look to the Congress to put forward a trade policy with China that will achieve results. The U.S. has enormous economic leverage with China by which to promote one its most fundamental interests -- namely the observance of human rights and the spread of democratic freedoms -- and we strongly believe that the U.S. should use this leverage.

In addition, without the rule of law, China cannot be counted on as a stable trading partner for the U.S. and therefore it is in the U.S. economic interest to encourage democratic growth in China. I have always urged the leadership of corporate America to not simply lobby on behalf of the Chinese government, but to work with us, with the Congress and with the Administration so that together we can bring about fundamental change in China. Our vision of China is one that is governed by the rule of law and which will not only guarantee human rights for the Tibetan people but also the protection of American business interests. And it is my belief that a China that is governed by a rule of law -- with copyrights and human rights respected -- is in everyone's interest.

Trade and Human Rights

The Chinese Government understands what the Clinton Administration has failed to appreciate -- that trade can be used to promote a country's interest. For example, during this year's session of the United Nations Commission on Human Rights in Geneva, the Chinese not only succeeded in blocking consideration of a mildly-worded resolution on human rights conditions in China but they also put pressure on African and Asian delegations to vote in their favor so that development aid would not be withdrawn. The Chinese have also cleverly manipulated the economic greed of some Western nations by using access to the Chinese market as bargaining tool. It is widely known that during the Commission's debate over the China resolution, a certain European country was offered a lucrative Airbus contract which totally silenced that nation from participating in the debate. It also served to weaken the multilateral effort to win approval of the resolution. So while the Clinton Administration has failed to use trade as means to advocate human

rights, the Chinese have demonstrated that you can link economic and human rights considerations for sinister purposes.

In 1994, after the President reversed his China MFN policy, we were given assurances that the Administration remained committed to helping the Tibetan people and to supporting negotiations between the Dalai Lama and Chinese leaders. However, since that time, the Administration has yet to develop and maintain a policy that will pressure the Chinese to respect the rights of Tibetans. In fact, when President Clinton announced his intention to grant unconditional renewal of MFN for China on May 20th of this year, he failed to even mention Tibet or his concerns over the recent crackdown there in his speech. He also gave no indication of how their policy of "comprehensive engagement" with China, which includes granting unconditional renewal of MFN, is helping to improve the situation in Tibet today. This is deeply disappointing to the Tibetan people and to the many supporters of the Tibetan cause in this country and in substance it differs very little from President Bush's policy of "constructive engagement".

Conclusion

Mr. Chairman, the United States' policy of constructive and comprehensive engagement with China has not brought any relief to the Tibetan people.

It is clearly a difficult time in U.S. - China relations as a result of disagreements over Taiwan, intellectual property rights, weapons proliferation and human rights. In addition, Deng Xiaoping's impending death has added an element of uncertainty in China's internal political situation. But, contrary to what China's apologists would like us to believe, Sino - U.S. relations are at a critical stage not because of a tough U.S. policy but rather because the U.S. has been weak when it comes to sticking to its policy towards China. Because the Chinese have seen the U.S. back down on efforts to promote human rights, they do not believe that they will face a penalty for their repressive actions in Tibet. As a result of the increasing number of Chinese settlers moving into Tibet and the worsening human rights situation in Tibet, the Tibetan cause cannot wait long for the U.S. and the international community to take a strong and principled stand on human rights. We urge the Congress and the Clinton Administration to make clear to the Chinese government that unless there is a clear improvement in its human rights practices, China cannot have the relationship it wants with the United States. We also urge you to take the long view of Sino - U.S. relations and stability in China and to not be guided by self-styled, profit-motivated China specialists.

In order to help bring an end to the egregious human rights violations perpetrated by the Chinese Government against the Tibetan people, we recommend that the United States should adopt the following course of action:

- raise at the highest levels in the Chinese Government your strong concern about the recent crackdown in Tibet. We have kept the Administration fully informed about the deteriorating situation in Tibet and I can say from my personal experience that there are many people in the Administration who are deeply concerned about Tibet. Despite this, the Administration has yet to issue a public statement of concern about the recent escalation of repression in Tibet. We are very concerned that the Administration is dragging its heels while the suffering in Tibet intensifies and we would be very grateful if

Members could put pressure on the State Department to make public what they plan to do about the current situation in Tibet. We also ask Members to express their outrage over recent events in Tibet during debate about China's MFN status on the House floor;

- use economic leverage, whether it be China's Most Favored Nation trading status or China's entry into the World Trade Organization, to pressure China to improve its human rights record in China and Tibet;

- support multilateral efforts calling on the Chinese to allow access for human rights monitors and the press into Tibet, for example by including Tibet on the agenda of the upcoming G7 Summit in Lyon, France;

- establish a Special Envoy on Tibet within the Administration to help streamline U.S. policy towards Tibet, and in particular to help push for a negotiated settlement between His Holiness the Dalai Lama and the Chinese Government;

- raise concerns about the status of and the human right situation in Tibet at every opportunity with the Chinese leadership.

Thank you again, Mr. Chairman, for this opportunity to testify before you today.

STATEMENT BY HIS HOLINESS THE DALAI LAMA TO THE FOREIGN AFFAIRS COMMITTEE OF THE FOLKLETINGETS UDENRIGSUDALG, DENMARK

Hearing on Tibet
Copenhagen, May 13, 1996

Mr. Chairman, Honourable Members of Parliament,

It gives me great pleasure to address you today, at the opening of this hearing on Tibet. This hearing comes at a crucial time. Since the lifting of martial law in May 1990, repression and political persecution have continued in Tibet and have lately reached a new peak. Observance of human rights in Tibet has, sadly, not improved. On the contrary the Chinese government has intensified repression. This has also been documented in reports by international human rights organisations. I am confident that other informed experts invited to this hearing will also corroborate the grim developments in Tibet.

Violations of human rights in Tibet have a distinct character. Such abuses are aimed at Tibetans as a people asserting their own identity and their wish to preserve it. Thus, human rights violations in Tibet are often the result of institutionalised racial and cultural discrimination. If the human rights situation in Tibet is to be improved, the issue of Tibet should be addressed on its merits. It should be seen as distinct from the overall situation in China. Undoubtedly, the Chinese in China suffer from human rights abuses, but these abuses are of an entirely different nature.

In Tibet my people are being marginalised and discriminated against in the face of creeping Sinicization. The destruction of cultural artefacts and traditions coupled with the mass influx of Chinese into Tibet amount to cultural genocide. The very survival of the Tibetans as a distinct people is under constant threat. Similarly, the issues of environmental destruction and contamination, which have serious ramifications beyond the Tibetan plateau, and economic development must be addressed specifically with regard to Tibet. These problems are also different from those faced in China.

It is encouraging to note the growing concern being shown for the human rights situation in Tibet by many governments and NGOs around the world. But human rights' violations, environmental degradation and social unrest in Tibet are only

the symptoms and consequences of a deeper problem. Fundamentally, the issue of Tibet is political. It is an issue of colonial rule: the oppression of Tibet by the People's Republic of China and resistance to that rule by the people of Tibet. This issue can be resolved only through negotiations and not, as China would have it, through force, intimidation, and population transfer.

This hearing is also significant because of the process of change that is taking place in China. It offers a historic opportunity for Denmark and other members of the international community to reassess their policy towards China, in order both to influence and to respond to the changes that are taking place in that country. With regard to Tibet I am convinced that the next few years will be crucial in bringing about honest negotiations between us and the Chinese government. Such negotiations are the only way to promote a peaceful and comprehensive resolution of the Tibetan question.

It is undoubtedly in the interest of the Chinese people that the present totalitarian one-party state gives way to a democratic system in which fundamental human' rights and freedoms are protected and promoted. The people of China have clearly manifested their desire for human rights, democracy and the rule of law in successive movements starting in 1979 with the 'Democracy Wall' and culminating in the great popular movement of the spring of 1989.

China needs human rights, democracy and the rule of law. These values are the foundation of a free and dynamic society. They are also the source of true peace and stability. A society upholding such values will offer far greater potential and security for trade and investment. A democratic China is thus also in the interest of the international community in general and of Asia in particular. Therefore, every effort should be made not only to integrate China into the world economy, but also to encourage her to enter the mainstream of global democracy. Nevertheless, freedom and democracy in China can be brought about only by the Chinese themselves and not by anyone else. This is why the brave and dedicated members of the Chinese democracy movement deserve our encouragement and support.

Democracy in China will have important consequences for Tibet. Many of the leaders of the Chinese democracy movement recognise that Tibetans have been ill treated by Beijing and believe that such injustice should be redressed. Many of them openly state that Tibetans should be granted the opportunity to express and implement their right to self-determination.

In the final analysis it is for the Tibetan and the Chinese peoples themselves to find a just and peaceful resolution to the Tibetan problem. Therefore, in our struggle for freedom and justice I have always tried to pursue a path of

nonviolence in order to ensure that a relationship based on mutual respect, friendship and genuine good neighbourliness can be sustained between our two peoples in the future. For centuries the Tibetan and the Chinese peoples have lived side by side. In future, too, we will have no alternative but to live as neighbours. I have, therefore, always attached great importance to our relationship. In this spirit I have sought to reach out to our Chinese brothers and sisters in the United States, Europe, Asia and Australia.

Furthermore, in my efforts to seek a negotiated solution to our problem, I have refrained from asking for the complete independence of Tibet. Historically and according to international law Tibet is an independent country under Chinese occupation. However, over the past fifteen years I have adopted a "middle-way" approach of reconciliation and compromise in the pursuit of a peaceful and negotiated resolution of the Tibetan issue. While it is the overwhelming desire of the Tibetan people to regain their national independence, I have repeatedly and publicly stated that I am willing to enter into negotiations on the basis of an agenda that does not include the independence. The continued occupation of Tibet poses an increasing threat to the very existence of a distinct Tibetan national and cultural identity. Therefore, I consider that my primary responsibility is to take whatever steps I must to save my people and their unique cultural heritage from total annihilation.

Moreover, I believe that it is more important to look forward to the future than to dwell in the past. Theoretically speaking it is not impossible that the six million Tibetans could benefit from joining the one billion Chinese of their own free will, if a relationship based on equality, mutual benefit and mutual respect could be established. But, if China wants Tibet to stay with her, it is up to China to create the necessary conditions. The reality today is that Tibet is an occupied country under colonial rule. This is the essential issue which must be addressed and resolved through negotiations.

Unfortunately, the Chinese government has yet to accept any of the proposals and initiatives we have made over the years and has yet to enter into any substantive negotiations with us. Meanwhile, they continue to flood Tibet with Chinese immigrants, effectively reducing Tibetans to an insignificant minority in their own land. In fact some of my friends call this China's 'Final Solution' to the Tibetan problem.

Tibet - an ancient nation with a unique culture and civilization - is disappearing fast. In endeavouring to protect my nation from this catastrophe, I have always sought to be guided by realism, moderation and patience. I have tried in every way I know to find some mutually acceptable solution in the spirit of reconciliation and compromise. However, it has now become clear that our

efforts alone are not sufficient to bring the Chinese government to the negotiating table. This sad state of affairs compels me to appeal to your Government and the international community for urgent intervention and action on behalf of my people.

In the first place, the true nature of China's rule over Tibet must be understood. China's leaders have for decades, even before the Communist revolution, propagated a false and self-serving version of the history of Tibet and of Tibet-China relations. Tibet's historical independence and its rich cultural and spiritual tradition have been entirely distorted to justify China's invasion, occupation and suppression of Tibet. The international community, and even the Chinese people, still does not fully comprehend the extent of the destruction, suffering and injustice experienced by the Tibetans under Chinese rule. Today the Chinese people, especially the intellectuals, closely follow what happens outside China. The Chinese authorities are no longer able to isolate the population from outside sources of information. It is therefore immensely important that governments and non-governmental organisations in democratic countries discuss all aspects of the Tibetan issue, from the historical relations between Tibet and China to the current violations of human rights, openly and honestly.

Secondly, China's leaders must be made to realise that the question of Tibet will cause ever increasing problems to China domestically and internationally, unless it is resolved to the satisfaction of both China and Tibet through earnest negotiations, in which all issues can be discussed with honesty and candour.

Thirdly, we need governments of democratic countries to continue to urge the Chinese authorities to respect human rights in Tibet and to enter into serious negotiations with us. We appeal for persistent and concerted efforts by the international community in bringing about direct and meaningful negotiations.

Fourthly, in their contacts with leaders and members of the democratic movement in China and in exile, governments of democratic countries should make clear their expectations with regard to China's future conduct towards Tibet. Now is the time for Chinese democrats to make commitments in this respect.

On our part, we Tibetans will continue our nonviolent struggle for freedom. My people are calling for an intensification of the struggle, and I believe they will put this into effect. But we will resist the use of violence as an expression of the desperation which many Tibetans feel. As long as I lead our freedom struggle, there will be no deviation from the path of nonviolence. However, my people need hope and encouragement. They will find this in the support of the

international community, if they can see effective and concerted action on the issue of Tibet.

I remain committed to negotiations with China. I have made proposals in this regard, which are contained in my Five Point Peace Plan (1987) and the proposal I made at the European Parliament in Strasbourg in 1988. These proposals were very well received internationally, and they can still form a rational basis for negotiations. But since China has chosen to reject them, I have stated, and I reiterate today, our willingness to start negotiations with China without any preconditions. I call on all democratic countries of the world to intensify their support for this position. And I extend to China's present and future leaders an invitation to open negotiations as soon as possible in the interests of both the Tibetan and Chinese peoples.

Chairman CRANE. Thank you, Mr. Gyari.

Chairman CRANE. We thank you all for your testimony, and all written statements will be made a part of the permanent record as well. Thank you for appearing today.

Our final panel includes Dianne Sullivan, Daniel O'Flaherty, Eugene Milosh, and Martin Duggan.

If you could each try to summarize in 5 minutes, all printed statements will be made part of the permanent record, and ladies first.

STATEMENT OF M. DIANNE SULLIVAN, DIRECTOR OF TRADE POLICY, NATIONAL ASSOCIATION OF MANUFACTURERS

Ms. SULLIVAN. Mr. Chairman, my name is Dianne Sullivan, and I am the director of trade policy for the National Association of Manufacturers. It is my great pleasure to be here, on this side of the table, addressing the Trade Subcommittee.

The China issue always draws a debate, and this year is no exception. The NAM is glad for the opportunity to express its views to you today.

The National Association of Manufacturers supports the extension of MFN status to China. Indeed, the NAM would like to see an end to these annual debates and the granting of permanent MFN status to China.

I am here because U.S. industry believes it is important to describe the complexity of our economic and commercial relations with China and the stake that U.S. business has in this market.

To that end, the NAM conducted a survey, the results of which have just been released in a report subtitled, "MFN: The Need for Normal Commercial Relations." This report is being circulated on the Hill today, and the NAM believes you will find it useful.

This report gives texture and detail to two specific points. Number one, trade with China is important to the U.S. economy, and number two, American business is a positive force in China.

As you well know, we live in a globalized economy today, and much of our potential for growth lies outside of our borders. In 1970, the value of trade equalled just 13 percent of our gross domestic product. That figure exceeded 30 percent in 1995 and is continuing to grow.

Exports themselves support 15 million workers in this country. Exports are critical to our economy and matter to the average American worker and average American company far more than most people realize.

Two recent reports produced jointly by the research arm of the NAM and the Institute for International Economics have shown that wages are on average 15 percent higher, benefit levels are 37 percent higher, productivity is 40 percent higher, companies' survival rates are 10 percent better, and job growth is 17 to 18 percent higher in exporting plants. This applies to small and medium-size companies as much as it does to the Motorolas, Caterpillars, and Boeings of this country.

For example, on page 13 of our report, you will see a survey entry from Clarcor, Incorporated in Rockford, Illinois. This company, with 2,400 employees and 4 PRC nationals employed in China, manufactures heavy-duty engine filters for heavy equipment

and responded positively that: "Working with the Chinese has been productive. They are dependable trading partners who have lived up to all their commitments in a timely fashion."

The importance of importing should not be ignored, either. Imports give U.S. consumers broad and varied exposure to a wide variety of reasonably priced goods and continually prompt our entrepreneurs to keep up competitively.

Nowhere are our trading opportunities better than they are currently in the Asian Pacific region, and within the region, the greatest potential obviously lies in China. The Chinese economy is growing at a rate of 8 to 10 percent annually, and economic output is expected to reach $10 trillion by early next century.

In the last 5 years, U.S. exports to China have grown annually on average by 22 percent, or two and a half times the total U.S. export growth rate. Granted, U.S. exports to China, at $11.7 billion in 1995, represented less than 9 percent of China's total exports, but that does not suggest that we should therefore throw up our hands and walk away from China. Instead, we should be poised to take advantage of increasing consumer demand and should be engaged with China to better push for more and more market access.

It is true that our trade with China is currently out of balance, but authoritative analysis has shown that the deficit figure is overstated, perhaps by as much as 50 percent. That figure does not necessarily reflect the extent to which an economy is closed. For example, it is interesting to note that China has attracted more foreign investment in the last 5 years than Japan has since World War II. In addition, the deficit number by itself fails to demonstrate that there has been a major production shift throughout Asia.

Not only is trade with China in the U.S. national interest, but American companies contribute to improved human conditions in China. Our report contains many examples of this. And if you will take a look at this to see that U.S. company presence in China has contributed to the development through employment and otherwise, of a whole new enlightened and consumer-oriented Chinese middle class, and we hope that our continued presence there will ensure its existence.

To close, when we are speaking of restricting MFN, what we are really talking about is unilateral sanctioning. Unilateral sanctions cause difficulties and instability for U.S. business and our workers, not to mention the Chinese workers employed in China by our companies. Any restrictions are sure to bring retaliation and will ensure solely to our competitors' benefit. Rather than shooting ourselves in the foot, we should aim to develop more areas of common interest with the Chinese and continue through varying means to support and develop stable bilateral commercial ties.

Mr. Chairman, international trade is here to stay. So is development in China. It is our responsibility to remain engaged with the Chinese on a consistent and stable basis.

Thank you for this opportunity to testify.

[The prepared statement and attachments follow:]

Testimony of
M. Dianne Sullivan
Director of Trade Policy
The National Association of Manufacturers
June 11, 1996

Mr. Chairman. My name is Dianne Sullivan, and I am the Director of Trade Policy for the National Association of Manufacturers (NAM). I would like to thank you for organizing this important and timely hearing and for giving us this opportunity to express our views.

The NAM supports the extension of most-favored-nation status ("MFN") to China; indeed, the NAM would like to see an end to the annual debates over this matter and the granting of permanent MFN status to China. U.S. industry believes it is important to understand the complexity of our economic and commercial relations with China and the stake that U.S. business has in this market.

To that end, the NAM has just released a report, subtitled *MFN: The Need for Normal Commercial Relations*. This report is based on the results of a member company survey and gives texture and details to two specific points:

FIRST, trade with China is important to the U.S. economy, and

SECOND, American business is a positive force in China.

INTERNATIONAL TRADE: THE ENGINE OF JOBS AND STABILITY

TRADE GENERALLY

We live in a globalized economy today. There is no question that business is an international affair. Where once our economy was largely self-contained, it is now interdependent with the economies of the rest of the world.

In this post-Cold War era, U.S. national security and economic security have become distinctly intertwined. Trade, while it has not replaced other foreign policy considerations, has certainly become, in its own right, a major foreign policy issue.

Not only would it be difficult, practically speaking, to disengage from the global economy, but it would be foolish. Much of our potential for economic growth lies outside our borders. The United States comprises only 4 percent of the world's population and we are at near-zero population growth. Future opportunities are really coming, in large part, from the other 96 percent of the world, and we must continue to reach for them if we intend to preserve and expand our world leadership position. (See Chart A.)

Statistically, it is clear that international trade is an increasingly integral part of the U.S. economy. In 1970, the value of trade equaled just 13 percent of the U.S. gross domestic product (GDP). That figure exceeded 30 percent in 1995, and is continuing to grow. Imports have given U.S. consumers broad and varied exposure to a wide array of reasonably priced goods, and continually prompt our innovators to keep up competitively. Exports support 15 million workers in this country. Millions of other workers, whose jobs are not directly or indirectly supporting exports, also benefit from working for companies whose success and fitness have been noticeably improved by retooling to export. In fact, two recent reports, *Why Exports Really Matter!* (1995) and *Why Exports Matter: More!* (1996), document that exporting matters to the average American worker and average American company far more than most people realize, because:

- wages in export plants are on average, 15 percent better;
- benefit levels are 37 percent higher;
- productivity is 40 percent greater;
- exporting improves company survival rates by 10 percent; and
- job growth is 17-18 percent greater.

According to the U.S. Commerce Department, every billion dollars of exports supports over 15,000 jobs. Expanding trade has been, and will continue to be, critical to creating good, high-wage jobs here at home.

TRADE WITH CHINA

Nowhere are our trading opportunities greater than they are currently in the Asia-Pacific region. The change in this region in the last 50 years is extraordinary. Asian nations have transformed themselves into some of the most dynamic economies anywhere in the world, and their future potential is enormous. Within the region, the greatest potential obviously lies in China, a country encompassing more than one fifth of the world's population. (See Chart B.)

China's economy is growing at an annual rate of 8-10 percent, and economic output is expected to reach $10 trillion by early next century. U.S. exports to China in 1995, at $11.7 billion, represented less than 9 percent of China's total $132 billion in imports, so there is definitely room for growth. As China's consumption ability expands, the United States should be there to fill the demand.

In fact, in the last five years, U.S. exports to China have grown annually, on average by 22 percent, or two-and-a-half times the total U.S. export growth rate. Given China's size, this country represents one of the United States' fastest growing, elastic export markets — U.S. export sales to China already out-pace U.S. export sales to France, to Italy, to Switzerland and to Australia. Of our top principle exports to China, most have been consistently growing. (See Chart C.) Additionally, increasing export rates can be compared to decreasing rates of import acceleration, suggesting positive market development, increasingly available investment monies and growing consumer demand in China. (See Chart D.) Chinese infrastructure needs, estimated by the World Bank to be nearly $750 billion over the next decade, must be supplied from overseas. The United States needs to be poised to win contracts to supply such needs.

It is true that our trade with China is currently out of balance. Whether, and to what extent, a bilateral trade deficit is damaging is debatable — and would be better addressed in another forum. Suffice it to say, trade figures should be examined carefully and used in proper context if they are to be meaningfully applied. While China does have significant trade barriers to U.S. exports which need to be addressed, it is important to recognize that trade deficit figures do not necessarily reflect the extent to which an economy is closed. For example, it is interesting to note that China has attracted more foreign investment in the last five years than Japan has since World War II.

Authoritative analysis has also shown that the U.S./China deficit figure as a number is overstated, perhaps by as much as 50 percent. Many of our exports to Hong Kong are re-exported to China, but are only recorded statistically as exports to Hong Kong. In contrast, imports brought through Hong Kong are fully ascribed to China, even though perhaps a quarter of the value of those goods goes to the Hong Kong "re-exporters." Import numbers also fail to exclude the value of foreign inputs used in Chinese production, which would reduce the value of U.S. imports of Chinese goods substantially.

The bilateral trade deficit figure also fails to demonstrate that there has been a major shift in production throughout Asia. From 1987-1995, as investment has shifted, the combined U.S. deficit with Taiwan, Hong Kong, South Korea and Singapore declined from $34 billion to approximately $6 billion, while the deficit with China climbed from $3 billion to $35 billion. (See Chart E.)

Looking at the trade deficit figure in a vacuum makes the trade imbalance look much more ominous than perhaps it is. This is not to say that Chinese policies and practices which block or hinder access to U.S. products must not be dealt with in a forceful and constructive manner under U.S. trade laws — they should be. U.S. exports to China need to increase.

U.S. MANUFACTURERS ARE ACTIVELY INVOLVED IN TRADE WITH CHINA

There is not one state in the United States that is not exporting goods to China. Cumulatively, these exports have increased by more than 34 percent in the last two years. Consumers in every state also benefit from increased selection and affordable prices of goods imported from China.

To provide real examples of U.S. manufacturers' involvement in the China market, the NAM conducted a survey of its member companies, similar to one done two years ago. Evidence of progressive trade with China is apparent in our 1996 manufacturer survey

returns. A whole host of new respondents who had not participated in the 1994 NAM China survey and trade report (entitled: *The United States and China; Valuing the Relationship*) submitted statements demonstrating that large and small manufacturers alike continue to be — and are becoming — interested in China as a trading partner. More than 65 percent of our repeat respondents have increased their presence in China in the past several years, some quite substantially, as documented in the manufacturers' table included in our report.

Not only is trade with China in the U.S. national interest, but, even more than in 1994, it is the position of the NAM that American companies contribute to improved human conditions in China. Through the products, employment opportunities, better employment benefits packages, education and training, exposure to sound business practices and values and outlook that U.S. companies offer their Chinese employees, a whole new enlightened and consumer-oriented Chinese middle class is developing. This trend is almost irreversible, and our presence in China will ensure that it becomes so.

CONCLUSION

For the above reasons, the NAM supports President Clinton's decision, announced Monday, May 20, 1996, and formally communicated to the U.S. Congress on May 31, 1996, to extend MFN status to China for another year. In fact, the NAM would support permanent extension of MFN to China if that were possible today.

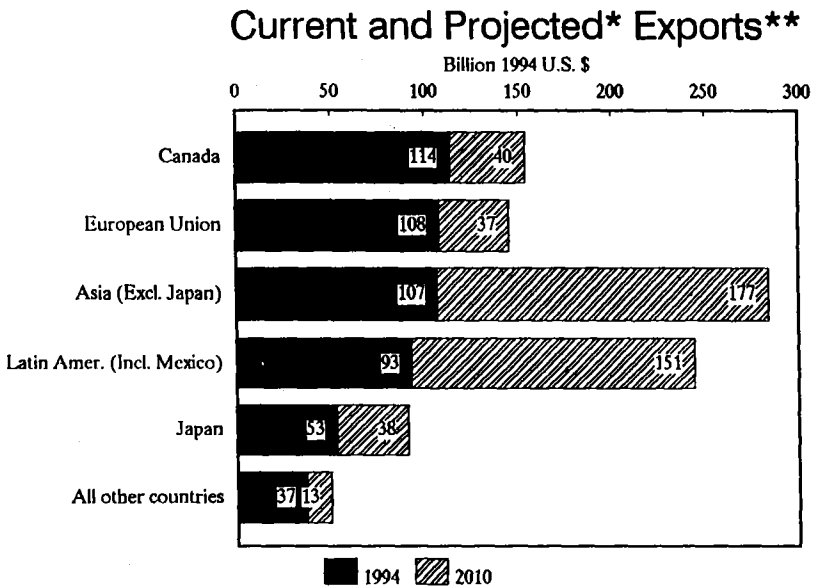
The NAM believes that those who advocate restricting or revoking MFN for China seem to lose sight of the importance of international trade to the United States and the probable consequences of restrictions. Exporting creates increased operating revenue for business, which translates into increased production, efficiency, research and development, and, of course, jobs.

Any restriction of MFN is sure to bring retaliation. Disruption in the trade arena, while necessary at times, creates difficulties and instability for U.S. business and our workers, not to mention the Chinese workers employed in China by our companies. U.S. investors deserve a stable, predictable commercial environment for the investments they have already made and for the future business they are trying to develop. So does the Chinese worker, as he or she is beginning to embrace newly understood opportunities, freedoms and successes.

As for the many Chinese policies and practices with which the United States takes issue, as stated by the President on May 20, the extension of MFN is not a blanket referendum on all China policies. However, engagement and stable commercial relations provide the United States with a platform from which to exercise some influence over Chinese development in trade and other areas.

International trade is here to stay. So is development in China. It is our responsibility to ourselves and to the world to remain engaged -- to promote market reforms, democratic principles and personal freedoms in China; and to promote jobs, economic strength and competitiveness here at home. U.S. manufacturers play a strong role in this capacity, and they should be encouraged to continue to do so, through the maintenance by both China and the United States, of normal, stable bilateral commercial relations.

CHART A

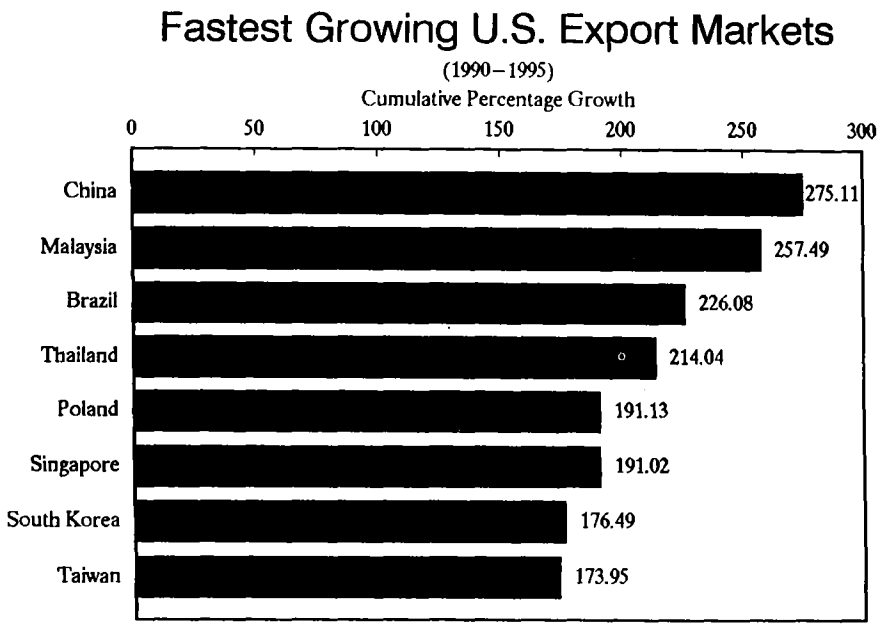


Source: USTR, U.S. Commerce Department

*Based on U.S. Government estimates of growth in foreign export markets and the assumption that the U.S. share of those markets remains constant.

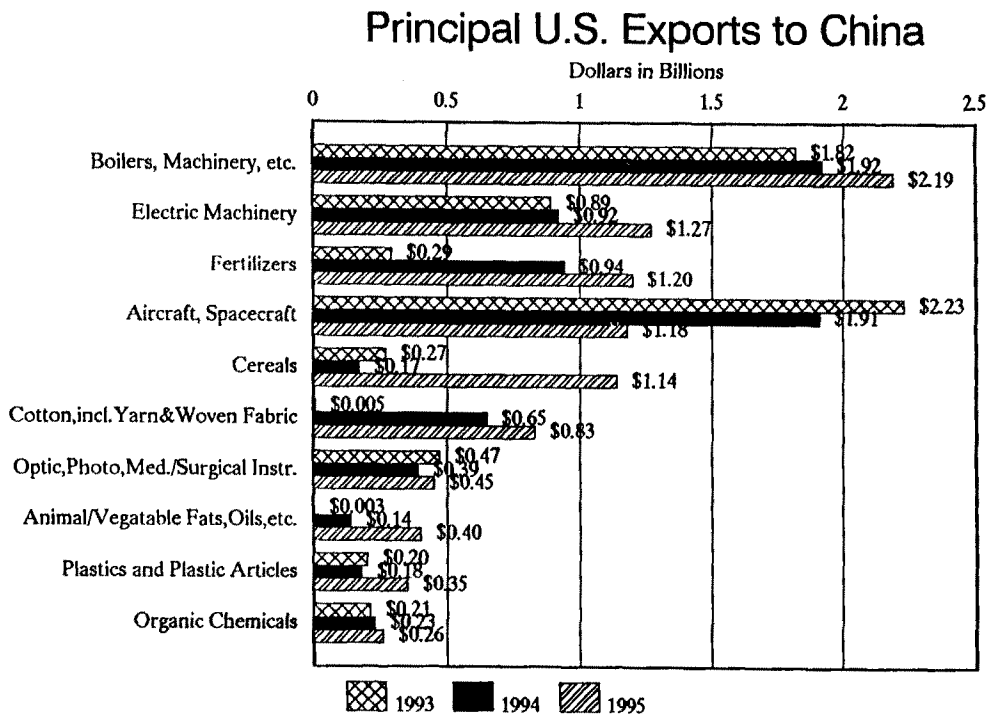
** Merchandise exports were $512 billion in 1994. They are projected to rise to $968 billion in 2010 in constant 1994 dollars and $1,183 billion in current dollars, based on historic trends in export price inflation.

CHART B



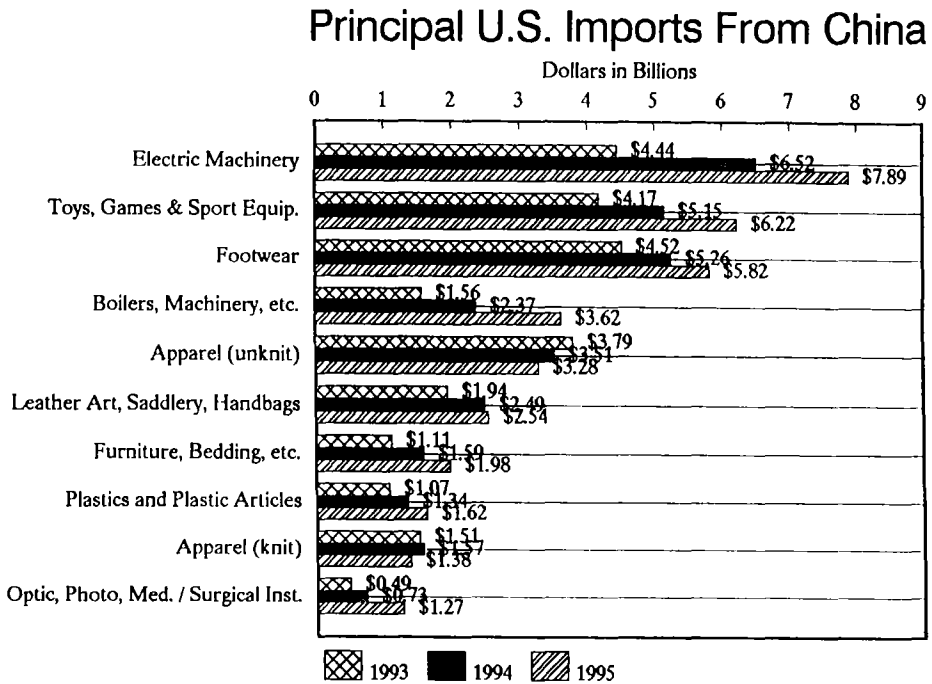
Source: U.S. Commerce Department, Brookings Institute;
China is an adjusted amount reflecting true export values.

CHART C



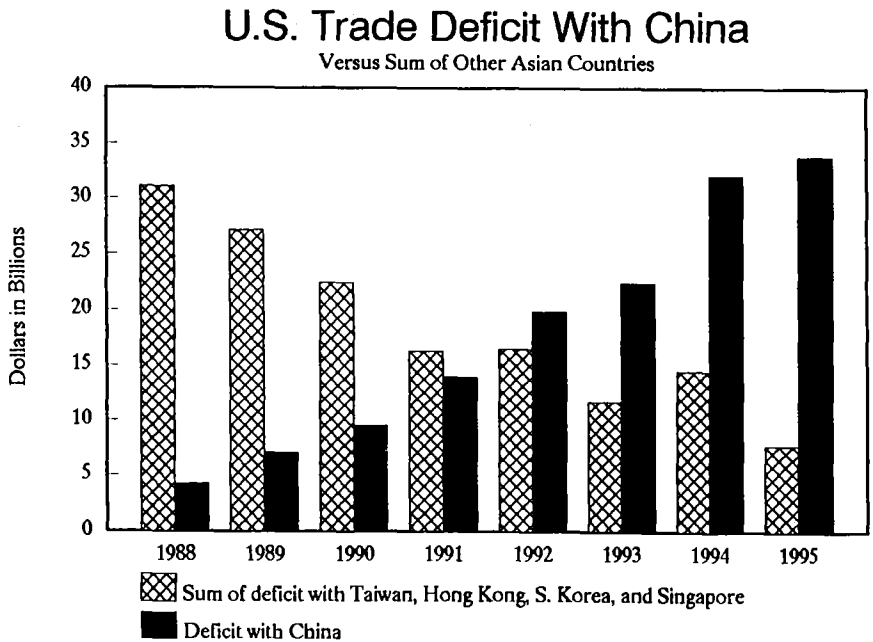
Source: U.S. Commerce Department

CHART D



Source: U.S. Commerce Department

CHART E



Source: U.S. Commerce Department

Chairman CRANE. Thank you, Dianne.
Chairman CRANE. Mr. O'Flaherty.

STATEMENT OF DANIEL O'FLAHERTY, VICE PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. O'FLAHERTY. Thank you very much, Mr. Chairman.

I am Daniel O'Flaherty, vice president of the National Foreign Trade Council, which is an association of more than 500 American companies engaged in international trade and investment.

I am here this afternoon to express our strong support for unconditional most-favored-nation treatment for China and to express our concurrence with the aspirations that were implicit in the testimony of the previous panel. On ends we do not disagree; on means, we do disagree.

In fact, we think it is time to consider giving China most-favored-nation status on a permanent basis and move beyond the debate that we are annually engaged in on this issue. To move in the opposite direction is not a realistic option for the United States. Rupturing commercial relations with China, with the inevitable costs to the U.S. economy and our future relationship with the Asia Pacific region, is precisely the wrong way to address the numerous tensions and issues between the United States and China. Revoking or conditioning MFN would eliminate the leverage that the United States does have on China at a very high cost to U.S. employers, workers and consumers. Such action is clearly not in our National interest, and on this score, we echo and concur with the many expressions of that opinion which you have already heard.

There are four aspects of our relations with China which I would urge the Subcommittee to take under serious consideration.

The first is simply that the annual debate in the United States about most-favored-nation treatment for China has become increasingly unproductive and ineffective.

Second, this debate no longer is merely about United States-China relations, but involves broader regional, economic, political and strategic interests of central importance to the United States.

Third, U.S. economic interests in China itself are enormous and growing rapidly, having significant implications for future American prosperity.

Finally, it is crucial that the United States take a longer term view of relations with China that recognizes the role of private business in bringing China into the world trading system and liberalizing Chinese society.

Certainly, there are levers other than most-favored-nation status that are effective in influencing the way in which that development takes place. Mr. Jendrzejczyk of Human Rights Watch mentioned several of them in his testimony just now. They include negotiations for Chinese accession to the World Trade Organization, and they include the recent action of the Export-Import Bank in denying credits for American companies to participate in Three Gorges Dam. We regretted that decision, but it certainly is an effort to affect a segment of Chinese behavior.

In closing, I would like to comment on an argument which a prior witness advanced this morning, that we should not be too concerned about the impact of withdrawal of MFN for China on

Hong Kong, on the basis that it is unlikely that the resolution of disapproval will in fact pass.

Surely, making empty threats makes them less credible, and in this case, it seems to me unproductive to debate the withdrawal of MFN, which is the commercial equivalent of withdrawing diplomatic relations, while publicly arguing at the same time that the consequences do not matter because it will not happen.

It is time that we recognize that just as the threat of massive nuclear retaliation against the Soviet Union ultimately lost its credibility, so too has the threat of revoking China's MFN status. The reason is the same—retaliation would impose unacceptable costs on the United States with little chance of affecting Chinese behavior. To continue to make the threat and to conduct an annual debate about carrying it out can only undercut the real impact that the United States can have with the interdependence of our economic relations with China.

I thank you for the opportunity to testify.

[The prepared statement follows:]

TESTIMONY OF DANIEL O'FLAHERTY
VICE PRESIDENT OF THE

NATIONAL FOREIGN TRADE COUNCIL, INC.

BEFORE THE

COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

JUNE 11, 1996

Mr. Chairman, Members of the Subcommittee on Trade I am Daniel O'Flaherty, Vice President of the National Foreign Trade Council, an association of more than 500 U.S. companies engaged in international trade and investment. I am very pleased to testify today on the vitally important topic of the impact of Most-Favored-Nation (MFN) on U.S.-China economic relations. The NFTC's membership is drawn from all sectors of the U.S. economy, including basic manufacturing, financial services, energy, high technology and agricultural, and, therefore, represents the broad range of U.S. commerce with China.

The National Foreign Trade Council strongly supports continuation of unconditional most-favored-nation status with China. In fact, we believe it is time to consider granting permanent MFN to China. To move in the opposite direction by revoking MFN is not a realistic option for the United States. We are convinced that rupturing commercial relations with China, with the inevitable costs to the U.S. economy and our future relationship with the Asia-Pacific region, is precisely the wrong way to address the numerous tensions and issues between the United States and China. Revoking or conditioning MFN would eliminate the leverage that the U.S. does have on China at a very high cost to U.S. employers and workers. Such action is clearly not in our national interest.

As a business community we would like to see a more stable and predictable relationship with China that encourages greater individual liberty and adherence to international norms of behavior in all areas, including commercial practice. There are four aspects of our relations with China which I urge your subcommittees to take under serious consideration:

(1) The annual debate in the U.S. about MFN for China has become increasingly unproductive and ineffective;

(2) This debate is no longer merely about U.S.-China relations, but involves broader regional economic, political and strategic interests of central importance to the U.S.;

(3) U.S. economic interests in China itself are enormous and growing rapidly, having significant implications for future American prosperity; and

(4) It is crucial that the U.S. take a longer-term view of relations with China that recognizes the role of private business in bringing China into the world trading system and liberalizing Chinese society.

I would like to elaborate briefly on these four basic points.

1. <u>The annual debate in the U.S. about MFN for China has become increasingly unproductive and ineffective</u>.

For seven years the Congress has conducted an annual debate about China's MFN status under the Jackson-Vanik amendment to the Trade Act of 1974. The result has been that the entire U.S.-China relationship has been challenged each year on the narrow basis of bilateral trade, and normal commercial relationships have been held hostage to a wide array of non-commercial concerns. Each year the business community has stressed that MFN is the normal tariff standard for conducting trade and in no sense a "favor." It is in fact the basic building block of our global

trading system and is critical to keeping markets open for the United States, which is the world's largest trader. There are only six nations to whom the U.S. does not extend MFN -- Afghanistan, Cambodia, Cuba, Laos, North Korea and Vietnam -- and we are in the process now of granting MFN to one of them, namely, Cambodia. To revoke MFN for China -- one of the world's great emerging powers -- would be the commercial equivalent of suspending diplomatic relations. We cannot build a lasting commercial relationship based on Smoot-Hawley tariffs.

It is time that we recognize that just as the threat of massive nuclear retaliation against the Soviet Union ultimately lost its credibility, so too has the threat of revoking China's MFN status. The reason is the same; retaliation would impose unacceptable costs on the U.S. with little chance of affecting Chinese behavior. To continue to make the threat and to conduct an annual debate about carrying it out can only undercut the very real impact which the U.S. can have through the interdependence of our economic relations with China. We should, instead, pursue policies that encourage China to be a more responsible member of the international community.

We are convinced that there is far more to be gained through a policy of long-term pragmatic engagement that moves toward permanent MFN within a structure of enforceable bilateral and multilateral agreements. China's eventual entry into the World Trade Organization (WTO) under a commercially acceptable protocol is essential in this regard. This is precisely where we should be focusing our efforts in establishing a more sound commercial relationship. We also should vigorously use all the trade tools we have available under U.S. law to address major concerns and problems in our trade and investment relationship with China. Our current Section 301 dispute with China over its enforcement of the 1995 intellectual property rights agreement is one example of this approach, and the NFTC endorses the Administration's efforts to ensure that China complies with the terms of negotiated trade agreements.

The NFTC believes that we should make clear to the Chinese leadership that the United States is willing to grant permanent MFN to China and to stop using what is essentially a cold war trade law. In return, China should demonstrate that it is willing to live in the post-cold war global economy based on unequivocal commitment to adhere to bilateral trade agreements, full acceptance of multilateral trade rules and agreements under the WTO, and provision of equitable market access to U.S. exporters. It is time to move beyond past approaches and to implement new ones which would promote fundamental U.S economic interests. Attempting to use a cold war trade law as the vehicle for addressing the entire U.S.-China relationship is not working and has outlived its usefulness. New, more positive approaches are called for, which will lead to improved and normalized relations between the United States and China.

2. The U.S. cannot pursue its vital economic and other interests in the Asia-Pacific region without improving commercial relations with China.

One result of China's dramatic economic expansion of the past decade has been the transformation of its commercial relations with its neighbors, most especially Japan, Taiwan, South Korea and the ASEAN nations. It has become part of the conventional wisdom that Asia presents the greatest opportunity for the expansion of U.S. exports in the next decade and beyond. U.S. trade with Asia is now more than double our trade with Europe and is growing rapidly. According to the USTR, Asia, excluding Japan, will be our largest export market by 2010, with exports estimated to reach $284 billion. Asia is the fastest-growing region in the world, accounting for almost 30% of world GDP, and China leads all other countries in its rate of economic growth.

The commercial importance of the region goes beyond the simple growth statistics. It is, in fact, not possible to disentangle U.S. commerce with China from that with the region. If U.S. companies were locked out of the Chinese market as a result of retaliation, they would also be excluded from major business opportunities in other Asian countries whose economies are increasingly intertwined with China's market. U.S. companies would be unable to take part in joint ventures and indirect trade with China through countries such as Singapore, Taiwan, Malaysia, South Korea and, of course Hong Kong.

It is vital to the U.S. economy to be able to participate fully in the growth of the Asia-

Pacific market. It is also a key factor in achieving other U.S. objectives in the region, such as encouraging and sustaining free market democracies and maintaining strategic stability in the region. It is worth noting that even the most pro-democratic forces in Hong-Kong have long supported continued MFN because they fully realize the destabilizing impact its elimination would have on Hong Kong as it approaches the 1997 date for returning to Chinese sovereignty. The development of the Asia-Pacific Economic Cooperation (APEC) forum also bears witness to the importance that the countries of the region place on continued U.S. engagement through normalized and expanding commercial relationships.

3. The economic stakes for the U.S. in China itself are enormous.

Revocation of MFN would certainly lead to Chinese retaliation against the $12 billion in annual U.S. exports of goods and services to China. According to the International Business and Research Corporation, revocation of MFN would cost U.S. consumers $27 to $29 billion a year and put 190,000 U.S. jobs at risk by curtailing $13.6 billion of U.S. exports to China. We should be under no illusion that China's leadership would not be willing -- or able -- to subordinate China's increasing prosperity and economic growth to their perceived need to retaliate strongly against aggressive U.S. action. And trade would not be the only casualty. A trade war of such a magnitude would also undoubtedly retaliate against U.S. investors. The recent Chinese purchase of Airbus aircraft is a very good example of the reaction we should expect.

U.S. exports to China have doubled since 1990 and grew 27 percent in 1995. Revoking MFN would cost many thousands of high-wage, technology-related jobs which are central to U.S. economic growth. The consequences of revoking MFN could not be reversed because our companies would be quickly supplanted by our trading competitors who would not soon be displaced, if ever.

In addition to the direct economic benefits U.S. companies gain by their China business, they are helping to improve the lives of many Chinese people. This takes place through training senior level Chinese managers and engineers in U.S. company management practices and technical skills, and scholarships provided for Chinese students to study in the United States. U.S. companies are actively engages in cultural exchange programs, man of which are at the local levels in the communities in which they operate.

Revocation of MFN would seriously set back, if not destroy, all of these positive economic and other benefits that U.S. companies are helping to bring about by virtue of their business with China. Such action is just not a realistic or effective option for the United States. It would radically destabilize a relationship which calls for stable management and effective diplomacy.

4. U.S. business has an important role to play in liberalizing Chinese society and integrating it into the world trading system.

Just as commerce does not provide the sole leverage to alter Chinese behavior, the private sector cannot reasonably expect to transform a vast nation with an ancient culture. The expanding market economy has, however, had a remarkable impact on China. U.S.-Chinese economic ties have played a very important role in that transformation. These changes in China are irreversible. As a result, there has been a dramatic increase in the standard of living for China's citizens, and access to information has greatly reduced the effectiveness of state control. While increased economic freedom has obviously not yet been translated into political freedom, it is an essential precondition for greater pluralism. This has certainly been the successful path that South Korea and Taiwan have pursued. Conversely, there is no evidence that attempting to isolate China would lead to a more rapid expansion of civil and political liberty.

The vitality and explosive growth of the Chinese economy are, in fact, matters of concern to many in China's leadership precisely for these reasons. The U.S. should be on the side of the Chinese population, which benefits from the steady expansion of personal opportunity and which welcomes the participation of American companies in improving their lot.

In conclusion, the NFTC believes it's time to develop a normal commercial relationship with China by extending permanent MFN and by bringing China into the WTO on a solid commercial basis. It is in our overall national interest to do so, and it is also in the best interest of the Chinese people. Moving in the opposite direction would isolate the United States, threaten many thousands of U.S. export-related jobs and set back U.S. relations with not only China but with many other countries. We would not achieve any of our major policy objectives with China, whether it is in the human rights, non-proliferation or trade areas.

President Clinton and the Congressional leadership recognize that it is in our national interest to continue MFN for China. We urge the entire Congress to also recognize that revoking or conditioning MFN is part of the problem, not part of the solution, in addressing our various concerns with China.

Thank you for the opportunity to testify.

Chairman CRANE. Thank you, Mr. O'Flaherty.
Chairman CRANE. Mr. Milosh.

STATEMENT OF EUGENE MILOSH, PRESIDENT, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS NEW YORK, NY

Mr. MILOSH. Thank you, Mr. Chairman. I am Gene Milosh with the American Association of Exporters and Importers. We are an association of some 1,200 U.S. firms, and we are close observers of U.S. trade laws and regulations, especially Customs regulations. Some 30 percent of our members are multinationals, with the other 70 percent in the medium to small size range.

Because a large portion of AAEI's membership engages in United States-China trade, the Association strongly supports renewal of China's MFN status for the coming year. Renewal would ensure American companies access for another year to the enormous economic opportunities being created as China opens its markets to U.S. and other foreign goods.

Additionally, failure to renew China's MFN status would cause a reduction in the supply or an increase in the cost of many basic consumer products purchased by Americans and industrial products with components from China.

We strongly support the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As we testified in the past, we believe that the threat of terminating China's MFN status is neither an appropriate tool for addressing human rights concerns nor an effective one. We urge the members of the Trade Subcommittee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

As stated, AAEI supports the President's efforts to focus attention on human rights concerns in China. However, we do not believe that terminating China's MFN status will contribute to this worthy objective. Specific trade disputes may be resolved by utilizing more appropriate, narrower trade remedies and multilateral fora. AAEI supports initiatives by some in China to grant China MFN status on a more permanent basis.

Terminating or threatening to terminate China's MFN status would seriously hinder significant U.S. interests. For various political, historic and cultural reasons, Chinese leaders are likely to retaliate, particularly against U.S. investments. More importantly, revocation of China's MFN status would weaken those in China most sympathetic to our political objectives and put at risk the economic and political development occurring in China.

Experience in Taiwan, South Korea and elsewhere suggests that this development would pave the way over time for the political and economic liberalization we seek, such as currency convertibility and reduction in tariffs, which have recently been announced.

In sum, AAEI strongly supports renewal of China's MFN status after July 1996. Terminating China's MFN status is neither good trade policy nor good foreign policy. MFN status for China is the best prescription for achieving both our political and economic objectives. Keeping with these objectives, AAEI strongly urges the Trade Subcommittee to seriously explore a long-term or permanent

renewal of China's MFN status which recognizes a de-linkage of human rights concerns from MFN. A more stable, dependable trade relationship will encourage China to further open its markets to U.S. goods and services, with associated benefits to the U.S. economy and our international competitiveness.

Thank you, Mr. Chairman.

[The prepared statement follows:]

THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS (AAEI)
STATEMENT ON UNITED STATES-CHINA TRADE RELATIONS AND
RENEWAL OF CHINA'S MOST-FAVORED-NATION (MFN) STATUS

Introduction and Background

Good morning, Chairman Crane and members of the Trade Subcommittee. My name is Eugene Milosh, and I am President of the American Association of Exporters and Importers (AAEI).

AAEI is a national organization comprised of approximately 1,200 U.S. company-members who export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, footwear, food, toys, specialty items, textiles and apparel. Members also include firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers. Many of AAEI's member firms and companies have or are considering investment in China.

U.S. businesses in these areas of international trade will benefit, either directly or indirectly, from a decision to extend Most-Favored-Nation (MFN) status for China beyond July of 1996. A substantial number of AAEI exporters and importers are currently engaged in direct trade with China, with many AAEI retailer members sourcing as much as 30% - 40% of imports from China. Overall, more than one-half of AAEI's membership is involved in trade with China in some capacity. Considering the importance of continued China MFN for U.S. industry, including AAEI's members, we urge the Administration and Congress to revamp U.S. policy in an effort to avoid the annual MFN debate. To this end, AAEI supports President Clinton's 1994 decision to de-link human rights concerns from MFN consideration and urges serious exploration of long-term or permanent renewal of China's MFN status.

U.S.-China trade and investment has grown tremendously in volume and complexity since the U.S. first accorded China MFN status. Total trade has more than tripled since 1981 and nearly doubled since 1990. Total cumulative U.S. investment in China is rapidly increasing, and China is one of our fastest growing export markets, purchasing an estimated $13 billion in U.S. goods and services last year.

MFN status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China negotiated in 1979. The term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing. The U.S., like most other countries, maintains two complete tariff schedules -- one set of standard rates for MFN countries, and a second set of often prohibitive rates for non-MFN countries. The tariff differential between these rate schedules generally ranges from 10% to 50%, and can be as high as 100% or more for some products, so that the loss of MFN status can effectively price a country's exports to the U.S. out of the market. The additional cost associated with denying MFN status would be paid for by U.S. companies and consumers.

AAEI Supports Unconditional MFN Renewal

AAEI strongly supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As we testified in previous years, we believe that the threat of terminating China's MFN status is neither an appropriate nor effective tool for addressing human rights concerns. We urge the members of the Trade Subcommittee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

The Chinese market is already the world's third largest, according to an International Monetary Fund (IMF) study, and has continued to grow at an annual rate of more than 10%. This market is simply too important to our future international competitiveness and to the battle against inflation in the U.S. to ignore or to jeopardize through an unstable trading relationship. As President Clinton has recognized, MFN is the essential cornerstone for a long-term, stable bilateral relationship with China in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long run plans, and saddles U.S/China trade and investment with a risk factor cost not faced by our international competitors.

AAEI members agree that human rights issues warrant our attention and further bilateral negotiations between the U.S. and China. However, the Association does not believe that the threat of terminating MFN is an appropriate or constructive tool for pursuing this important U.S. foreign policy objective. History suggests that despite China's strong interest in trade with the U.S., efforts to impose our will on the Chinese government through a series of public demands will prove to be counterproductive. MFN is the foundation on which the U.S. bilateral relationship with China rests.

Terminating MFN for China would not simply result in higher tariff rates for some imported goods; it would sever the basic economic -- and, consequently, geopolitical -- relationship between the two countries. It would also strengthen those in China who desire to see the People's Republic turn inward again, away from ideologically threatening capitalist influences, and would weaken those liberalizing forces that we seek to encourage. This would be particularly unfortunate while the leadership situation in China remains unsettled.

China's Post-June MFN Status Should Be Renewed

AAEI supports the President's human rights objectives. For reasons noted above, we do not believe that the unilateral threat to eliminate MFN -- and the uncertainty associated with annual MFN debates -- furthers either U.S. foreign policy or trade objectives. As an association of companies engaged in trade with China, the balance of our comments will focus on the trade and economic aspects of the debate. This, however, should not in any way be construed to suggest any lesser interest in the successful resolution of U.S. human rights concerns in China.

China has made some good faith efforts to respond to U.S. market-opening initiatives. Among important developments, China has agreed to remove high tariffs on hundreds of U.S. imports, increase transparency with regard to its trade operations and move towards currency convertibility.

There are a number of other reasons for supporting the continuation of MFN treatment for China. Trade with China must be kept open to maintain benefits to U.S. industry of a bilateral economic relationship with China. Failure to renew MFN would threaten the jobs of thousands of U.S. workers producing goods for export to China and would harm American businesses relying on Chinese imports for their livelihood. Tariffs, which are at an average 4% - 5%, would skyrocket to as high as 110% in some cases, increasing costs to American consumers by billions of dollars. In many cases, this increased cost would be inflationary and fall most heavily on those Americans least able to bear the burden.

An MFN Cut-Off Would Harm U.S. Importers

The loss of China's MFN status would also have both immediate and long-term consequences for AAEI members and the entire importing community. In the short-term, they would incur significant losses on merchandise already contracted for sale at a specific price, but not yet delivered. Payment for these orders are often guaranteed by irrevocable letters of credit. If duty rates increased from Column 1 to Column 2 levels before Customs clearance, these companies would be required to absorb the increases or pass them on to American consumers. American companies and American consumers, not Chinese, are harmed by increasing duty rates for merchandise which was previously ordered.

Over the longer term, the cost of delays, lost time, and unavailability of alternative supply could be even more damaging to businesses than duty increases. Many consumer products imported from China are not available in the U.S., and alternativ sources of supply overseas would likely be much more costly tha- .ninese goods, of lesser quality, or unavailable altogether. The difficulties and uncertainties of trade with China have already pushed U.S. importers to search for alternative sources of supply. With the long lead times necessary for orders in many industries, some companies could easily lose a whole season, or even a whole year. This could cause major economic hardship. Companies would be forced to raise prices on goods, with consumers bearing the ultimate burden. In most cases, U.S. producers would not benefit from a cut in supply of Chinese goods because of their inability to produce competitively-priced products. Yet, a reduction in supply of these basic consumer items would cause considerable hardship for Americans with limited incomes who purchase basic-necessity consumer goods imported into the U.S. from China. With the growing threat of a higher inflation rate, this is a poor time to increase the U.S. cost of living.

Termination of China's MFN status could also make it difficult for U.S. companies to obtain products which are not easily accessible from other countries. In the case of textiles and apparel, U.S. quotas limit the amount of merchandise which can be imported from foreign countries. Thus, even countries which might have the ability to provide a somewhat competitive supply of a particular product may be unable to do so because they have filled their "quota" for the year. Furthermore, when quota is in short supply, as it most certainly would be if China MFN status were terminated, U.S. importers would pay a premium for quota itself, and provoke quota calls based on surges from countries not under quota.

An MFN Cut-Off Would Also Harm U.S. Exporters

Failure to renew China's MFN status would harm U.S. exporters as well as importers. China represents a significant, and very promising, market for U.S. exports, with approximately $13 billion worth of American goods purchased by the Chinese last year. The Department of Commerce estimates the value of U.S.-China trade and investments will be $600 billion in the next five to seven years. Historically, China has been quick to retaliate against foreign countries perceived as interfering with domestic issues. It would not be surprising for China to withdraw MFN for American goods and services and to limit U.S. investment and government procurement opportunities in response to elimination of MFN for Chinese goods. In fact, in 1987 during negotiation of a bilateral textile agreement with the U.S., China threatened to find another supplier for the nearly $500 million worth of annual U.S. agricultural exports to China. More recently, U.S. aircraft exports have been threatened.

Unilateral U.S. action against China would cause a severe blow to U.S. exports to China. In addition to a possible loss of $13 billion in U.S. exports, loss of the Chinese market would have a significant impact on some of our most competitive industries -- agriculture, aircraft, heavy equipment, machinery, telecommunications and chemicals. And, with our Western allies keeping the door open for many of their goods to China, the hard-won U.S. market share could disappear overnight, resulting in lost jobs in the export sector of the U.S. economy and an increase in the trade deficit. It would be truly ironic if the net result of the last few year's hard-won Chinese market opening commitments expanded business for European and Japanese competitors because U.S. companies are effectively excluded from the market by a U.S.-China breakdown.

Beyond the immediate loss of business in China and Hong Kong, an MFN cut-off would significantly jeopardize long-term U.S. commercial interests in the region. A Sino-American trade war would deprive U.S. companies of important business relationships and opportunities at a critical time in the growth of the Chinese economy.

China's economy has grown rapidly in recent years, at an average annual rate approaching 10%, and is poised for major expansion over the next decade. According to an IMF study, China's economy is now the world's third largest. Some predict it will be the largest economy in the world by the year 2010, or the year 2020 at the latest. U.S. companies have established a major presence in China, providing an ideal foundation for future expansion. A trade breach would threaten this foundation. It would also provide U.S. competitors in Asia and Europe with a major advantage.

MFN Trade Sanctions Would Be Counterproductive

Unilateral trade sanctions imposed for foreign policy purposes have a very poor history of effectiveness. They serve mainly as symbolic gestures, often at great expense to U.S. economic interests, U.S. exports and foreign market share, and consumer prices.

Elimination of China MFN, and the resulting withdrawal of U.S. business from China, would decrease Chinese exposure to Western values and free market ideas which have clearly played a part in China's move toward trade liberalization and a market economy. Liberalized, market-oriented sectors, such as those in South China, would be the first to be injured or even shut down if MFN were withdrawn, and Chinese authorities would direct business back to state-owned enterprises. Terminating MFN would merely enable Chinese authorities to blame the U.S. government for their current domestic economic problems, further strengthening hard-line, anti-Western elements in the government.

Furthermore, sanctions run counter to other U.S. foreign policy interests, including the stability of the Hong Kong economy and the future of the Hong Kong people. Hong Kong accounts for two-thirds of all foreign investment in China and one-third of China's foreign exchange, and is the port of entry and exit for much of the world's trade with China, especially that of the United States. Because of the unique combination of communications, financial and technical support, established and reliable legal system, and common language available in Hong Kong, more than 900 American companies have established a significant presence there, and of these, approximately 200 have chosen Hong Kong as their base for business operations throughout the region.

The damage to Hong Kong resulting from an MFN cut-off, which has been estimated at more than $21 billion in trade alone, would seriously jeopardize Hong Kong's continued ability to serve this important role for American companies as entrepot and investment "gateway" for China and the region. Damage to Hong Kong would also have counterproductive effects on political and economic reform in China. Hong Kong is South China's most important source of external investment, with Hong Kong companies providing employment to three million people in Guongdong Province alone. The impact of MFN removal would be felt disproportionately there, weakening the very forces of liberalization key to future economic and political progress in China, and Hong Kong's security and well-being. The people of Hong Kong would be put at risk should Hong Kong, as it now functions, become less valuable to China.

Finally, the U.S. should not unilaterally act without the support of our major trading partners. Unless multilaterally imposed, sanctions are certain to be unsuccessful and the U.S. could run the risk of alienating its allies.

Conclusion

AAEI strongly supports renewal of MFN for China for another year. As stated, AAEI supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. Although we recognize the importance of focusing attention on human rights concerns in China, we do not believe that terminating China's MFN status will contribute to this worthy objective. We urge members of the Subcommittee to take a strong stand to ensure that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

AAEI supports initiatives by the Administration and Congress to grant China MFN status on a permanent basis and urges serious consideration of a revision of the Jackson-Vanik Amendment toward this aim. A revision of Jackson-Vanik does not require a revision of U.S. human rights objectives in China. AAEI supports those human rights objectives. AAEI believes that President Clinton correctly determined that those objectives should not be limited to trade issues between the United States and China. The U.S. human rights objectives can, and should, be attained without terminating China's MFN status. Terminating China's MFN status could only harm U.S. trade and foreign policy interests, and ultimately, the progressive forces in China on which future progress will depend.

On behalf of the American Association of Exporters and Importers, I wish to thank Chairman Crane and the Trade Subcommittee for this opportunity to present the views of our membership on this important issue.

Chairman CRANE. Thank you, Mr. Milosh.

Chairman CRANE. Mr. Duggan.

STATEMENT OF E. MARTIN DUGGAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SMALL BUSINESS EXPORTERS ASSOCIATION, ANNADALE, VA

Mr. DUGGAN. Mr. Chairman, I will be very brief.

I will vary slightly from what I said last year. I will change the deficit number that we experience with China from $28 billion to $38 billion last year over 1994, and we will probably be up around $44–$46 billion in 1996.

The deficit with China within another 2 years is going to surpass the deficit with Japan. I think that it is time for the policymakers to come together and bring the best brains that they can to deal with this situation. Over the last 15 years, we have had a $1.5 trillion-plus deficit with the world. Eighty percent of that was with Asia. There is nothing really changing in that regard as we go forward. I think that it is time that we do something to address this issue.

The Small Business Exporters Association is made up of some of the most competitive manufacturers in the world. We do not back off from anybody; all we are looking for is opportunity. I do not think that opportunity exists to a great extent in China for small business.

I would like to see some money spent by our government, preferably through the private sector, to determine what the real impediments are over there, because we do not have the resources to do it ourselves. All we do is get feedback from members as to their experiences. These are isolated cases, and not enough of them to make an empirical case as to exactly what is going on.

But being as competitive as we are, we will settle for less than most-favored-nation status for the Chinese. I do not think it ought to be extended permanently or done away with. I think we ought to have an annual review to at least let them know that we are paying attention to what is going on over there, for a variety of reasons—and I am not talking about the human rights aspects, but strictly trade. From a small business perspective, they are not getting a fair shake in China, and I do not know what we can do about it until we take them to task on it. To continually back off because of the potential—everybody sitting at this table, for the most part, even though NAM does have a small business membership, they are still talking about a policy that is primarily driven by the multinationals, and it is the multinationals who have a major stake over there. But the rest of us come up short, we get shortchanged.

I sat next to a gentleman last year who went into a joint venture in China; it took about 2 years for the Chinese to take his technology and his investment. I think that was what Congressman Shaw was referring to. The fellow was an aircraft battery manufacturer from Florida. They forced him out, bankrupted the operation, transferred the assets, and the World Court awarded him $7 million. The Chinese would not address the situation.

I do not think we have mechanisms in place that are going to ensure fair treatment for all business sectors. Certainly, with the

technology that a Motorola has and the kind of economic muscle and resources that they have, they can get along in almost any atmosphere in the world. But again, I am not here to put the knock on MFN. I think we have got to go forward with it. I just think that we have a clarion call, we have a problem with China, and I do not know that anybody in a policy position is drawing any kind of line in the sand and saying we should have some answers.

With that, I would just thank you for the opportunity to be here, and I will let it go at that.

[The prepared statement follows:]

STATEMENT OF
E. MARTIN DUGGAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
SMALL BUSINESS EXPORTERS ASSOCIATION

Mr. Chairman and members of the committee, I want to thank you for holding this hearing and for allowing the Small Business Exporters Association to testify on this most important question of continuing Most Favored Nation status for China. I am here to express the concerns of my members, who are dedicated exporters and who strive each day to meet the extraordinary demands of marketing and selling product in different parts of the world.

In the case of China, they are met with difficulties which should not exist between two countries which are economically strong and who should be self-confident enough to be open trading partners. Some of these small and midsized exporters have made the following comments.

"Most business is too closely tied to their government or is controlled by the government."

"Chinese always want to talk about joint ventures, but a joint venture to them means long term negotiations to establish a relationship, and then very long term financing which is seldom possible for a small business to offer."

"China doesn't understand small business. Their first question is always, 'How big?'"

A member from Illinois states, "My customers are suspicious that U.S. companies will not be reliable as suppliers - and therefore, manufacturers lose credibility."

Another member was forced to sponsor a "buying trip" for several Chinese businessmen. It cost him $30,000 and he is still owed $27,000.

A South Carolina manufacturer reports, "I will be participating in a trade show in China this September. My Hong Kong distributor warned me to be careful when I hire an interpreter. They are, in fact, government-sponsored 'industrial spies'."

A Chinese-American member from New Jersey feels that "China should at least allow U.S. companies to export its own brand name products in China without going through Chinese state-owned trading companies."

The experiences of these Americans show that the political and cultural climate in China has improved little in spite of years of Most Favored Nation Status. We give China preferential treatment on duty free or greatly reduced tariffs for their goods entering the United States - and it seems that all we receive in return is the right to continue treading water.

In the May 17, 1995 issue of Chemical Week, Minister Gu Xiulian restated that growth rates of 8 - 9% are established under the ninth Five Year Plan, with priority being given for such specific industries as electronics, automobiles, construction equipment, machinery and agricultural chemicals, in particular. The Chinese seem to know where they are going.

With our trade deficit expanding from $1 billion in 1986 to more than $38 billion in 1995, we need a policy that addresses the shortcomings in our trade relationship with China NOW. In ten years, it could be too late.

Why do we continue a relationship in which the rule of law, intellectual property rights, technology transfer, extortion and bribery are more the norm than the exception? Chiefly because Presidents Bush and Clinton have embraced the "Constructive Engagement" theory - and they are probably correct in believing that the only way to negotiate is to keep talking. We have this huge economic carrot being dangled in front of our faces representing potential sales to China if we are patient, but clearly patience alone won't do the trick. At the current rate, our deficit with China will surpass our deficit with Japan.

Mr. Chairman and members of the Trade Subcommittee, I am not here today to oppose Most Favored Nation status for China but rather to urge additional and stronger measures when dealing with this intransigent regime. We must overcome Chinese indifference to fair business practices and instill in them a desire to be respected in the global economy. We have already demonstrated our patience and willingness to defer to a much different business culture, but soon we must begin to tighten the screw.

The Small Business Exporters Association pledges its support of any diplomatic and economic changes which can continue Constructive Engagement but will demonstrate that trade concessions cannot be one-sided indefinitely. If doing business with friends is China's criteria, the U.S. should long ago have proved its willingness to be a friend. How long is it going to take?

Thank you for allowing us to testify on this most important issue. We wish you well in finding a solution to this most perplexing of problems.

Chairman CRANE. Thank you, Mr. Duggan.

Chairman CRANE. I am going to throw out just one quick question to anyone who might be able to answer it. Have you any idea how many of the Chinese people are currently employed in China as a result of American business presence there?

Mr. Milosh.

Mr. MILOSH. Certainly, it is the largest growing sector, the private sector, especially in the border provinces; it is the largest section employed in the private sector. So that it is making an impact on the decisionmakers, but from all indications, it cannot be reversed; it cannot go backward.

So I think the marketplace is taking hold, and it is going to be the driving force in the future. So that we can expect that it will have an impact on the political side. I think that is how the marketplace works. It does take over, it shows the benefits to the people, and certainly, as it expands, it will have a political impact.

Chairman CRANE. Thank you.

Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman. I will be brief.

Just quickly, on the deficit issue, I looked at Ms. Sullivan's testimony and noted that it is possible that we have misstated the deficit because of the re-exports from Hong Kong and others, and you talked about that. I guess when Hong Kong comes in in 1997, that will all net out, depending on how we are doing with our Hong Kong imports in the United States. It may be that the trade deficit will in fact improve rather than continue to escalate.

Also, with regard to the deficit and Mr. Duggan's comments at the end, I would just ask Mr. Duggan, isn't it true that your members have also seen an increase in their exports to China over the last couple of years and certainly over the last 12 months?

Mr. DUGGAN. Well, if you take a look at the trade with China, in 1986 it was a $1 billion deficit, and it has taken these incremental jumps. We have had minimal jumps across the board, and even with the multinationals setting up over there, it is still very minor. If you take a look at the machinery categories—and I think it is right here in the NAM study—their numbers will show that if you go back 5 years ago, we had fairly sizable exports in electrical machinery to China, and their growth is at least five times as great as ours over that 5-year period, and it has gone from where they were a fairly negative exporter to where now, they are in the neighborhood of a little over $3 billion in machinery exports.

Mr. PORTMAN. There is much we can do in terms of our trade laws and getting China to be more fair and open up, but I would also say that simply the deficit numbers should not be used as a barometer for deciding whether there is an opening of China's markets or not. We had a 20-percent increase in exports last year and the year before; we now have 170,000 jobs in this country that are directly related to exports to China. That is what is important. We have got to work on the export side. The import side really is another part of the equation.

Thank you all for coming.

Thank you, Mr. Chairman.

Mr. DUGGAN. Mr. Chairman, all I represent are exporters.

Mr. PORTMAN. Yes, I know that, I know that.

Chairman CRANE. Let me thank all of you for your testimony, and with that, the Subcommittee stands adjourned.

[Whereupon, at 3:10 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE
AMERICAN FOREST & PAPER ASSOCIATION

SUBCOMMITTEE ON TRADE
WAYS AND MEANS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

U.S.-CHINA TRADE RELATIONS AND
RENEWAL OF CHINA'S MOST FAVORED NATION STATUS

JUNE 18, 1996

The American Forest & Paper Association (AF&PA) appreciates the opportunity to advise the Subcommittee of our views on U.S.-China trade relations and the renewal of Most Favored Nation (MFN) status for China.

AF&PA is the national trade association of the forest, pulp, paper, paperboard, and wood products industry. The vital national industry which AF&PA represents accounts for over seven percent of total United States manufacturing output. Employing approximately 1.6 million people, the forest and paper industry ranks among the top 10 manufacturing employers in 46 states, with an annual payroll of approximately $47 billion. Total sales of U.S. forest and paper products exceed $230 billion annually.

The U.S. is the world's largest producer of pulp and paper and paperboard. It provides 35 percent of the world's pulp, and satisfies 30 percent of global pc:per and paperboard demand.

In 1995, U.S. forest products exports totalled more than $23 billion. Using the yardstick adopted by the Department of Commerce, these sales figures support about 440,000 direct and indirect jobs.

THE CHINA MARKET

The PRC represents a significant current export market for the U.S. forest products industry, but the potential for future sales is even greater.

In 1995, U.S. exports of pulp, paper and paperboard products to China totalled $273 million. In addition, shipments of recovered paper for recycling by China's paper and paperboard mills amounted to almost $51 million. According to a U.S. Department of Commerce report, in 1993, direct U.S. exports of pulp, paper and paperboard products to China represented approximately 21 percent of China's import market, the highest supply of any foreign supplier. Just behind the U.S. was Hong Kong, which held a 19 percent share; although, a sizeable amount of Hong Kong's paper exports to China are actually U.S. goods transhipped through Hong Kong.

For specific paper products, such as wood pulp and kraft linerboard, China is already an important market. In the case of kraft linerboard which is used in the manufacture of corrugated shipping containers, China is the largest export market for U.S. producers. In 1995, direct exports of U.S. kraft linerboard to China were valued at almost $53 million. In addition, a major portion of U.S. kraft linerboard exports to Hong Kong -- $133 million -- is reshipped to China.

In 1995, direct U.S. exports of wood products to China totaled $27.7 million, with exports of value added hardwood lumber and veneer increasing dramatically by 70 percent from the previous year. In addition, the majority of U.S. wood products that eventually reach China are transhipped through Hong Kong, Taiwan or Canada. For instance, in 1995, between 70 and 80 percent of total U.S. hardwood products reached China after first going through Hong Kong.

Looking ahead, the China market for paper and wood products is expected to grow rapidly. Chinese consumption of paper and paperboard products posted double digit growth rates in 1992 and 1993, placing it third in terms of consumption of paper and paperboard products behind the U.S. and Japan. Even after this rapid growth, the Chinese market has not come close to exhausting its potential. In 1994, China's per capita paper consumption was still only 20 kilograms (kg), much lower than the world average of 48 kg. The Chinese government has forecast that per capita consumption will almost double by the year 2010, rising to 32 kg. The government also plans to improve the quality of domestically produced paper by raising the proportion of wood pulp in the paper making furnish. These changes are expected to provide U.S. pulp and paper suppliers increased sales opportunities in the Chinese market.

Although China's share of total Pacific Rim exports of U.S. wood products is small ($27.7 million in 1995), the future market potential is promising:

- Chinese wood product consumption and imports are steadily increasing;
- although tariffs and quotas on value-added wood products still play a role in impeding U.S. exports, some import restrictions are slowly being eliminated as key trading areas become more independent from central government control; and
- there are significant immediate opportunities in China for U.S. hardwood lumber and veneer, and strong potential for softwood plywood, OSB, and engineered wood products over the next three to five years.

The ability of the U.S. forest products industry to participate in the future development of the China market on a competitive basis will require a carefully calibrated U.S. trade policy which has as its objective the full integration of China into the global trading system -- with its attendant benefits and responsibilities. For this reason, AF&PA recommends an approach which, on the one hand, accords China full Most Favored Nation (MFN) to U.S. markets and, on the other, applies an appropriately rigorous standard to the conditions for China's accession to the WTO.

EXTENSION OF MFN TRADE STATUS

AF&PA strongly supports the extension of MFN trade status for China.

Undeniably, there are commercial considerations behind this position. In the short term, we can anticipate that a denial of MFN status would inevitably lead to steps by Chinese buyers to reduce purchases from U.S. suppliers, including our forest products companies. It is also to be expected that our international competitors would act quickly to use a failure of the United States to renew China's MFN status at this critical period to improve their positions in this developing market, putting us at a long-term disadvantage, even assuming more normal relations were restored at some point in the future.

But our position is equally based on a firm belief in the market as the ultimate instrument of global democratization. The recent history of political change around the globe has made the point that the spread of the global marketplace is the single most powerful liberalizing force operating in the world today. To the extent that the U.S. has invested heavily in the expansion of the global free trade system, it has paid handsome dividends in terms of the realization of our larger foreign policy objectives.

To encumber China's full participation in the world's most open, most robustly competitive market -- as the denial of MFN status would do -- would insulate China from the very forces of liberalization that we wish to foster. This is the underlying fallacy behind the use of market sanctions as a means for changing illiberal behavior and the reason why the withdrawal of MFN status would not only fail to improve China's human rights record, but could actually have the contrary result.

Thank you for your consideration of our views.

SEPARATE CHINA TRADE FROM OTHER ISSUES

By Edward R. Muller, Edison Mission Energy
Irvine, CA

Statement for the Record
House Ways and Means Trade Subcommittee
Hearing on China's MFN Status
June 11, 1996

Again, we are engaged in our annual soul-searching over whether or not to renew China's most favored nation (MFN) trading status. Although the debate professes to examine US/China policies, it has become a destructive exercise that not only fails to achieve our policy goals, but also weakens the prospect of achieving them in the future.

It is time to bring this yearly drama to an end by making MFN status for China permanent. We must stop viewing MFN status as a foreign policy tool -- a benefit that can be awarded or withheld, depending on a country's willingness to support our objectives. Rather, we should view it as the basis of a long-term and reciprocal economic relationship -- the foundation upon which a normal bilateral relationship can flourish.

Human rights, intellectual property rights, nuclear proliferation, Taiwan and Hong Kong all are important and complex issues that do matter and must be resolved. MFN status establishes a relationship within which resolution of these issues can be pursued.

A sound MFN relationship with our trading partners is in the US national interest. It enables other countries to earn foreign currency by exporting their products to the United States, in turn strengthening those countries' ability to buy our exports.

By fostering trade-based economic development, MFN status also helps foreign countries establish and sustain market-driven economies, strengthen democratic institutions and improve social conditions.

During the 15 years that China has enjoyed reciprocal MFN status with the United States, the Chinese Government has gradually adopted market-oriented reforms, decentralized decision-making and improved the standard of living in many parts of the country.

As China's economy has developed, so, too, has the US/China economic relationship. China is now the fastest growing market -- a market our competitors in Japan and Europe would be only too happy to usurp.

In the last seven years alone, US exports to China increased from $5 billion to more than $12 billion. Moreover, with a population of 1.2 billion and the prospect of $750 billion in infrastructure projects over the next decade, China will remain a key market for years to come.

By their very presence, US businesses accomplish much in China. US exports of goods and services expose the Chinese to consumer choices and information sources that were unimaginable two decades ago. US investment generates jobs and encourages the development of a growing, and vocal, entrepreneurial class.

In the case of the power sector, where a number of US firms -- including my own, Edison Mission Energy -- are pursuing opportunities, US projects will have a tremendous impact on the economy. Electricity projects fuel industrial production and power the improvements in telecommunications and information that are crucial to economic success in the global marketplace.

Project development and financing in themselves help establish sophisticated commercial and legal infrastructure. And access to safe and reliable electricity benefits Chinese people in their homes, schools and work.

Recognizing the importance of MFN as key to our relationship with China, ***President Clinton took a welcome first step when he supported renewal of MFN status for China.***

Next, ***Congress should support renewal unanimously.*** Any vote against it aimed at "sending a signal" to the Chinese," unfortunately, will only signal that the United States is still unable to develop a clear policy with regard to China.

Finally, ***Congress and the Administration should make this year's vote on China MFN status the last.*** While problems in China persist, we should acknowledge that China has made large strides in a relatively short time, and pursue further progress quietly through diplomacy, not as part of an annual Congressional fray over MFN.

President Clinton delinked human rights from the MFN debate once before, in 1994. To preserve the delinkage, let's eliminate this annual review once and for all.

Edward R. Muller is CEO of Edison Mission Energy, an independent power producer based in Irvine, California, that develops, owns and operates power plants throughout the world, including China.

Testimony of Representative Thomas W. Ewing

Before the House Ways and Means Committee

Subcommittee on Trade

June 11, 1996

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished panel on the subject of Most-Favored-Nation status for China. I am a strong supporter of MFN for China, and in fact, when I was first elected to the Congress in a special election in 1991, my first vote was on this issue. I was for MFN then and I am even more convinced now that it is the right policy for advancing American interests within China. It is important, when discussing China, to distinguish between the Chinese people and the Chinese government. Because you can be for the Chinese people and against the Chinese government. Since we began granting MFN to China

sixteen years ago, we have witnessed tremendous gains in standard of living, freedom to work, and we have witnessed the creation of a middle class that is emerging as a powerful force for change within China. As we all know, there is lot of work in these areas that needs to be done. However, there is significant recent historical evidence to support the argument that economic liberalization begets political liberalization. Take South Korea for example, ten years ago it would have been unthinkable that former Presidents would the subject of corruption investigations. Political accountability in South Korea in the mid-1980s was just not there. Taiwan is another example and I would argue that the free, democratic elections that they recently held were as unthinkable ten years ago as elections in China are today. The point that I am trying to make is that the Chinese people, like their neighbors in Korea and Taiwan, will gain more and more power over their government, and become less and less tolerant of unjust

government practices, as they become the source of wealth. In other words, as the economic liberalization continues and the entrepreneurial spirits take hold, the Chinese government will become increasingly reliant on the Chinese people and not the other way around as is currently the case. How many wealthy and economically liberalized countries in the world have human rights problems?

I would like to turn my focus to another subject that is close to my heart and that is agriculture exports. Agriculture has unique role in our export portfolio. While the total US trade position has been in deficit since 1971, US agriculture exports have consistently been in surplus. The US has an enormous comparative and competitive advantage in agriculture. We have the combination of the best farmland, quality infrastructure, and high technology that results in our continuing global dominance in exporting agricultural goods.

However, there is no other sector of the US economy with as much to gain or lose by restrictive trade practices as the US ag industry. Our dominance throughout the world has led US farmers to depend on foreign markets more than any other sector in the US economy. The vote on China MFN status could, for all practical purposes, be dubbed "Farm Bill 2." Revoking MFN would undoubtedly freeze out US farmers from the Chinese markets only to the benefit of their foreign competitors. To illustrate the importance of exports and the Chinese market to American agriculture I'd like to share some startling statistics with you.

- Currently, more than one million Americans have jobs that depend on U.S. agricultural exports. Every billion dollars in additional agricultural exports helps create nearly 20,000 new jobs -- in production, processing, marketing, transportation and shipping, as well as in other industries

that supply goods and services relating to agriculture. USDA expects agriculture exports to exceed $60 billion this year, accounting for nearly one-third of domestic production. In addition to boosting farm income, such exports are expected to generate approximately $100 billion in related economic activity, resulting in a positive trade balance of $30 billion. This reduces the overall U.S. trade deficit, provides billions of dollars in additional tax revenues at every level, and creates needed jobs throughout the economy.

- China's feed grain consumption over the past four years has climbed by over 50 million tons -- the biggest surge in world history. Grain for animal feed now accounts for 25 percent of compared to 50 percent in the US and Europe.

- Meat consumption in China is growing 10 percent a year,

or a staggering 4 million tons annually. And yet, per capita meat consumption is only 12 percent of that of the U.S. Similar rising consumption rates prevail for eggs, beef, and other food items. In two years, China has swung from being a net exporter of grain to importing 16 million metric tons. A trend that appears unlikely to reverse itself.

- China's consumption of corn -- more than 80 percent of which goes into animal feed-- expanded by a huge 10 million tons in 1995, to 105 million tons, compared with total U.S. corn output of 192 million tons.

Revoking MFN would take the U.S. out of the Chinese market at a critical point in China's market development and the void from our departure would gladly be filled by our competitors in Latin America, Europe and Australia. Producers

in these countries, although less efficient than U.S. farmers, would certainly leap at the opportunity to gain market share in China.

Mr. Chairman, as you know, I have introduced legislation that would permanently extend MFN for China and the 16 other nations currently subjected to the Jackson-Vanick process. Regrettably this hearing is not addressing this legislation directly. However, this annual renewal battle illustrates the importance of passing permanent MFN for China. Jackson-Vanick was a useful tool during the Cold War era, when it was part of the broader foreign policy dynamics of that era. In the post Cold War era, Jackson-Vanick has assumed a role that it was not intended to serve: namely an all-encompassing foreign policy lever. At no other time in American history has a bilateral relationship, as important as the US-China relationship, been micro managed by the

Congress. Indeed, not one of our trading partners has anything resembling our annual MFN debate with China. The annual MFN debate impedes our progress in the very areas that some profess to use MFN to correct. The bottom line Mr. Chairman, is that this annual fight is placing American interests in China at an extreme disadvantage.

I appreciate the opportunity to speak to you today and I look forward to working with the Subcommittee on my legislation at a later date. I would be happy to answer any questions that Members may have. I have enclosed a copy of the legislation.

I

104TH CONGRESS
2D SESSION

H. R. 2926

To extend nondiscriminatory treatment (most-favored-nation treatment) to the products of certain nonmarket economy countries.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 1, 1996

Mr. EWING (for himself, Mr. DREIER, Mr. KOLBE, Mr. KNOLLENBERG, and Mr. MANZULLO) introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To extend nondiscriminatory treatment (most-favored-nation treatment) to the products of certain nonmarket economy countries.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Export Market Sta-
5 bilization Act of 1996".

6 **SEC. 2. EXTENSION OF NONDISCRIMINATORY TREATMENT.**

7 (a) EXTENSION.—Notwithstanding title IV of the
8 Trade Act of 1974, nondiscriminatory treatment (most-
9 favored-nation treatment) shall apply to the products of

1 each country set forth in subsection (b) that is either a
2 member of the World Trade Organization or has entered
3 into a bilateral commercial agreement referred to in sec-
4 tion 405 of that Act that has taken effect as provided in
5 section 405(c) of that Act, and is in effect.

6 (b) LIST OF COUNTRIES.—The countries referred to
7 in subsection (a) are the following:

8 (1) Albania.
9 (2) Armenia.
10 (3) Azerbaijian.
11 (4) Belarus.
12 (5) China.
13 (6) Georgia.
14 (7) Kazakhstan.
15 (8) Kyrgyzstan.
16 (9) Moldova.
17 (10) Mongolia.
18 (11) Tajikistan.
19 (12) Turkmenistan.
20 (13) Ukraine.
21 (14) Uzbekistan.
22 (15) Bulgaria.
23 (16) Romania.
24 (17) Russia.

1 (c) TERMINATION OF APPLICATION OF TITLE IV.—
2 During any period in which nondiscriminatory treatment
3 applies to the products of a country under subsection (a),
4 title IV of the Trade Act of 1974 shall not apply to that
5 country.
6 (d) CONFORMING AMENDMENT.—General Note 3(b)
7 of the Harmonized Tariff Schedule of the United States
8 is amended by striking "Azerbaijian".

9 **SEC. 3. EFFECTIVE DATE.**

10 The extension of nondiscriminatory treatment under
11 section 2 to the products of a country shall apply with
12 respect to goods of that country that are entered, or with-
13 drawn from warehouse for consumption, on or after the
14 15th day after such extension.

O

Serko & Simon
Counsellors at Law
Customs & International Trade Law

One World Trade Center - Suite 3371
New York, N.Y. 10048
212-775-0055 Facsimile: 212-839-9103
E-mail: serko-simon@customs-law.com
Internet: http://www.customs-law.com

Branch Offices:
Washington, D.C.
Atlanta, Georgia
Old San Juan, P.R.

TESTIMONY OF THE FASHION ACCESSORIES SHIPPERS ASSOCIATION
ON U.S. - CHINA TRADE RELATIONS
BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS
SUBMITTED BY: JOEL K. SIMON, ESQ.
BARBARA Y. WIERBICKI, ESQ.
COUNSEL TO THE ASSOCIATION

June 17, 1996

The Fashion Accessories Shippers Association, Inc.("FASA"), is a trade association located at 330 Fifth Ave., New York, NY. The Association is comprised of one hundred (100) member firms who import handbags, luggage, small leather goods, gloves and belts from all parts of the world. The members are located throughout the United States, and are comprised mainly of small to medium size privately held companies, employing less than 500 workers, although some of the members are large public companies with thousands of employees. In total, FASA members employ more than ten thousand workers in the United States.

At the present time, approximately 87% of all handbags and related products sold in the United States are imported, with the largest percentage of products sold in the low to medium price range.

Once again, we thank the Committee for affording us the opportunity to offer its statement to express FASA's concern regarding the continued Most Favored Nation ("MFN") status for the People's Republic of China in 1996-1997. In the past, FASA has offered before this Subcommittee testimony which supported the goals put forth by the President for future renewal of MFN status for China, while at the same time we stated our very strong concerns about the negative impact that would occur if MFN status was removed.

At this time, FASA joins President Clinton, former Senate Majority Leader Dole, House Speaker Gingrich, U.S. Trade Representative Barshefsky, as well as hundreds of thousands of Americans in voicing its support for maintaining MFN status for China. FASA continues to believe that in the long run, the maintenance of MFN for China will have a twofold result. It would ensure the hundreds of thousands of jobs held by Americans involved in both export and import to / from China, and, it would result in achievement of the human rights goals that President Clinton and America support.

Both President Clinton and former Senator Dole recognize the repercussions of denying MFN status to China. President William Clinton: "Revoking MFN and, in effect, severing our economic ties with China, would drive us back into a period of mutual isolation and recrimination that would harm America's interests, not advance them." Former Senate Majority Leader Robert Dole stated that China's MFN status should be continued "not because it is in our economic interest, but because it is in our national interest. To deny MFN for China would set back our relations more than two decades, and send a disastrous signal of American withdrawal to our strategic allies throughout the Pacific Rim. Denying MFN would not free a single dissident, halt a single missile sale, prevent a single threat to Taiwan or save a single innocent Chinese life." As recognized by United States Trade Representative Charlene Barshefsky, in supporting MFN renewal despite the human rights situation in China being "deplorable," "it is clear that greater engagement on all fronts, including by U.S. corporations in China, will help encourage the emergence of a more open society." House Speaker Newt Gingrich has indicated that he, too, favors extension of MFN to China and would do whatever it took to ensure the House did not vote to deny or condition the privilege.

Indeed, political observers have voiced concerns over the possible aftermath of resultant confrontation between America and China: Hyper nationalism in China, which could precipitate higher Chinese defense spending, forcing "Tokyo and others to unilaterally increase their military strength, conceivably including the acquisition of nuclear weapons and ... wreck U.S. - Japan security ties. ... It defies logic to suggest that we would get Beijing's full cooperation on the Korean Peninsula ... Tension between [Beijing and Washington] tends to produce more strain between Beijing and Taipei ... not only would jeopardize much of Taiwan's $25 billion investment on the mainland, which produces exports for the U.S. market, but Beijing also would put even more pressure on Taipei directly. In turn, Taipei would seek additional security guarantees (and weapons) from Washington. ... Is it sensible to believe that Beijing would not frequently exercise its [United Nations] Security Council veto to frustrate American goals [such as the Persian Gulf, Somalia, former Yugoslavia] if we declare economic war on China by removing normal tariff treatment? ... finally, overuse of the annual MFN threat, and repeated flip flops on the issue, have dangerously undermined American credibility in Beijing's eyes. ... [In summary] Because withdrawing MFN from China hurts America, Taiwan and Hong Kong as much as the People's Republic, it is not credible. If we continue making incredible threats, we will find opponents doubting our resolve when it matters most."

As testified to in the past, there is a great concern in the business community that action may be taken by Congress or the Administration, no matter their intentions, which will cause great hardship for many American workers and their families, as well as the workers and families in China. This hardship will take the form of lost American jobs on both the export and import side, as well as seriously diminishing, or even eliminating, the supply of inexpensive basic consumer items upon which Americans with fixed incomes have come to rely. Alternatively, should other sources be located, the price of these goods would likely be prohibitive to those on fixed incomes.

Should China lose MFN status, the duties on the products which our members import will increase to such an extent as to make most if not all products totally non-competitive. Leather bags will increase from 9% or 10% to 35%. Plastic bags will go from approximately 20% to 45%, man-made fiber bags will go from approximately 20% to 65% and braided bags will go from 8.4% to 90%. Similar large increases will apply to luggage, gloves and belts. Many workers would, at least temporarily lose their jobs if MFN were lost.

Many of the products that are imported from China continue to be subject to quota. Accordingly, our members will not be able to shift their production to other countries, because most other countries that are capable of producing our products will not have the quota necessary to allow entry into the United States. Even if we could overcome the quota problem, there is not enough production available in other countries to allow for a shift in orders to other MFN countries. In the last few years, in Taiwan and Korea, our industry's historic producers, production has fallen as costs in those countries increased and their economies moved away from low technology industries. Adding the additional duty costs to their sales price is not a realistic option for FASA members, either, as duty would average about 50% - an increase of 2.5 to six times of that paid currently. Since most of these products are low to moderately priced merchandise, the American consumer would be unable or unwilling to pay the price.

Rather, it is our belief that continued business contacts with the Chinese people will show the people that the United States has not abandoned them. The loss of American contracts by China, and the obvious resultant loss of jobs by its workers, could be contrary to the very interests America supports. These jobs have helped improve China's basic human rights policies. Not only have Chinese living standards risen, but it is also reported that state control over most aspects of the of their individual lives is seriously diminishing. Cutting business ties and putting the workers out of work could easily undo all the positive gains, economic, social and political, that China has made in the last ten years. It would give the leaders in Beijing ammunition to use against the United States by creating economic unrest within China. FASA members are fearful that the workers in China, who are more concerned with feeding and caring for their families than they are with politics, would be the "victims" of the loss of MFN. We, at FASA and other American firms, would be perceived as abandoning them after the promise of improved living standards that we have been giving them for the past ten years. It has been our experience that life in China had improved greatly for many people during the past ten years.

We must believe that some of that improvement is attributable to the hundreds of thousands of jobs created by our trade and the billions of dollars that have been paid to the Chinese workers for their labor and their products.

FASA is not unmindful of the potential injury to exporters, as well. As noted by President Clinton, revoking MFN to China "would cede one of the fastest growing markets to our competitors. ... China has become our fastest growing export market, with exports up 0% in 1995 alone." Finally, Commerce Department Under Secretary for International Trade Stuart Eizenstat accurately summed up the situation: "Renewal of MFN is in our national interest. It's not a gift to China."

On behalf of the Fashion Accessories Shippers Association, and its member companies across this nation, we hope that Congress and the Administration not only renew MFN for China, but do so permanently and without the imposition of any additional requirements.

Serko & Simon
Counsellors at Law
Customs & International Trade Law

One World Trade Center - Suite 3971
New York, N.Y. 10048
212-775-0055 Facsimile: 212-839-9103
E-mail: serko-simon@customs-law.com
Internet: http://www.customs-law.com

Branch Offices:
Washington, D.C.
Atlanta, Georgia
Old San Juan, P.R.

STATEMENT OF RUSS BERRIE AND COMPANY, INC.
ON U.S. - CHINA TRADE RELATIONS
BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS
SUBMITTED BY: JOEL K. SIMON, ESQ.,
BARBARA Y. WIERBICKI, ESQ.
COUNSEL TO RUSS BERRIE AND COMPANY, INC.

JUNE 17, 1996

Russ Berrie and Company, Inc. ("Russ Berrie"), of Oakland, N.J., is a public company whose stock is traded on the New York Stock Exchange. The company employs approximately 2000 men and women worldwide, of which approximately 1200 are in the United States. In addition to New Jersey, it has facilities in California, West Virginia, Pennsylvania and Ohio. The company employs a sales force in each of the fifty states. Net yearly sales total approximately $347,000,000.

The company develops and markets a vast selection of impulse gift products to retail stores in the United States, Canada, England and most of the countries in the world. Russ Berrie sells more than 11,000 different products, most of which are produced in the Far East.

Once again, we thank the Committee for affording us the opportunity to offer its statement to express Russ Berrie's concern regarding the continued Most Favored Nation ("MFN") status for the People's Republic of China in 1996-1997. In the past, Russ Berrie has offered before this Subcommittee testimony which supported the goals put forth by the President for future renewal of MFN status for China, while at the same time we stated our very strong concerns about the negative impact that would occur if MFN status was removed.

At this time, Russ Berrie joins President Clinton, former Senate Majority Leader Dole, House Speaker Gingrich, U.S. Trade Representative Barshefsky, as well as hundreds of thousands of Americans in voicing its support for maintaining MFN status for China. Russ Berrie continues to believe that in the long run, the maintenance of MFN for China will have a twofold result. It would ensure the hundreds of thousands of jobs held by Americans involved in both export and import to / from China, and, it would result in achievement of the human rights goals that President Clinton and America support.

Both President Clinton and former Senator Dole recognize the repercussions of denying MFN status to China. President William Clinton: "Revoking MFN and, in effect, severing our economic ties with China, would drive us back into a period of mutual isolation and recrimination that would harm America's interests, not advance them." Former Senate Majority Leader Robert Dole stated that China's MFN status should be continued "not because it is in our economic interest, but because it is in our national interest. To deny MFN for China would set back our relations more than two decades, and send a disastrous signal of American withdrawal to our strategic allies throughout the Pacific Rim. Denying MFN would not free a single dissident, halt a single missile sale, prevent a single threat to Taiwan or save a single innocent Chinese life." As recognized by United States Trade Representative Charlene Barshefsky, in supporting MFN renewal despite the human rights situation in China being "deplorable," "it is clear that greater engagement on all fronts, including by U.S. corporations in China, will help encourage the emergence of a more open society." House Speaker Newt Gingrich has indicated that he, too, favors extension of MFN to China and would do whatever it took to ensure the House did not vote to deny or condition the privilege.

Indeed, political observers have voiced concerns over the possible aftermath of resultant confrontation between America and China: Hyper nationalism in China, which could precipitate higher Chinese defense spending, forcing "Tokyo and others to unilaterally increase their military strength, conceivably including the acquisition of nuclear weapons and ... wreck U.S. - Japan security ties. ... It defies logic to suggest that we would get Beijing's full cooperation on the Korean Peninsula ... Tension between [Beijing and Washington] tends to produce more strain between Beijing and Taipei ... not only would jeopardize much of Taiwan's $25 billion investment on the mainland, which produces exports for the U.S. market, but Beijing also would put even more pressure on Taipei directly. In turn, Taipei would seek additional security guarantees (and weapons) from Washington. ... Is it sensible to believe that Beijing would not frequently exercise its [United Nations] Security Council veto to frustrate American goals [such as the Persian Gulf, Somalia, former Yugoslavia] if we declare economic war on China by removing normal tariff treatment? ... finally, overuse of the annual MFN threat, and repeated flip flops on the issue, have dangerously undermined American credibility in Beijing's eyes. ... [In summary] Because withdrawing MFN from China hurts America, Taiwan and Hong Kong as much as the People's Republic, it is not credible. If we continue making incredible threats, we will find opponents doubting our resolve when it matters most."

As testified to in the past, there is a great concern in the business community that action may be taken by Congress or the Administration, no matter their intentions, which will cause great hardship for many American workers and their families, as well as the workers and families in China.

While Russ Berrie has products manufactured in Korea, Taiwan, Hong Kong, Thailand, Indonesia, The Philippines, Mexico, and the United States, China is its single most important source of product at this time. Estimates are that, in a single year, Russ Berrie has imported more than eighty million dollars worth of products from China. The possibility of the loss of MFN duty treatment for these products would be disastrous for the company and for the toy and gift industry as a whole if this legislation is passed.

There is no alternative source of supply presently available anywhere in the world that could fill the demand that would be created due to the loss of imports from China. The loss of imports from China would cause the company to lose a substantial amount of its sales. We estimate that some three to four hundred Russ Berrie employees would either temporarily or permanently lose their jobs. We do not believe that the story would be any different for others in this our industry, and we could easily foresee thousands of people unemployed in the toy and giftware industry alone. Commerce Department Under Secretary for International Trade Stuart Eizenstat stated that "Renewal of MFN is in our national interest. It's not a gift to China." As noted by President Clinton, revoking MFN to China "would cede one of the fastest growing markets to our competitors. ... China has become our fastest growing export market, with exports up 30% in 1995 alone."

Moreover, should MFN status be lost, Russ Berrie and other importers would be forced to look to other countries to make up for the lost production and sales in China. Due to the nature of the gift and toy industry, it is doubtful that any of this production would return to the United States. Since toys and impulse gift items are not necessities, price is always a consideration. Therefore, production will shift to those countries which can provide a large, inexpensive, but skilled workforce. Furthermore, withdrawal of MFN status could seriously diminish, or even eliminate, the supply of inexpensive basic consumer items upon which Americans with fixed incomes have come to rely. Alternatively, should other sources be located, the price of these goods would likely be prohibitive to those on fixed incomes.

Nor can we foresee a return of production to China, once new facilities are established. The loss of the American market to Chinese goods would surely result in a loss of the Chinese market to American goods. Such an event would not be temporary, as once new facilities are established it would be unlikely that they would be shut down or moved. Moreover, the uncertainty of future action against MFN status for China would make a return to China unlikely once MFN status was lost.

Additionally, the loss of American contracts by China, and the obvious resultant loss of jobs by its workers, could be contrary to the very interests America supports. These jobs have helped improve China's basic human rights policies. Not only have Chinese living standards risen, but it is also reported that state control over most aspects of the of their individual lives has seriously diminished. Cutting business ties and putting the workers out of work could easily undo all the positive gains, economic, social and political, that China has made in the last ten years. It would give the leaders in Beijing ammunition to use against the United States by creating economic unrest within China. Russ Berrie is fearful that the workers in China, who are more concerned with feeding and caring for their families than they are with politics, would be the "victims" of the loss of MFN. We, at Russ Berrie and other American firms, would be perceived as abandoning them after the promise of improved living standards that we have been giving them for the past ten years.

The people at Russ Berrie continue to believe that their experiences in China over the years has shown them that, as we expanded our economic contacts with the Chinese people, so have their lives improved. There has been more food, better living conditions and an easing of the political situation to the point where people found the courage to stand up to repression. Russ Berrie believes that the continuation of economic contacts with China and its people will, in the long run, aid in the growth of democratic ideals and bring about a peaceful democratic revolution as we see happening in Eastern Europe.

On behalf of Russ Berrie and Company, Inc., we would like to thank you for your consideration of its concerns and urge that you support the renewal of MFN, and not impose any additional requirements on the extension of MFN for China for the next period, if not permanently re.

Statement of the

Toy Manufacturers of America, Inc.

In Support of Renewal of Unconditional MFN Trade Status for China

Committee on Ways and Means
House of Representatives

June 11, 1996

Summary

America's toy industry and American families have a huge stake in maintaining mutually beneficial economic relations between the United States and China. TMA therefore strongly supports the unconditional renewal of MFN status for China.

U.S. toy companies have helped China become the world's leading supplier of high quality, low cost, mass produced toys. The U.S. imported $5.4 billion of toys from China in 1995, accounting for more than half of all the toys American families purchased last year. This trade benefits both China *and* the United States.

Were Congress to revoke MFN, American tariffs on most toy imports from our industry's most important supplier would suddenly leap from *zero* to *70 percent*. The impact would be severe. Toy sales would plummet and many companies would go out of business. The jobs of many American toy industry workers supported by trade with China would be put in serious jeopardy. Many more jobs in the importing, distribution, and retailing of toys from China would likewise be put at risk. The burden of the revocation of MFN would be felt acutely by families with lower disposable incomes.

American trade and investment with China advances long-term U.S. economic and strategic interests vis-à-vis China and promotes American values. The alternative to a policy of "engagement" with China -- trying to isolate China with trade sanctions and handicapping American business in China -- is bound to fail and hurt the U.S. as well as China. *Engagement is the right policy and MFN trading status is the foundation upon which engagement rests.*

The Toy Manufacturers of America, Inc. (TMA) is the trade association that represents 265 U.S. manufacturers and importers of toys, games, dolls, and festive articles. TMA member companies, who employ more than 40,000 Americans, account for approximately 85 percent of all toy sales in the United States. Toys are a $50 billion global industry at the wholesale level and United States toy companies are the leaders in inventing, designing, producing, marketing, and selling toys around the world.

TMA strongly supports the unconditional renewal of MFN for China.

TMA submits this statement to explain the tremendous stake that the American toy industry has in trade with China and the huge cost that the revocation of *normal* trading status for China -- what the trade community confusingly calls "Most Favored Nation" or "MFN" status -- would have on American toy companies, their employees, and American families. That, we hope, will enable the Trade Subcommittee to understand why our industry so strongly supports unconditional renewal of MFN for China.

American toy companies employ over 40,000 Americans, about 70 percent of them in production work. We combine high-value added domestic operations -- such as design, engineering, and sophisticated production processes -- with low-cost, labor-intensive production overseas. This is not a new phenomenon. Labor intensive production of many American consumer goods, of which toys are but one example, began to migrate from the United States to developing countries in the 1950s. For industries like ours that are product driven, price sensitive, and highly competitive, this reluctant evolution was a straightforward matter of survival. This strategy was the only way we could hope to remain competitive, sell toys to families in the United States and around the world at affordable prices, and minimize the inevitable loss of low-skilled jobs in the United States. It has proven to be a highly successful strategy. Today American toy companies enjoy a significant competitive advantage and hold a global market share of approximately 50 percent.

Preserving that success is contingent upon maintaining normal, that is MFN, trading status for China. A quick review of history will put the situation in perspective. Before 1979, when the United States and China established normal commercial relations and assumed reciprocal obligations to grant one another MFN trading status, China produced no toys for the U.S. market. Why? The answer is simple. The *non*-MFN U.S. tariff rate for toys and dolls -- the toy categories that accounted for 75 percent of U.S. toy imports from China last year -- is ***70 percent.*** (Non-MFN tariff rates for the other 25 percent of toy products imported from China range from 35 percent to 52 percent.) There was no way China could overcome such high tariff hurdles and be a competitive supplier of toys to the U.S. market.

Extending MFN to China in 1979 brought those tariff rates down to between 4 percent and 12 percent. Uruguay Round tariff cuts implemented last year brought U.S. MFN duty rates for toys to *zero*, a tremendous boon to our industry and to American families. Because of China's industrious, quality-conscious, and low-cost labor force, it was natural that toy production migrate to China from other developing countries. Over the past dozen years, American firms -- working through wholly-owned direct investments in China, joint ventures with Chinese and Hong Kong partners, and production contracts with Chinese firms -- have invested heavily in China, building plants and teaching manufacturing skills. As a result, China has emerged to become the world's leading supplier of high-quality, low-cost, mass-produced toys.

The United States imported $5.4 billion of toys from China in 1995, accounting for more than half of all the toys American families purchased last year. To put that figure in perspective, Japan was our second largest foreign supplier and it accounted for U.S. imports of about $1 billion.

Were Congress to revoke MFN for China now, our industry would suddenly find itself confronted with 70 percent tariffs on most toy imports from our most important supplier. The impact would be severe.

Tariff rates of 70 percent would drive the price of toys from China to prohibitively high levels. Consumer choice would be severely constrained. Toy sales would plummet. The burden of trade sanctions would be felt most acutely by families with lower disposable incomes, many of whom would face toy prices beyond their means.

Our industry is not a special case. Other U.S. consumer goods producers and importers -- including footwear, textiles and apparel, consumer electronics and others -- would face similar consequences if China's MFN status were to be revoked. Yesterday, the Business Coalition for U.S.-China Trade, of which TMA is a member, released a new study it commissioned from the International Business and Economic Research Corporation that estimates the *total* cost to American families of revoking MFN for China, including higher prices for toys, would be $27 billion to $29 billion per year. That is equivalent to an annual tax of about $300 on each of America's 96 million households.

In addition, American toy companies exclusively dependent upon product from China -- TMA estimates possibly as many as fifty -- would soon be forced out of business. In the longer run, we estimate over a period of two to four years, the industry would adjust to this effective embargo on Chinese toy imports by moving production to other developing countries. The adjustment costs to the industry of replicating its investment in China would be enormous and there would be no guarantee that the high efficiency of Chinese production could be duplicated. As a result, the preeminent global position of America's toy companies would be put at risk.

The jobs of many American toy industry workers supported by trade with China -- we estimate as many as 20,000, particularly in the states of Rhode Island, New Jersey, Oregon, California, New York, Massachusetts, Ohio, and Texas -- would be put in serious jeopardy. Many more jobs in the importing, distribution, and retailing of toys from China would likewise be put at risk.

We view the imposition of conditions upon the renewal of MFN as virtually synonymous with outright revocation. Conditionality mean uncertainty. We cannot plan and run our businesses if we are wondering whether our most important source of supply is about to disappear. Without continuity and certainty of supply, American toy companies also cannot plan to take advantage of the growing Chinese consumer market.

China has taken tremendous strides over the past 15 years since trade with the United States was opened. The quality of life of tens of millions of ordinary Chinese has improved vastly. Despite this progress, TMA member companies share the concerns of other Americans over the issues of human rights, the proliferation of weapons, the protection of intellectual property rights, and China's slowness to open its market. We nevertheless want to impress two critical points upon the Trade Subcommittee.

The first point is that the denying or conditioning of MFN is a totally inappropriate tool with which to address our concerns with China. MFN is simply too blunt and devastating a weapon to use to pursue U.S. objectives vis-à-vis China effectively. This Committee and the Congress have given the President a substantial arsenal of more limited but still highly potent weapons which the Administration has to date judiciously employed to protect and advance U.S. economic and foreign policy interests.

Our second point is that our industry's many years of experience in China has convinced us that America's economic and other interests will best be served by persevering in the policy of comprehensive engagement that all Administrations, Democrat and Republican, have pursued with bipartisan congressional support since 1979. This policy has never promised instant results, and there is no doubt there will be further setbacks along the way, but we believe comprehensive engagement is the only policy that holds the promise of achieving the results we all want to see.

Through their presence in China, American firms have an important role to play in support of that policy. Several concrete examples will illustrate this point in the case of the toy industry:

- TMA, through its Safety Standards Steering Committee working with the Corporate Safety and Health Services Department of Hasbro, Inc., recently published in Chinese a "Fire Prevention and Emergency Preparedness Guide" to assist managers of toy manufacturing plants in China in evaluating their fire prevention controls and emergency preparedness in the event of a fire.

- In March of this year, TMA, in cooperation with the United States Consumer Product Safety Commission (CPSC) and the State Administration of Commodity Inspection of the People's Republic of China (SACI), conducted three-day toy safety and fire prevention seminars in Guangzhou and Shanghai, China. The purpose of these seminars was to enable TMA and the CPSC to share with Chinese toy manufacturers, standard setters, and government representatives the technical expertise and experience of U.S. Government and industry experts in the areas of toy safety testing, quality assurance, and fire protection. More than 500 Chinese toy manufacturers and government officials attended the seminars.

- In November, 1995, TMA sponsored China's State Family Planning Commission a conference on "Intergenerational Play." The purpose of this program was to share with Chinese government media officials, toy industry executives, and Chinese scholars our respective insights into the role toys and intergenerational play have in child development.

Revoking MFN is the equivalent of waging economic war. It would do enormous damage to China, a country that is an increasingly important actor in all spheres of global affairs, as well as to ourselves. There is no reason to believe that it would advance the cause of U.S. economic and foreign policy interests. There is every reason to believe it would set us on a course of confrontation with China with potentially disastrous long-term consequences.

Comprehensive engagement is the right policy.

MFN is the foundation upon which comprehensive engagement rests.

Congress should, therefore, support the President's decision and the recommendation of Senate Majority Leader Dole to renew MFN for China.

TMA0397

○

U.S. TRADE COMPETITIVENESS AND WORK FORCE EDUCATION AND TRAINING

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JULY 25, 1996

Serial 104–88

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

43–362 CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055727-5

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, NEW YORK

PHILLIP D. MOSELEY, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON TRADE

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California
E. CLAY SHAW, JR., Florida
AMO HOUGHTON, New York
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JENNIFER DUNN, Washington

CHARLES B. RANGEL, New York
SAM M. GIBBONS, Florida
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts

CONTENTS

	Page
Advisory of July 10, 1996, announcing the hearing	2

WITNESSES

U.S. Department of Labor, Hon. Robert B. Reich, Secretary	7
U.S. Department of Education, David A. Longanecker, Assistant Secretary, Post-Secondary Education	24

Columbia University, New York, New York, Thomas Bailey	115
Competitiveness Policy Council, Howard Rosen	92
Council on Competitiveness, Howard D. Samuel	120
IBM Foundation, Armonk, New York, Stanley Litow	67
Institute on Education and the Economy, Thomas Bailey	115
National Alliance of Business, Roberts T. Jones	61
National Coalition for Advanced Manufacturing, Leo Reddy	75
Travelers Group, New York, New York, Sanford I. Weill	40

SUBMISSIONS FOR THE RECORD

Center for the Study of Economics, Columbia, MD, Steven Cord, statement and attachment	131
E.C. Murphy, Ltd., Amherst, NY, Emmett C. Murphy, statement	133
Jefferson Waterman International, Stephen E. Lamar, statement	138

U.S. TRADE COMPETITIVENESS AND WORK FORCE EDUCATION AND TRAINING

THURSDAY, JULY 25, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 11:28 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
July 10, 1996
No. TR-27

CONTACT: (202) 225-1721

Crane Announces Hearing on U.S. Trade Competitiveness and Workforce Education and Training

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S. trade competitiveness and workforce education and training. **The hearing will take place on Thursday, July 25, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m.**

BACKGROUND:

The Subcommittee is aware that increased international competition requires both large and small U.S. companies to position themselves in the international marketplace in order to succeed, which presents new challenges for firms and workers. Entering more forcefully into the global marketplace and improving America's export base will continue to exert competitive pressure on the workforce. The Subcommittee also recognizes the resiliency of the U.S. economy and workforce in responding to these competitive pressures. The hearing will allow witnesses from the Administration to outline education and training programs designed to improve the global trade competitiveness of the U.S. workforce. Witnesses from the private sector, research foundations, and academia will also provide testimony, including an evaluation of the success or failure of past initiatives and suggestions for improving current programs.

FOCUS OF THE HEARING:

The hearing will focus on ways in which the government, business, and industry are working to improve the competitiveness of the U.S. workforce through education and training initiatives.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Tuesday, July 16, 1996. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 11:00 a.m. on Tuesday, July 23, 1996.** Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Thursday, August 8, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

Chairman CRANE. Thank you for coming this morning to the Subcommittee's hearing on U.S. trade competitiveness and work force education and training.

I am impressed with the interest shown in this topic, and I am pleased to have been able to cooperate with my distinguished colleague from New York, Mr. Rangel, to make this hearing possible.

We have already been interrupted by votes thus far, and we could still have more, and so I would ask our witnesses to try and compress their opening remarks, and then any written statement will be made a part of the permanent record.

This hearing will focus on ways in which the government, business and industry can improve the competitiveness of the U.S. work force through education and training initiatives, especially for those preparing to enter the work force for the first time.

The United States is the most competitive nation in the world, and U.S. workers are the most highly skilled and innovative in the world. Business and industry have worked aggressively to ensure that public education responds to its needs, and also have established numerous educational programs to achieve this end.

Business and industry rely on the educational system to provide a pool of talented workers. As a result, the output of U.S. workers is higher than that of workers anywhere else in the world.

American firms scour the globe, developing and expanding overseas markets for our exports. Many foreign companies invest here, providing jobs for our workers. These are not new phenomena.

For decades the internationalization of foreign markets has forced U.S. companies to expand globally as advanced telecommunications and transportation make the world smaller and more interrelated.

The trend toward globalization also has increased competition in labor markets, both here and abroad. I have seen this with my own eyes. It has been my privilege to travel to nearly every continent on the globe.

Mainland China and the new democracies of Eastern Europe, such as Romania and Bulgaria, are the latest countries to emerge as players in the international marketplace.

As we open this hearing on global trade competitiveness and work force education and training, let us keep in mind two things: First, the entry of new countries into the global markets for capital labor is only an acceleration of a process which has been going on for years.

The United States has always responded quickly to become the primary player worldwide.

Second, while the need to be both competitive and innovative continues, I am confident the training provided by corporations tailored to workplace need, along with a responsive education system, will allow American workers to hold their lead as the most productive workers in the world.

And I would now like to recognize our distinguished Ranking Member, Mr. Rangel, for any statement he would like to make.

Mr. RANGEL. Thank you very much, Mr. Chairman.

I would hope that my written statement would be entered into the record.

Chairman CRANE. Without objection.

Mr. RANGEL. And, Mr. Chairman, I hope that today will be one of the most important days in my legislative and political life.

The new changes in the Congress have caused a lot of friction in the ability of Republicans and Democrats to work together. But, as relates to the Trade Subcommittee, there has been a longstanding tradition that, with respect to other nations, we stand as one, and that we have been bipartisan, notwithstanding our other differences in how to resolve problems in the best interests of our Nation.

And you have kept that tradition, and I am particularly glad to have your continued friendship and support in working together on trade issues.

Chairman CRANE. Thank you.

Mr. RANGEL. And especially for agreeing to have this hearing today. I could not think of anyone whom I would want more to be our first witness than Secretary Reich. In all of the conversations I have had, with all of the Cabinet officials, it seems as though there is one thing that you and I agree on—that having a job brings dignity, brings hope, brings productivity.

Having a job, or even the hope of knowing you can get a job, means you do not have time to do those things that are not only detrimental to your life, which may not be worth anything to you, but detrimental to society, and the people who are forced to live with you.

Detrimental to your government in terms of not being productive, detrimental to our ability to effectively compete against other countries that do not have the burden of millions of people locked up in cells, shooting each other, conceiving children, doing crime, doing violence, and continually causing our deficit to increase.

And the bottom line is, there is not one scintilla of evidence that any of this has been productive. It is bad business, it is bad politics, and for the first time that I can remember, it is not just an item on the private sector's agenda.

It is up front, which to me means that the education of the people in our great country is too important to leave up to the local school boards.

The reason I say, Mr. Chairman, that this is the beginning of a process is because the U.S. Chamber of Commerce next week will be giving a briefing on all of the educational projects that they have underway. I would want educators to come and see the innovative and creative ways they are making people productive.

And after that, I hope, you will find time yourself, or to send technicians, along with Secretary Riley, to an overall conference—not a hearing, not 5 minutes—with those of you who understand that to get a job you need the training, and to get the training you need education.

Soon we will be able to have mayors and Governors, and those running for public office, who will be just as proud of the number of people who have graduated and the number of universities they have supported, as they are unfortunately, of the number of people whom we are sending to jail, for lengths of time that are ridiculous, in the number of prisons that we are building.

And so, Mr. Chairman, this to me is the first day of a grand new project. When we talk about business having an even playingfield,

I want every U.S. business to have a fair advantage over everybody else.

I want our businesses to be able not only to compete, but to win. I want every foreign country to know that when they steal our intellectual property rights, when they steal our software, when they steal our movies, when they steal our pharmaceutical products, they are stealing our jobs, and that is not to be tolerated.

And so, I think this new partnership with the private section on work force education and training is the most patriotic thing I have ever done, and I am proud to have partners in the private sector, and proud to have such a distinguished public servant who has been saying this over and over, and I look forward to this being a very exciting, working relationship.

Thank you, Mr. Chairman.

[The opening statement follows:]

OPENING STATEMENT OF HON. CHARLES B. RANGEL

Mr. Chairman, thank you for calling this hearing on the importance of education and training to U.S. trade competitiveness.

Preparing our future and current work force to meet the demands of a rapidly changing and technologically advanced global economy is in our national interest—and should be a priority for our Nation.

Indeed, the public and private sectors must work together to ensure that America has an internationally competitive work force. I hope that today's hearing will advance efforts to develop a framework for such collaboration.

I am pleased Mr. Chairman that so many fine Americans, recognizing the importance of this topic, have chosen to deliver and/or submit testimony.

I am particularly pleased that our distinguished Secretary of Labor is with us today. Secretary Reich has labored long and hard in the economic vineyard for American youth and workers. His commitment and work in both academia and government have been exceptional. I look forward to his insights on increasing U.S. work force competitiveness as well as his ideas on effective public-private sector cooperation. I also welcome Assistant Secretary Longanecker and our other witnesses.

I am very proud of some of the private sector initiatives that we will learn more about today. The firms represented here are trailblazers and have invested millions of dollars in our youth and workers. These firms recognize that investments in education and training yield substantial returns.

I hope other American firms will follow the lead of those that invest in education and training. Businesses, particularly international firms, understand the skills required in the international marketplace and should naturally be involved in education.

There is broad agreement that Americans will live in an increasingly challenging and borderless world—a world so complex and advanced that only the best educated and best trained will succeed. Mr. Chairman, how prepared are we for this new era? How can we best assure that our workers have the skills that this new marketplace requires?

The experts tell me that there is a gap between what the schools are teaching and what the global market is demanding. While skills in math and science will continue to underpin our trade and technology competitiveness in the future, the United States ranks the lowest among industrial nations graduating students in math and science.

While international trade will surely be a cornerstone of U.S. economic growth, the National Geographic Society reports that Americans rank among the bottom third in geographic knowledge.

Mr. Chairman, 60 percent of all jobs by 2007 will require some postsecondary education. The National Alliance of Business reports that a 10-percent increase in the educational levels of a company's work force increases productivity by 8.6 percent.

In an era where Federal resources are shrinking and where raising taxes in our national interest is untenable, international trade may well be the best available option to generate jobs and growth.

I am concerned Mr. Chairman, about those that will not be able to compete in this brave new trade-driven global economy. I am concerned that the cost of doing nothing to enhance our human capital is too high.

There are over 1 million—mostly African-American—youth that are imprisoned for nonviolent crimes in the United States at an average life cost of between $600,000 and $1 million per prisoner. In 1991, public expenditures associated with the consequences of drug abuse and dependence cost American taxpayers about $70 billion. Crime cost Americans about $450 billion a year. These astronomical expenditures diminish productivity and represent investments in the wrong direction.

We cannot be competitive in the global marketplace if a large percentage of our work force is uneducated, in jail, or drug dependent. I hope that America will devise a holistic and serious approach to invest in her youth and workers who represent the only hope for a prosperous and peaceful future.

America's economic leadership in the 21st century indeed depends on the investments that we make today in education and training.

Mr. Chairman, I hope that today's hearing is the beginning of an ongoing dialog between the Trade Subcommittee, the administration, and the private sector on ways to improve continually the education and training of our work force so it can compete in the world marketplace. If we do not succeed in this area, our open trade policies will surely not be sustainable over the long run.

Thank you, Mr. Chairman, for your leadership on this issue and I look forward to working with you.

Chairman CRANE. Thank you, Mr. Rangel, and we have a number of very distinguished witnesses who will be testifying today, and number one of course is Secretary Reich.

STATEMENT OF HON. ROBERT B. REICH, SECRETARY, U.S. DEPARTMENT OF LABOR

Secretary REICH. Well, thank you very much, Mr. Chairman. In the interest of time, as you suggested, with your permission I will submit my formal testimony to you, and make just a couple of brief remarks, and then any questions that any members of the panel may have, I would be delighted to answer.

Again, Mr. Chairman and Congressman Rangel, and other Members of the Committee, let me congratulate you on having this hearing, because it seems to me that issues of American competitiveness in international trade cannot be separated from the quality of our work force. They are absolutely inseparable questions—inseparable issues.

What is an American economy? Is it our companies? No, because they are becoming multinational. In fact. global companies are the rule, rather than the exception these days.

Is it our money, our savings? No, because our savings are moving around the world, almost at the speed of an electronic impulse. Foreign savings are coming, our savings are going there.

Is it our machinery? No, because machinery can be, and is being replicated around the world.

So what is the essence of the American economy? What is it on, which our future standard of living uniquely depends? It is our people—their skills, their insights, their education, and their capacities to work productively together. That is the American economy.

The way in which, and the extent to which, we add value to this increasingly integrated global economy will determine our standard of living in the future. That is the basic principle upon which all else rests.

And Congressman Rangel, you put your finger, on the issue facing us with regard to welfare policy, social policy—all kinds of social problems we have in this country. There is no better social policy, antipoverty policy—there is no better policy that we could have in dealing with all our social problems than a decent job.

Now, what does that mean for all of us? It means that the private sector has a huge stake in a skilled work force.

I just came back 2 days ago, from the Midwest. I was in Ohio, and Minnesota, and several other places. What did I hear from employers there? Over and over again, the same lament: "I can't find the skilled people I need," they said.

"The major thing that is constraining growth and productivity in my business," they said, "is the lack of skilled people; I can't find them."

Now, when we look at the entire debate over growth that is occurring in this country, how fast can we grow without igniting inflation? Again, let us go back to basics.

If we have more skilled people, if we have more educated people, we can be more productive, and more productivity is the key to greater growth. Investments in our people in education, job skills and job training are the key investments the private sector or the public sector needs to make.

And the irony of the trip I just made to the Midwest, when I heard from business leaders that they cannot find skilled people, the irony is that I also met with a lot of people—blue-collar, poor—who said to me, "Yes, we have jobs, but we're having trouble getting ahead."

There are jobs now available, many more jobs than ever before. In fact, the unemployment rate in many of those States is now 2, 3, or 4 percent—terrific. "But," say these people who do not have the adequate education and skills, "we are having a hard time."

Technology is your friend if you have the right skills; technology is your enemy if you do not. The global economy is your friend if you have the right skills; it enhances your marketability. It may not be your friend if you do not.

Business and the public sector have a huge stake in an educated and skilled work force. When I say these things to business groups, I almost invariably find myself in front of people whose heads nod in agreement.

This is not a controversial issue, this is not a partisan issue, this is not a Democrat versus Republican issue, this is not a conservative versus liberal issue. We all understand this basic principle, but where we get into tugs of war is over how we do it.

Unfortunately, cooperation and good news are not the most exciting things to appear on the evening news. When the business community, when public policy makers, when government with community-based organizations, when we work together to make sure that our people are better skilled, that does not make for a lot of excitement, but it is going on.

People do not know about it, they do not hear about it; it is going on. The School-to-Work Apprenticeship Program started 2 years ago. We now have 150,000 businesses involved. We have almost a million young people in grades 11 and 12 who are learning skills, they are also learning their academics.

They are going on after grade 12 to get additional skills, even if they may not go on to college.

We are seeing businesses all over this country beginning to take more and more interest in community colleges, helping people get training at community colleges that fit what those businesses need,

and community colleges are the great unsung heroes of this transition that we are facing.

Businesses are stepping up to the plate. The latest estimate is that American business is spending $30 to $40 billion a year on training workers. But the question I always ask is, "Are you training the people who need the training the most? Who are you training; what are you training them for?"

The public sector is spending—the Federal Government—about $5 billion a year training people. Again, we are consolidating those training programs, providing one-stop training centers, so that when you get an unemployment check, and you want to get a new job, and you want to have access to training, it is all in one place—you do not have to wait in multiple lines.

We have a computerized job bank—America's Job Bank—on the Internet, right now—500,000 job listings. It was visited 6 million times last month alone. We are beginning to create a system in which people can get new jobs, get the training they need, but we are far from the kind of system we need.

I am proud of the progress we have made, and how much the business community, government, the labor community, and community-based organizations, have come together around these basic principles, but there is so much more to do.

Let me end with this note: Somebody said to me once, quite recently, "You know, this training, it works much better than a lot of people think it does, particularly when you know what jobs you are training for, but how about the poor? How about the really poor? How about these dropouts, these high school dropouts? Can you really train them? Aren't they just beyond reach?"

I told the person what I had seen around this country. In Detroit, Michigan, Project Focus Hope—teenage dropouts, learning to be numerically controlled machine tool operators, in great demand—learning and then getting those jobs.

Eighty-five percent of those dropouts—poor, minority—getting those jobs, and they are good jobs. They are not at the minimum wage, those are good jobs.

Or what I saw in the East Los Angeles Skills Center. I went into a large classroom where there were 40 young dropouts—many of them had been gang members—and they were learning about mobile technologies. They were learning to become automobile technicians—not garage mechanics.

They were learning about the computers that are now under the hoods of so many cars, and they were learning to diagnose and repair those computers. Eighty percent of them were getting jobs starting at $15 an hour. They were making something of themselves.

Do not tell me that we cannot train and educate even the poorest young people in our society for better jobs. There are opportunities out there. Employers say they cannot get the skilled people they need; let us create a better match between all of the people who need the training and the skills, and all of the employers who need the skilled people.

That is the goal: That will make us more competitive, it will enable us to grow without pushing on inflation; it will enable us to be more productive; it will generate more tax revenues; it will gen-

erate a more productive society; it will reduce the earnings gap between the high-paid and the low-paid, because the low-paid and the poor will have a future.

This is not rocket science. We are beginning to do it, but we need to focus on the amount of resources, the scale of doing it that is going to be required—both public sector and private sector. We are not there yet.

Let me not end my statements by creating a falsely optimistic sense of security—no. We have a very long way to go, but we know the answers. This is not something in which we do not know what to do.

We can do it, if we have the will to do it—the private sector, the public sector, union leaders, community-based organizations—we can do it if we have the will to do it.

Thank you.

[The prepared statement follows:]

TESTIMONY OF ROBERT B. REICH
SECRETARY OF LABOR

Mr. Chairman, Congressman Rangel, members of the subcommittee:

I am delighted to have the opportunity to present testimony today and I look forward to answering any questions you may have.

Let me commend you for holding this hearing, because I believe you are on to something here. You are making the right connections -- the right links.

For America to succeed in the 21st Century, our industries must succeed in the global marketplace.

For our industries to succeed, their workers must be highly productive.

And for workers to be highly productive, they must have the education and training necessary to keep them in tune with the onward march of technology.

As America moves further into this age of information and global competition, it becomes increasingly important that we make critical investments in our "human capital" -- that is, in the knowledge, education and skills of our workers.

Today, tomorrow and far into the future, a highly-skilled workforce is and will be our comparative advantage.

It's true on a national scale and it's true for individual companies, as well. One study has found companies that introduced formal employee training programs experienced a 19 percent larger rise in productivity than firms which did not train their workers. Two recent studies of 3,000 businesses showed that a ten percent increase in the average educational level of the workers paid off with productivity increases of between five and nine percent in the manufacturing sector, and six to 13 percent in the non-manufacturing sector.

The fact is, Mr. Chairman, training and education work. Don't just take my word for it. George David, the CEO of United Technologies -- which is spending millions of dollars to help employees get more education -- put it best: "It's in our interest to have an educated workforce."

I could give you volumes more from CEOs, economists, investors and academics about these payoffs, and how a better-trained, better educated workforce is so vitally important to the future of the nation's enterprises.

Last Sunday, *The New York Times* ran a lengthy article about the new, well-paying, high-skill jobs that are being created by this economy in great abundance. The article focused on the Minneapolis area, where the jobless rate is less than three percent and employers are reporting that they're having trouble finding enough workers who have the necessary skills to fill these good-paying jobs.

And Minneapolis, the article indicates, mirrors the national economy.

Which begs the question: How do we grow this economy in a non-inflationary way? It seems to me that raising the skill levels of workers -- and with it their productivity and the nation's standard of living and competitiveness -- is, and should be, a vital part of the equation.

Nowhere, however, has the impact of education, or lack of it, been felt more acutely than in the homes of America's working families.

Skills have always made a difference in income, but today that difference is enormous. Earnings for men without college degrees -- three out of four working men -- have fallen by 12 percent since 1979. And, over the same time period, the income gap between men with college degrees and those with high school diplomas has widened from 49 percent to 96 percent. For women, the disparity has gone from 44 percent to 84 percent.

One study, reported in the newspaper the other day, says that this gap may be levelling off. But whether it's 70 percent, 80 percent or 90 percent, it's a substantial difference. And other research indicates that the least-educated are unlikely to improve their skill levels over the course of their careers.

Americans whose skills are out of date, or out of sync with the economy, risk falling farther behind.

According to the Bureau of Labor Statistics, about half of the new jobs that will be generated over the next decade will require some post-high school education, and many will require advanced technological skills.

Left unchecked, the wide disparities in income and opportunity can undermine the coherence of our society. A society too sharply divided between winners and losers cannot win in the global competition of the 21st Century.

So what do we do about it?

Getting the economy moving again -- creating a framework for businesses and working families to succeed -- has been the first order of business in this administration. Under our watch, unemployment is down, interest rates are down, inflation is low, and the economy has generated 10 million new jobs.

But there's a second challenge, and that is restoring wage growth and economic security for the majority of working families, and making the American dream of opportunity for all a reality for all who are willing to work for it.

And central to the task of meeting that challenge is to help Americans get more education and build their skills. Doing so is important to working families. It's important to our industries. It's important to our future competitiveness.

That's why the President has proposed to make the 13th and 14th years of education as universal to all Americans as the first 12 are today. He would do that by giving families a tax credit of $1,500 for each of the first two years of full-time, post-secondary enrollment. The credit would also be available for students who study at least half-time, and it could be used for job training and re-training.

Or, families could get tax deductions of up to $10,000 a year to help them offset college tuition costs.

The President has also consistently favored the exclusion from taxable income of employer-provided educational assistance under Section 127 of the IRS Code. And he has called for a new small business tax credit for 10 percent of the amounts paid for employee education and training.

We're working to change our unemployment system into a re-employment system that will help dislocated workers get the training they need to move them into new and better jobs.

We have begun the process of working with the states to set up "One Stop Career Centers." Any job seeker can go to these centers and get information on where the jobs are, where the training is, and how to get it.

We've proposed to put more power into the hands of unemployed, dislocated workers by consolidating scores of federal job training programs and creating "skill grants" that empower workers to choose the training they feel they need.

In partnership with state and local governments, and the private sector, we're continuing to build School-to-Work opportunities throughout the country. Since its enactment two years ago, states report that more than a half-million high-school students have participated in School-to-Work programs in communities nationwide. Businesses are also becoming involved, with many students getting job experience with participating companies. This initiative is preparing young Americans for the jobs of the future.

School-to-Work, training vouchers or "skill-grants," and our efforts to help dislocated workers find new jobs -- all are important components of our strategy of building a highly-skilled workforce that will keep our nation prosperous in the new global economy.

These initiatives have received broad, bipartisan support in the past. The nation's business leaders have been supportive. And that's why it is so disheartening that the President's workforce development proposal has been attacked here in the Congress. The attacks from outside groups on School-to-Work and America's Job Bank have been distorted, misleading and outrageous. America's workers deserve better. America deserves better.

So we'll fight on -- because our economic competitiveness is at stake, because these initiatives work, and because they are right for the economic future of our country.

Inevitably, some workers, particularly those with lower-skills, will be displaced by trade. That is precisely why we should continue to fund programs such as Trade Adjustment Assistant (TAA) and NAFTA-TAA -- so that we can ensure that these workers, who are hit hardest by the effects of trade, have an opportunity to re-enter the workforce with enhanced skills. Further, we need to continue to support Title III of the Job Training Partnership Act, which serves dislocated workers who have been affected by other economic changes.

And we must continue to seek ways to use education, training and job-placement initiatives as a vehicle of hope for those who live in America's most impoverished areas -- places where jobs are scarce and the prospects for employment are diminished. We simply cannot expect to build a world-class workforce while so many are left behind.

On that point, let me commend Congressmen Rangel and Houghton for their work in reshaping the Targeted Jobs Tax Credit into the new Work Opportunity Tax Credit. The bills that have passed the House and Senate address many of my concerns and those of the Office of Inspector General, and I look forward to working with you further as they are taken up in conference.

There is one other element of our strategy, Mr. Chairman, which I believe is also vitally important to this challenge -- and that is encouraging the private sector to do more to upgrade the skills of their workers.

We know that government cannot possibly do what is needed to ensure that more than 100 million working Americans get the opportunity to learn more, to work smarter and to stay ahead of the technological curve. In fact, we are paring back the amount of resources that government devotes to this task.

So the private sector has to do more. Many companies are going the extra mile to help their workers upgrade their skills. And they are making money in the process.

At the President's conference on corporate citizenship here in Washington a couple of months ago, we heard the CEO's of several companies -- large and small -- outline their strategies for increasing worker education and training. We heard about on-site education centers offering basic math and reading courses to production workers. We heard about college tuition reimbursements and in-house training programs to which every worker must devote five percent of his or her work time. We heard about huge investments of company resources on training.

So, many companies are taking the ball and running with it. We ought to be encouraging others to follow their lead.

Mr. Chairman, there is no doubt that this nation has the resources to make its workforce the most productive on the planet. Doing so would make us a shoe-in to win the global economy of the 21st Century. The question is whether or not this nation's institutions will join together to make the necessary investments in the skills of our people.

Chairman CRANE. Thank you, Mr. Secretary.

Mr. Secretary, with regard to government training programs for our work force, are there any of those programs that you think no longer have validity? In other words, should be terminated?

Or do you have any thoughts on transferring those responsibilities over to the private sector? And, if so, could you elaborate a little more on how private sector initiatives might be helpful in creating and developing our work force in this country?

Secretary REICH. Mr. Chairman, there are several things that we have tried to do, and we are on the way to doing. One is to consolidate the myriad of Federal job training programs into one pool, and providing people with vouchers that they can cash in for the kind of training they need, when they need it, at community colleges or technical institutes.

And it is also providing those people with good, high quality information about which community college, which technical institute, is doing the best at placing people. So we create a market—a real market—in training.

Now, people need this.

The second thing that we are proposing, and have already begun to do, is enable people, through low-interest student loans, to get the kind of training they need—not just people who are going to a 4-year college, but people of almost any age.

The third thing we are proposing is to provide each family with a $10,000 a year tax deduction for education and job training. Now, if companies can deduct the cost of business meals and expenses, and all kinds of other things, at the very least we should allow American families to deduct the cost of education and job training, which is the most important kind of investment anybody can make.

Fourth, we are proposing—the President has proposed—a specific, refundable tax credit which will allow anybody in this country to afford—indeed, to make virtually free—2 years of community college, in terms of the average tuition of community college.

We think that everyone—and it ought to be the norm in this society—every single person in this society ought to have a 13th and 14th year of education, beyond 12 years, and that ought to be affordable.

In fact, literally, it ought to be a refundable tax credit, in terms of average tuition.

Now, there may be many other things that we could. The School-to-Work Program I talked about—every one of these initiatives involves the business community, involves the private sector.

We have, with your help, and with Congressman Rangel's help, reformed, and have a new reformed version of the targeted jobs tax credit, which I think is going to work even better than it does right now. Again, making sure that the business community has an incentive to hire people who are the most difficult to hire, and who are the poorest and most in need of jobs.

Again, I want to emphasize, every one of these initiatives relies upon the private sector, and also relies upon individuals to take initiative. These are not handouts; this is the way we have to go.

Chairman CRANE. Thank you, Mr. Secretary.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. Secretary, if it is true that America is really moving toward a crisis, I see this U.S. Congress and this Nation prepared politically to talk about tax cuts and not tax increases, and at the same time talk about balancing a budget. This being an election year, put me down for both.

Having said that, I would like for you to promise me that soon you will have a meeting with the Office of Management and Budget, and ask them how much is it costing the American people to put Federal funds, if we have got to balance the budget, into districts that have the highest dropout rates or the highest poverty rates, or the highest children born out of wedlock, or the highest number of people on drugs, or convicted, or in jail.

And you cannot measure the hopelessness that is involved in how kids know more about going to funerals than to graduations. But you can measure the lost productivity that all the economists talk about, when somebody is caged in a cell.

Now, I am against violations of human rights in Cuba, and violation of human rights in China, but it is my understanding we have got 1 million human beings locked up in little cells, at the height of their productive years. Eighty percent have not committed any violent crimes.

I am a former Federal prosecutor, so, it is OK with me. But somehow, if we find that the billions of dollars that we are putting into the poorest of communities are there to lock them up and at the same time were cutting welfare and other things that we find too expensive, where does a hat cutting lead us?

Don't Secretaries and OMB Directors talk to each other and say, "Hey, if we've got to cut taxes, we'd better cut expenses, and these poor communities are costing us too much." There must be a better way.

Secretary REICH. Congressman, let me give you some figures which dramatize the point that you are making, and ought to be of concern to every American. If you drop out of high school and you are a male, the chances that you are going to be in prison or on parole or on probation are approximately 34 percent.

That is, one-third of all young men who drop out of high school are going to be in prison, on parole or probation.

Now, the cost per year of somebody in prison—not even dealing with the productivity loss that you are mentioning, which is a huge potential loss for the society—the cost simply of having somebody in prison for 1 year is about $20,000 per year.

Mr. RANGEL. It is $60,000 for the detention home for juveniles in the city of New York, Reikers Island.

Secretary REICH. And let me give you one other statistic: If you graduate from a 4-year college, you are going to have an income, on the average, that increases the income gap between college and noncollege graduates about twice as much.

That is, in 1978, the college graduate was earning about 40 percent more than the noncollege; now the college graduate is earning about 78 percent more than the noncollege.

But society, on average has provided college graduates with about $25,000 in low-interest loans and grants, and the university you attended received additional sources and resources.

And that is good. But, if you are a dropout, on the average, you have no help from society with additional training or education.

Instead, society, is spending, for one-third of the male dropouts, at least, $25,000 a year, putting them up in a prison.

Now, that kind of mathematics makes very little sense for our society.

Mr. RANGEL. And it is growing. It is not stopping.

Secretary REICH. Next year in the 1997 budget, the President is seeking $270 million additional funding, focused on the high poverty, high crime census tracts, where more than 50 percent of the high school dropouts are unemployed.

We are seeking those funds for pilot projects, to show that if you get them jobs, if you get them training, if you work with the business community, you can reduce the crime rate—dramatically.

Mr. RANGEL. Well, I am telling you, you should be more optimistic, because this hearing is going to prove that the private sector recognizes this, they think it is a crisis, they think that more has to be done.

They do not want any more Federal bureaucracy or any more new programs; they want whatever they are doing to be recognized and to be coordinated with what we have.

I am confident that, not only in terms of reducing this enormous budget, but in allowing America to continue its leadership in world trade, the private sector is willing to do its part. More importantly, when we say that we are going to lose the low-skilled job, but in the long run we are going to have more jobs, higher paying jobs, for all of Americans, we can be confident that Americans will be well prepared for those jobs.

And every American, no matter what community they are in should be able to say. "You know, that could be me." And when every kid can believe that they will have access to the training to get that job, that is the America that made us so strong, and provided so much leadership for the rest of the world.

You have been a gem, Mr. Secretary, and believe me, this is the time to be optimistic. The private sector realizes not just equitable tax treatment, but what are we doing with their tax dollars to provide them with what they are paying for, and that is a decent professional work force.

And what we are giving or should be giving them—and I support—is a tax incentive for the billions of dollars they are spending in their way to assist in making a more productive society.

So, I am excited. I hope you can get together with OMB; I would like to work with you, because for those who do not care about people, they should be concerned about the taxes that we are paying, and the reductions in the deficit, and those other issues. It is all one.

You are a great guy, and thank you so much for leading off today.

Secretary REICH. Thank you, Congressman.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman.

And thank you, Mr. Secretary. I was appreciative of the fact that you visited my State last week. You were in the Twin Cities, Min-

neapolis and St. Paul, and in fact in Bloomington, the largest city in my district, and we certainly appreciated your visit.

I also appreciate the bipartisan pragmatism I am hearing on the panel here today. I think that it is healthy, and we need more of that, generally speaking.

I must say, and I do not want to subtract from that in any way, but I was struck by your written testimony—I actually read your written testimony, believe it or not—and you cited a New York Times article specifically about Minneapolis, the Twin Cities, saying that the situation—I am quoting now—"in Minneapolis mirrors the national economy."

I just have to, for the record, Mr. Secretary, clarify that the Twin Cities economy does not mirror the national economy. In fact, the growth rate for my district, and for the entire State, is about twice the 2.3 percent national growth rate that we are currently experiencing.

In addition, the unemployment rate, we are proud to say, is barely half of the national unemployment rate.

So, I do not believe our economy is a reflection of the national economy. We have excelled at a greater rate of growth, and with lower unemployment than the national economy.

A lot of our success can be attributed to the Minnesota work ethic, and to the successful education system in Minnesota that prepares students. We are always getting blue ribbon awards.

I think we have the highest per capita number of schools getting the Department of Education's Blue Ribbon School Award—a high school in my district just received it. The 1996 National Teacher of the Year is from Minnesota. We are very proud of our excellent education system.

I would just like to direct your attention, Mr. Secretary, to the same article in the New York Times, David Wyss, who is director of research at DRI/McGraw-Hill, was quoted as saying, "Our labor market is a primary constraint on growth right now."

And I think implicit in that statement is the problem in many States, many school districts across this Nation, high school graduates—and I am sure you will agree with me—are not leaving the school system with the knowledge, skills and abilities required to enter and compete in the job market—the high-tech, knowledge-based society in which we are operating today.

I like your emphasis on School-to-Work. Do you think that is our best option? You mentioned targeted jobs tax credit. I hope the administration is going to sign the next tax bill we send that includes the targeted jobs tax credit.

Is that the intention of the administration?

Secretary REICH. Yes, it is. In fact, the work opportunities tax credit, which is the modified version of the new targeted jobs tax credit, is an improvement, in my view, because it has employers certify in advance that a particular employee is qualified, which means that employers will actually go out and seek eligible people for the targeted jobs tax credit.

It also has a longer number of hours as a required mandate for eligibility. That is, in terms of how many hours an employer has to keep somebody at work before that employer is eligible for that tax credit.

Now, the School-to-Work Program is working, as I said, very effectively, and Congressman, I was so impressed in Minnesota. I visited several companies, including a company that was specializing in family friendly policies. The president of that company said to me something very interesting.

Mr. RAMSTAD. That was Ceridian?

Secretary REICH. That was Ceridian. Larry Pearlman was the president. He said to me, "You know, these kinds of family friendly policies, valuing employees as assets to be developed, rather than as costs to be cut, these policies are good for our bottom line, because it means that we can attract very talented people, and we can keep them, and we can make them more and more loyal."

And I talked to other employers in your State, who said to me, "The biggest problem we have—the biggest problem—is getting skilled employees, and keeping them."

Again, the constraint on growth, in Minnesota as elsewhere, right now, is not so much the tightness of the labor market, but it is the quality of the labor market.

Mr. RAMSTAD. I also hope that an idea that certainly my distinguished colleague from New York supports, and I think there is a broad bipartisan support for enterprise zones, is something else I think that is worth considering, as we look at this subject more broadly.

Would you agree with that?

Secretary REICH. Absolutely, and enterprise zones have been already quite successful. We are facing, in the job market, several different related challenges, and even though unemployment is very, very far down, and we have all of these new jobs, and as that New York Times article to which you referred, Congressman, pointed out, most of the net new jobs being created are very good jobs.

They are demanding technological skills, managerial and professional skills, but that is precisely my point. We have got to redouble our efforts—private sector and public sector—to make sure that people are qualified for all of these good jobs that are being created.

Mr. RAMSTAD. Well, just a final comment, Mr. Chairman.

And Mr. Secretary, again, thank you for appearing here today. I think a real litmus test of the importance of the targeted job tax credits will be, in terms of new jobs, in this area—in the Washington, DC, area. Dayton-Hudson's Target Co. is going to open nine new stores in the Washington, DC, area.

I am sure you had to drive past several Target Stores when you were in Minnesota, because there are so many of them. As much as any employer I am aware of, certainly more so than any in my state, Target relies on the targeted jobs tax credit, to employ the type of people, the audience that the School-to-Work Program reaches.

And so, hopefully we can get that restored and get a tax bill with the target jobs tax credit, because I think you are going to see an impact in this immediate area, as well as the rest of the country.

Thank you, Mr. Secretary.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Secretary, welcome, and thank you for your testimony. My question has to do with trade policy, and whether or not you think we are adequately responding to displaced workers who find themselves jobless as a result of U.S. trade policies.

Secretary REICH. Congressman, I think we are certainly responding as well as we can, given the restraints on our resources. I believe that we do have a great challenge in this country, with people—particularly middle-aged people—who are losing jobs either because of trade displacement, technological displacement, because their companies are restructuring, or for whatever other reason.

We must make sure that they have every opportunity to get a new job that is as good as the job they left. Now, unfortunately the data shows—and this is not a new phenomenon, it has been going on for 15 to 18 years—that when somebody loses a job, for whatever cause, the next job they get is not likely to pay as well as the job they lost, and not likely to have the same level of benefits as the job they lost.

Now, I believe that it is to some extent a public responsibility to make sure that people have access to the job search assistance, job training, and job counseling they need. We have been, as I said, creating one-stop career centers, putting public resources to far better use than ever before.

But I must say that I also believe that there is a private sector responsibility here as well. If a company is laying off workers, downsizing, and the company is profitable, I think that company does have a responsibility to help its workers—those whom it is laying off—find new jobs and get well positioned.

Mr. COYNE. Is it your experience that industry is meeting its responsibility?

Secretary REICH. It is very difficult to tar all of American industry with the same broad brush. Some companies, as I mentioned before to the other Congressman, are treating their workers truly as assets, to be developed.

Not only are they upgrading their skills, and bringing them in as partners, in terms of gain sharing and partner sharing, but they are also providing, when they must downsize, all sorts of services enabling their employees to get new jobs.

But, at the same time, I have witnessed other companies, and I have talked to both the executives and the employees, those companies are not treating their workers as assets, they are treating them as costs, they are discarding them—particularly lower wage workers.

The high-wage workers—the top executives—are treated to "golden parachutes," often, but the low-wage workers being laid off are treated to lead balloons.

Mr. COYNE. Has your department been denied by Congress the resources to do the necessary training of people being laid off as a result of our trade policy?

Has Congress denied the resources to the department?

Secretary REICH. Congressman, between 1993 and 1994, we were successful in just about doubling the resources for displaced or dislocated workers, and that was extremely important, because not only were we facing all of the downsizings that I mentioned before, and still are, but we also have tremendous restructuring going on

in the health care sector, and we have military downsizing to top it off.

Now, our hope was that we could continue that trend in the 1995 and 1996 budgets, but that was not the case. We have held our own—that is, we are just about where we were in 1994—but there has been no net increase.

And that is because our requests have repeatedly been denied, and we have repeatedly received fewer resources than the President wanted for dislocated workers.

Mr. COYNE. Thank you very much.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman, and I want to thank you and Mr. Rangel for holding this hearing. I think this is very timely.

And Mr. Secretary, thank you very much for your testimony. I was very impressed by that, and learned a great deal from it.

You concluded your testimony by saying that we know the answers, we can do it if we simply have the will. It would be helpful to me if you could elaborate a little bit on that, in terms of more specifically from the public policy perspective.

Maybe just talk a little bit about what you see as the top two or three answers that we know, and what is it in terms of resources that needs to be done in order to make those happen?

Secretary REICH. Congressman, I am delighted. I have alluded to them, but let me summarize. Number one, for low-wage, low-income, particularly poor young people, the School-to-Work Apprenticeship System that we are building is having a dramatically positive result.

I think later on today you will hear from members of the private sector who are engaged in these kinds of programs in which, in grades 11 and 12 young people are exposed to both academic education and on-the-site job experience.

These programs take down that wall, that artificial wall, between academic education and vocational education. They keep academic education, but enable young people to see the relevance of what they are learning in the classroom to the real world of work.

And then they take those children, those young people, through the summers, often give them summer jobs—the private sector has to be actively involved—and then provide them 1 or 2 years beyond high school, where they can develop those skills, and perfect those skills, and develop an area of competence on which they can thereafter build.

Number two, I mentioned for dislocated workers one-stop career centers, in which unemployment insurance is integrated with job counseling, job search assistance, and also access to training.

We have built a computerized system on the Internet, which is kind of a help-wanted section of cyberspace—500,000 job listings on America's Job Bank.

Now, all of that is very helpful to dislocated workers. It makes it easier for people who have lost their jobs to get new jobs that are, hopefully, as good as the jobs they had before. There are resource constraints on both the School-to-Work Apprenticeship Program and also our one-stop career centers and America's Job Bank.

What else needs to be done? I alluded in my statement to several projects around the country that are preparing the most hard-hit young people—actually dropouts from high school—for technology jobs that are not just minimum-wage jobs, but really pay quite well.

Those programs work best when young people are being trained for jobs that exist, when the business community identifies the skills it actually needs, and when there are enough public and private resources brought to bear, so that young people can get the real, both on-the-job and also simulation, training they need.

In Detroit, Project Focus Hope is a tremendous success. In Los Angeles, the East Los Angeles Skill Center is among the best I have seen, but I could give you many other examples around the country.

Now, Congressman, if you get me started, I could talk for far longer than you would like me to talk, but when I say we have the answers, I do not mean to suggest to you that there are uniformly easy answers here.

There are no easy answers, but there are enough successes out there that we know where we should be investing, both publicly and privately.

Mr. PAYNE. Generally, as you spoke about what it is that we ought to do, you talked about the low-income, low-skilled sector, and you talked about dislocated workers.

In terms of those young people who are high school students, who likely would not go to college, but in order to be successful in this competitive, global environment in the future, need to have additional skills.

What role do you think the public sector has? And you spoke about community colleges, for instance, but how can the public sector do the kinds of things that it might best do, to assist in making sure that that segment of the population can be as prepared and as successful as possible?

Secretary REICH. Beyond the School-to-Work Apprenticeship Program, beyond the programs targeted to the most disadvantaged youth that I have already referred to, I believe it is very important that the norm in our society be that everyone has at least 14 years of education—not 12 but 14 years.

And the President has proposed a refundable tax credit equal to the average tuition at a community college, so that every young person can get at least 2 years of post high school education and training. I think that is very important, it is what we all know needs to be done.

Again, it is not a panacea; I do not want to suggest to you that any of these will be the answer for every individual in every case, but this is the direction we must go in, in my view.

Mr. PAYNE. I agree with everything you have said. Let me just conclude by saying, it seems to me that recently the United States was recognized as the most productive Nation in the world, and that—we do a lot of things right—as we look at how we compete with others around the world. I think we need to continue to focus on those things that have gotten us to where we are, as well as these things that we know we need to do to do an even better job.

I appreciate very much all that you have said here, and I would hope that I have an opportunity to work with you in the future, as we implement some of these important things.

Thank you.

Secretary REICH. Thank you, Congressman.

Chairman CRANE. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. Just to follow up on what Mr. Payne was saying, once you scratch back the surface here, we are really talking about city problems, in large measure.

We are really talking about the problems that innercity children have today. There seems to be no appetite in this town, at this particular time, on any side of the aisle, for really addressing in a comprehensive manner the problems that many of these people have, day in and day out. As manufacturing jobs have left and as the economy has changed, the middle class base has been eroded.

We can talk about enterprise zones, and we can talk about special projects and programs, but we really do not do anything on a comprehensive basis, do we, Mr. Secretary?

Secretary REICH. Congressman, we do not have—if by "comprehensive" you are talking about large, national programs, that deal with the problem, as you put it, innercity young people, many of whom are dropping out of high school, no, we do not.

But I would go back to your initial premise. There are three separate problems in the labor force, as I see them now. First, those high school dropouts—how to keep them in school, how to give them the skills they need, how to give them every opportunity to succeed, and how to make their education a true education.

Second, the people who are losing their jobs. They may not be poor, they may be middle class, but when they lose their jobs they may suddenly become quite poor.

The third has to do with the problem of poverty among adults, a segment of the population that simply does not have the right skills, or the right education. Maybe they are living in the wrong place, they do not have the right contacts. They also need help into the job market.

Now, we are dealing in an incremental way with all of those problems, but incremental is probably not good enough. We are the most competitive nation in the world, we have a $7 trillion economy, we have unemployment down to 5.3 percent, we have cut the deficit by more than half, we have no inflation in sight. We can do more.

Mr. NEAL. Well, I appreciate your comments. My sense is that, while we are not prepared at this time comprehensively to deal with many of these urban problems, that before too much longer they are going to be before us, and we are going to have no choice.

Thank you, Mr. Secretary.

Chairman CRANE. And I want to thank you too, Mr. Secretary, and reassure you again that your entire written testimony will be made a part of the permanent record.

And with that, we thank you for your patience, and we will let you break for lunch.

Secretary REICH. OK, thank you. Thank you all.

Chairman CRANE. Next I would like to ask Hon. David Longanecker to come forward.

And, as I indicated earlier, if you can try and summarize your prepared testimony, any written testimony will be made a part of the permanent record.

STATEMENT OF DAVID A. LONGANECKER, ASSISTANT SECRETARY, POST-SECONDARY EDUCATION, U.S. DEPARTMENT OF EDUCATION

Mr. LONGANECKER. You bet, Mr. Chairman. I have submitted my testimony in the full text for the record, and I will just do the abbreviated comments here.

It is a particular pleasure to be here today, both because the Education Department does not often have the opportunity to appear before this Committee, and because the topic that you are discussing, the importance of education in contributing to the economic competitiveness of this country, is near and dear to Secretary Riley's heart, and is central to the department's reason for being.

Now, I am following Secretary Reich, and you should not feel too sorry for me. It is always a tough task to follow Secretary Reich—he's such an articulate and comprehensive presenter. But we have an important and contributing agenda at the Department of Education, so we are thrilled to be here.

Our mission is simple at the Department of Education: We exist to ensure access to educational opportunities and to promote excellence in our colleges and schools. That is it.

To sustain and enhance the United States economic competitiveness, the department, in partnership with the States and local governments, and with colleges and universities and schools, and businesses around this country, must succeed in our mission.

So, we are very pleased to have received your invitation to be here today, to talk about how integrally linked education and economic competitiveness are, and how our Federal programs promote this linkage.

The evidence is clear that education is not "a," it is "the" critical path to economic well being—for our individual citizens, and for our Nation. This is as true today, particularly with respect to postsecondary education, as at any time in our history.

Over the last 10 years, the number of high-skill jobs has grown by 32 percent, compared with 7 percent for low-skill jobs. Earnings have become even more skewed. Unemployment among young adults without a high school education in 1994 was 20 percent, whereas it was only 5 percent for those with a college degree. And while earnings for noncollege graduates actually declined over the last decade, the gap between college and noncollege educated increased greatly, as Secretary Reich has already mentioned to you.

It is virtually impossible for an individual to be competitive economically without some postsecondary education, and the implications of this for our country are obvious: We must be better educated to remain economically competitive in this knowledge-based world economy.

Despite this economic imperative, it is going to be increasingly difficult for us to achieve the higher levels of postsecondary edu-

cation that we will need. The demand for postsecondary education will increase greatly as we move into the 21st century. As the number of high school graduates increases substantially over the next decade, as we convince a larger share of those high school graduates that they need to go on to postsecondary education, and as an increasingly larger number of adults are convinced, as they should be, that they need to go back for life long continuing education.

But financial constraints on the Federal and State governments, and on families themselves, will make it increasingly difficult to provide the quality educational services to all who need and desire them.

Now, to respond to those challenges, this administration has made a commitment to enhancing our economic competitiveness in two major ways. First, by ensuring that all of our citizens have access to postsecondary education, and second, by promoting programs that help these students better understand the world in which we will be competing.

To accomplish this, we have pursued an aggressive agenda. We have proposed a substantial increase in the maximum Pell Grant Program for the most needy students. We have proposed substantial increases in college work-study, and a new presidential honors scholarship program.

We continue to promote the new direct student loan program, including the income contingent repayment program that allows students to pay back on the basis of what they can repay.

And, most recently of course, the President has announced the America's Hope Scholarship Program, the $1,500 tuition tax credit proposal that Secretary Reich discussed. We hope to essentially change the ethic college attendance in this country, making 14 years of education as common tomorrow as 12 years are today.

We like this, as a smart tax cut. We see it as a way for this country to invest in those people who are willing to invest in themselves and their children. And through our School-to-Work Program we are also promoting new ways of earning and learning, by developing intentional relationships between schools and businesses, and between high schools and colleges.

But being successful in this global economy is going to require more. It also requires an understanding of the world in which we live.

To contribute to this, we offer a range of interrelated activities. We support foreign language and area studies programs, international business programs, special initiatives to link America's higher education institutions with those in other countries in association with NAFTA and the European Union.

We are working hard to ensure that your investment in postsecondary education ensures that all the citizens in this country have the opportunity to benefit from a high skills economy, and to gain greater knowledge about the rest of the world in which we live.

We think that is a wise and a prudent investment, and we thank you for the opportunity to be before you today. I would be glad to answer any questions you might have.

[The prepared statement follows:]

Statement by
David A. Longanecker
Assistant Secretary for Postsecondary Education
on
U.S. Trade Competitiveness and Workforce Education and Training

Mr. Chairman and Members of the Committee:

I am pleased to appear before you to discuss an issue of critical importance to our nation's future -- the need to increase the international competitiveness of America's workforce to meet the challenges posed by the globalization of the economy. As you know, the mission of the U.S. Department of Education is to ensure access to educational opportunities and to promote excellence in our colleges and schools. The Department carries out its vital mission in partnership with State and local government, institutions of higher education and other postsecondary education institutions, lenders, guarantee agencies, and individual citizens. This partnership is carried out through the various programs that we administer to provide financial aid to students and to programs that educate Americans about the world in which they live.

INTRODUCTION

Education is critical to the economic well-being of individual citizens. Education is more important today for our country's economic well-being than at anytime in our history as a result of the increase in global competition. New technologies and new forms of organization in American industry have transformed the American workplace. In the last ten years the number of jobs in high-skill occupations has grown more than 32 percent, compared with 7 percent in low- skill occupations. For this reason education and acquired skills have become a much greater determinant of individual economic success. In 1994, the unemployment rate for 20 to 24 year olds who lacked a high school diploma was 20 percent. By comparison, the unemployment rate for 20 to 24 year olds with a high school diploma was 11 percent, and for those with an Associates or Bachelor's degree the unemployment rate was just over 5 percent. Earnings for men without college degrees have fallen by 12 percent since 1979. Over the same time period, the income gap between men with college degrees and those with high school diplomas has widened from 49 percent to 96 percent. For women, the income gap has gone from 44 percent to 84 percent.

As the number of individuals requiring education and training increases over the next decade, our national commitment to providing educational opportunities will be further challenged, given the increase in the number of students at all levels and the constraints on Federal and State budgets. The number of high school graduates is expected to increase by 20 percent, and the number of postsecondary students is expected to increase by 11 percent between 1992-93 and 2004-5. We must be prepared to ensure that the next generation of learners has the ability to acquire the skills that they will need to become part of the new economy.

Furthermore, we know that most of the workforce can expect to change jobs several times in their careers. The rapidly changing requirements of the economy and the increasing complexity of our society require us to rethink the kinds of academic and technical skills our workforce will need in the future, and the way we educate and prepare students to acquire these skills. Education and training must become a lifelong commitment, and opportunities for continuing education and training must be available to all Americans.

To respond to these challenges, the Administration has made a commitment to enhancing our economic competitiveness by ensuring that all Americans have access to postsecondary education and training; ensuring that America's workforce has the opportunity for lifelong education; strengthening programs that prepare Americans for a competitive marketplace; and increasing the level of international literacy among all Americans.

ENHANCING ECONOMIC COMPETITION THROUGH EDUCATION & TRAINING

A competitive economy requires that all individuals have access to the education and training that are necessary to enter a labor market that demands highly skilled labor. The Administration's continuing support for ensuring that all Americans have access to postsecondary education is evidenced by its increased support for student financial assistance and tax relief to encourage investment in education.

The Administration's fiscal year 1997 budget will make available more than $41 billion --

more funds than ever before available -- in total Federal assistance for our grant, loan, and work-study programs to help approximately 7 million students finance postsecondary education and training. According to the College Board, Federal student financial aid accounts for 70 percent of all financial aid available to individuals enrolled in postsecondary education. The Administration has:

- proposed increasing the Pell Grant maximum award -- the amount that the lowest-income postsecondary student can receive under this program -- from $2,300 in 1994-95 to $2,700 in 1997-98 and to $3,128 in 2002-2003.
- proposed increasing support for the Federal College Work-Study program so that one million students will be able to participate in this program by the year 2000. In addition to providing support to students as they pursue their postsecondary education, the Work-Study program offers work experiences that many find helpful in making the transition from school to work.
- requested $130 million for a new Presidential Honors Scholarship program that would provide $1,000 scholarships for the first year of postsecondary study to an estimated 128,500 high school seniors graduating in the top 5 percent of their classes in 1997. This program expands on and complements the effort of the Byrd Honors Scholarships to recognize and reward meritorious students.
- made it easier for individuals to repay their student loans by offering a wide range of repayment plans, including graduated, extended term, and, in the case of the Federal Direct Student Loan program, income-contingent repayment plans.

Building upon the Administration's strong support for student financial assistance, the President recently announced the "America's HOPE Scholarship" to encourage investment in higher education. The President's goal is to make 14 years of education -- including the first two years of college -- as common tomorrow as 12 years of schooling is today by providing a refundable tax credit of up to $1,500 for each of the first two years of full-time postsecondary enrollment. The proposed tax credit is intended to pay more than the average tuition and fees charged at a community college and make a significant down payment at more expensive postsecondary education institutions.

The President's proposed HOPE scholarships build upon his proposed tax deduction of up to $10,000 each year for postsecondary education and training and expanded use of penalty free withdrawals from Individual Retirement Accounts for educational expenses. The tax credit and deduction are specifically designed to assist middle income families who are struggling to put their children through college.

The students who benefit the most from these proposals are those whose incomes are too high to qualify for Pell Grants and other federal grants but whose incomes are not high enough to pay college tuitions without struggling. These proposals will provide $42.9 billion in tuition assistance over six years, and are fully paid for within the President's six-year plan to balance the Federal budget without reductions in any other education spending.

ENHANCING ECONOMIC COMPETITION BY BLENDING EDUCATION & WORK

A competitive economy requires that students have a different type of preparation -- one that blends rigorous, academic instruction with work-based experience. Through the Carl Perkins Vocational and Technical Education Act, the federal government currently provides $1 billion to provide students in high schools with the education and training necessary to achieve in the new workplace environment.

As a result of the technological changes that have swept industry, there are fewer and fewer entry level jobs that require only low level skills. Indeed, economic competitiveness demands that all workers have higher levels of knowledge and skill. To address the needs of the economy, the Administration proposed and Congress enacted -- with bipartisan support -- the School-to-Work Opportunities Act which provides Federal seed money to States and their partnerships to design the school-to-work system that makes the most sense for them. There is no single model for "School-to-Work". Instead, it builds on existing models and efforts such as career academies, youth apprenticeship, Tech Prep, and cooperative education. While these systems are different from State to State, the School-to-Work initiative will make the workplace an active learning environment. These systems will provide every American student with:

- Relevant Education, allowing students to explore different careers and see what skills

are required in their working environment;

- Skills, obtained from structured training and work-based learning experiences, including skills necessary for a particular career, as demonstrated in a working environment; and
- Valued Credentials, establishing industry-standard benchmarks and developing education and training standards which ensure that proper education is received for each career.

ENHANCING ECONOMIC COMPETITION THROUGH GLOBAL AWARENESS

A competitive economy requires that Americans be knowledgeable about the world in which they live. It also requires a cadre of professionals in education, government, and business trained in foreign languages and international studies who are engaged in enhancing our international economic standing and our long-range national security. Through a range of interrelated activities, the Department's international education programs, including two initiatives supported by the Fund for the Improvement of Postsecondary Education, address the Nation's need for expertise in foreign languages and world areas and for a more internationally literate citizenry. Although, individually, these programs are small in comparison to other Federal programs, taken together they provide an integrated, cohesive, and mutually supportive approach to preparing America's citizens for the country's leadership role in the international arena.

As economic and technological issues have become important components in national policy, we have broadened the focus of our foreign languages and international and area studies programs to include business and economics. Two programs meet the needs of individuals and businesses engaged in international commerce:

- the Centers for International Business Education and Research program prepares Americans for the international marketplace by training students, faculties, and business leaders to respond to the new global realities and by supporting research and teaching on issues that enhance American competitiveness; and
- the Business and International Education Program supports the internationalization of the business curriculum and promotes linkages between academic institutions and the American business community.

The Fund for the Improvement of Postsecondary Education is currently supporting two important new initiatives, one in support of the North American Free Trade Agreement (NAFTA) and one with the European Union (EU). The North American Mobility in Higher Education program is jointly funded by the U.S., Canada, and Mexico to support trilateral institutional cooperation and student exchange among the three NAFTA partners in fields such as business, environmental technology, agribusiness, architecture, engineering, marine policy, and law. A similar program of institutional collaboration and student exchange between the U.S. and the countries of the EU seeks new and more effective ways to prepare Americans for participation in the trans-Atlantic community.

CONCLUSION

The challenges of the competitive new global marketplace are immense, and underscore the importance of a renewed partnership between the American people and their government. This Administration is committed to ensuring that opportunities exist for all Americans to acquire the education and training to meet these challenges effectively. It is the responsibility of each individual, however, to avail himself or herself of these opportunities, and to make a lifetime commitment to developing and sustaining the knowledge and skills necessary to secure a productive place in the new global economy. We welcome this challenge, confident in our ability to sustain our leadership in the global marketplace and to thereby enable all Americans to participate in the "American dream."

Chairman CRANE. Thank you, Mr. Longanecker.

I am a former history professor, and I have reflected on the input I have received about the escalating costs of education since my teaching days.

But one of the things that has concerned me is, we were required to teach 15 credit hours a year, and now I have been told that some professors are teaching only 3, they are not even preparing their exams—that is done by assistants—they are not grading their papers—that is done by assistants—and with a pay scale that is just beyond sight, compared to what we were making back in the early sixties.

I am wondering, since the college tuition costs have more than doubled since 1980, what would you recommend we might do to try and contain some of those costs?

Putting professors back to work, it seems to me, is one, because it was not just the credit hours that we taught; there were counseling hours that had to be made available to students as well, and my understanding is that there are not even counseling hours, sometimes, required on the part of these professors, and this is at State universities.

I taught at Bradley University, which is a private school, but have you any thoughts on that?

Mr. LONGANECKER. Well, I think this is an interesting and important area for the Federal Government, but we have to be very careful that we keep in mind our Federal role. We are a partner here, and the primary responsibility for establishing the cost or the price of higher education is generally a responsibility of the states and the governing boards of those institutions.

And while it is, a very significant Federal concern, it is not necessarily a Federal responsibility. On the other hand, we put about $11 billion in Federal funds to support about $40 billion in student financial assistance a year, and we provide an additional $1 billion in direct institutional support.

So, we have a pretty strong vested interest in what you are talking about, and that is a fairly substantial commitment.

You know, most of the studies show that faculty are still working very hard and very long hours, they are just working on different things than the instructional load that they used to have.

Secretary Reich mentioned the community colleges. By and large, the community colleges, and many of the state colleges, still have pretty substantial teaching loads for their faculty.

It is those institutions that are research universities, or that are hoping to become substantial research universities, that have substantially changed the mix of their faculty activities, and I think you have touched on an issue that many state legislatures are also looking at.

That is, not whether the faculty are productive, but whether they are productive in the activities that the citizens had intended them to be.

I do not have an answer for you on how we come back to a rationality, in part because we have got a serious issue—I mean, we have a very strong system of higher education in this country—some would say the strongest in the world. We also have the most

accessible system; we also are getting an increasingly expensive system.

By and large, higher education is still a pretty good deal. The average baccalaureate degree in this country at a public institution, tuitionwise, would cost about $12,000 over the life of that education, and that is a pretty good deal. That is a heck of a good investment, compared to most other things.

So it is a mixed story. We need to be concerned about it, we need to make sure our Federal policies do not contribute, unintentionally, to the escalation of costs. That is probably our strongest role.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Thank you for being with us, Mr. Secretary.

Mr. LONGANECKER. It is good to be here.

Mr. RANGEL. I gather from your testimony, and certainly my friendship in working with Secretary Riley, that you would consider education in America to be a very serious issue, that we should be seeking ways to improve the overall quality of that education as we move into a high-tech era.

Mr. LONGANECKER. Very much so, and in my specific area, postsecondary education. I mean, you can see that in our elementary and secondary initiatives—Goals 2000, School-to-Work—those initiatives.

Mr. RANGEL. Now, having said that, our businesspeople are sharing with us what they think, it is a pretty serious thing, if they are going to maintain the high level of competitiveness they have.

Mr. LONGANECKER. Absolutely.

Mr. RANGEL. And then, of course, when you hear Secretary Reich talk about the relationship between those dropping out of schools, and not having jobs, and the tremendous social problems that that creates, and the hundreds of billions of dollars that are involved in not stopping it but containing it, I cannot think of anything that could be described more as a Federal issue than this.

You would agree?

Mr. LONGANECKER. Well, yes, but it is one that we clearly do share with the state and local governments, in part because of the Constitution, but also simply because our investment, although it is fairly substantial, is still a modest portion of the overall investment in education.

So we have to find a way to partnership effectively—I would suggest more effectively than we have in the past. Those Federal dollars, instead of being the tail, ought to be wagging the dog now.

Mr. RANGEL. OK, now, if I understand you correctly, Mr. Secretary, you are saying that, while it is a national issue and a Federal crisis, and could involve our ability to maintain international leadership, that historically and constitutionally we really do not give much money to it, and we have to be in partnership.

And if I was to exaggerate, I would say that this national crisis basically will be resolved by local school boards, with contributions from us.

Mr. LONGANECKER. Well, that is the way the system certainly works at the elementary and secondary level.

Mr. RANGEL. That is why I am here. I am not prepared to allow my country to go down the tube because we have said in this national crisis, that we are restricted constitutionally and budgetarily so that we cannot do anything.

So, it seems to me that if the businesspeople are making a plea, if you know that under this system, and we are the Federal Government, we are saying that while we are making these contributions, and providing incentives, we accept the fact that we are giving so little and that we are restricted by the Constitution.

That in certain parts of this great country we cannot do anything to improve the school buildings that are just falling apart, the dedicated teachers who have forty or fifty students there, the fact that all moneys being put in searching students, that some of the kids cannot bring home books to study with—there are no supplies—that on this Federal problem we are restricted, and it has to be dealt with by our partners at other levels of government.

Are we saying that, Mr. Secretary?

Mr. LONGANECKER. I do not think we are quite saying that, because I think——

Mr. RANGEL. What are we saying then, what comes as close as that, that you believe is true?

Mr. LONGANECKER. I think we need to have a really smart investment of our public funds. That is why we like the Goals 2000; and the School-to-Work Program will fundamentally reform secondary education in this country. Our postsecondary initiatives——

Mr. RANGEL. Mr. Secretary, I do not want to talk about reform which is patchy. There are some people in this Congress who would say that we do not need a Department of Education.

Mr. LONGANECKER. We have heard that.

Mr. RANGEL. OK. Now, you have some idea of the type of Congressional district I represent, right?

Mr. LONGANECKER. Yes.

Mr. RANGEL. If that thought prevailed, and tomorrow we had no Department of Education, could you give me the impact that it would have on the school system in my Congressional district?

Mr. LONGANECKER. Your district would be substantially impacted, because while our role is fairly modest overall in this country, in disadvantaged communities the Federal role is much more substantial, because Federal funds are targeted to those students who most need them, both in elementary and secondary and postsecondary education.

Most of the students in postsecondary education in your district would probably not be able to financially afford higher education, without the Federal Pell grant program.

Mr. RANGEL. Now, how would my district effectively compete with other districts in the United States, if we now are the beneficiaries of this limited, but certainly important, contribution, and we are not producing anybody who can even get into the job market effectively, or there few compared to other communities.

It is really hard to see how much more pain we could take, if your outfit were not in business. But, having said that you have these restrictions, constitutionally and legally, with these partnerships, it would seem to me that, without increasing the Federal bureaucracy, you could at least be providing the leadership to in-

crease the quality of education of all Americans, from border to border and the possessions.

And that you should be working with the private sector saying, I do not have any money, I do not have any constitutional authority, but I am an American, and I want to get a better work force.

I do not know how long I am going to be around here, but I am not going to accept the fact that, if Presidents want people to go to the moon, or my country is going to lose out with foreign countries, that you are going to send me back to my local school board.

I have been down here for a quarter of a century, and nobody has said more honestly and convincingly what you have said, and I dare not try that back home.

"Mr. Rangel, why are our children failing, why are our classes so large, why do we not have equipment, why is it that they are investing more in prisons than they are in our school system, and police more than our teachers?"

And I would say, it is because constitutionally that is a problem for the local government, and that while we in the Federal Government do provide incentives, we have a very limited role, and a very small contribution to make. But we hope, for the interests of our great country, that we can improve it.

No, Mr. Secretary, if people—if my friends want constitutional amendments, we may cut a deal, because there is no way to explain how we can have this great Republic in jeopardy as it is today because the Federal Government has no authority.

So, we will work together. Put me down for the amendment of the Constitution, but I think that when the businessmen get together, and your office is going to be involved, and it is going to happen soon, maybe we can find out what they are doing, and see whether or not constitutionally we can be partners with them.

And so that we could have throughout these counties and congressional districts everyone saying, we have to do more together, and have the Federal Government to be a bigger partner in providing the leadership on this issue, and I look forward to working with you.

Have we met before?

Mr. LONGANECKER. We have met, but not in this capacity.

Mr. RANGEL. Well, we are not going to forget each other.

Mr. LONGANECKER. You bet.

Mr. RANGEL. We have got to work closer together, and I invite you to attend the conference of the businesspeople, who are so proud of what they are doing, and maybe we can have a better working relationship, since a lot of them, most of them, are national and international, and we can get the benefits of their experience, at very little cost.

Thank you, Mr. Secretary.

Mr. LONGANECKER. You are welcome.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Secretary, would you give us an evaluation of how well we are doing in educating people in the elementary and secondary education levels, based on the collective experience of those present today.

Mr. LONGANECKER. Well, I think the record is mixed, and we spend a great deal of time working together, so I feel comfortable addressing that concern, even though it is not under my purview of responsibility.

The record is clearly mixed. There has been, recently, some good news, in that—in international comparisons now using what we think are more apples-with-apples comparisons than apples-with-others—the United States students have begun to look more competitive than they did in some of the earlier estimates.

On the other hand, we still are not leading in those areas most Americans would expect or want us to, and I think we still are not moving as aggressively toward achieving those national goals that have been established, of reduced dropout rates, and higher achievement levels, that almost all Americans agree we should be moving toward.

And so I think it is very much a mixed boat.

We are now saying that we believe all people should go on to postsecondary education. Some people have interpreted that as a statement that our elementary and secondary schools are failing. We do not believe that at all.

We live in a much more complex world, where the requirements are going to be both higher job specific skills and citizenship skills.

And so saying that people should have more education should not be taken as an indictment of our secondary system. It is that, logically, acquiring those skills will take somewhat more time than it took in the past.

Mr. COYNE. How do we compare with other industrialized nations, in educating students at the elementary and secondary level?

Mr. LONGANECKER. Let me provide you with, for the record, some of the data that we have on that comparison, which will give you the precise numbers.

I think most Americans, when they see those comparisons, will be both disappointed and, unfortunately nonbelieving. Many of us think there are problems with our education system, but most of us think our schools are great.

That is because we are all proud of our communities, and the places that we support, and so it is very difficult, often, to see an accurate picture of where we logically fit.

Mr. COYNE. Well, I would like to see those figures if you could provide them.

Mr. LONGANECKER. I will provide those to you.

Mr. COYNE. Thank you.

[The following was subsequently received:]

International Comparisons of Student Achievement

Several tests are used to compare academic achievement of American students with students from other countries. The International Assessment of Educational Progress, (IAEP) sponsored by the U.S. Department of Education, the National Science Foundation, and the Educational Testing Service, measures achievement levels in selected disciplines by nationally representative samples of nine and 13 year-olds in participating countries.

In 1991 the IEAP compared performance in mathematics and science by a sampling of nine and 13 year-olds, and performance in geography by a sampling of 13 year-olds. In mathematics the United States scored nineth out of 10 countries for the 9 year olds, and 13th out of 14 countries for the 13 year-olds. In science American students performed better, scoring third out of 10 for 9 year-olds and 12th out or 14 for 13 year-olds. In geography the United States scored fifth out of the nine countries. (See tables below.)

That same year the International Association for the Evaluation of Educational Achievement (IEA) measured reading comprehension among 4th and 9th grade students. A total of 32 countries, including the United States, participated in the study. U.S. 4th graders scored second, after Finland, and U.S. 9th graders scored nineth, after Finland, France, Sweden, New Zealand, Hungary, Iceland, Switzerland, and Hong Kong. (See table below.)

MATHEMATICS

9 Year-Olds

Country	Average Percent Correct
Korea	75
Hungary	68
Taiwan	68
Soviet Union	66
Israel	64
Spain	62
Ireland	60
Canada	60
United States	**58**
Slovenia	56

13 Year-Olds

Country	Average Percent Correct
Korea	73
Taiwan	73
Switzerland	71
Soviet Union	70
Hungary	68
France	64
Israel	63
Canada	62
Scotland	61
Ireland	61
Slovenia	57
Spain	55
United States	**55**
Jordan	40

READING

4th Grade

Country	Overall Mean Score
Finland	569
United States	**547**
Sweden	539
France	531
Italy	529
New Zealand	528
Norway	524
Iceland	518
Hong Kong	517
Singapore	515
Switzerland	511
Ireland	509
Belguium	507
Greece	504
Spain	504
Germany (West)	503
Canada (BC)	500
Germany (East)	499
Hungary	499
Slovenia	498
Netherlands	485
Cyprus	481
Portugal	478
Denmark	475
Trinidad/Tobago	451
Indonesia	394
Venezuela	383

9th Grade

Country	Overall Mean Score
Finland	560
France	549
Sweden	546
New Zealand	545
Hungary	536
Iceland	536
Switzerland	536
Hong Kong	535
United States	**535**
Singapore	534
Slovenia	532
Germany (East)	526
Denmark	525
Portugal	523
Canada (BC)	522
Germany (West)	522
Norway	516
Italy	515
Netherlands	514
Ireland	511
Greece	509
Cyprus	497
Spain	490
Belgium	481
Trinidad/Tobago	479
Thailand	477
Philippines	430
Venezuela	417
Nigeria	401
Zimbabwe	372
Botswana	330

SCIENCE

9 Year-Olds

Country	Average Percent Correct
Korea	68
Taiwan	67
United States	**65**
Canada	63
Hungary	63
Spain	62
Soviet Union	62
Israel	61
Slovenia	58
Ireland	57

13-Year Olds

Country	Average Percent Correct
Korea	78
Taiwan	76
Switzerland	74
Hungary	73
Soviet Union	71
Slovenia	70
Israel	70
Canada	69
France	69
Scotland	68
Spain	68
United States	**67**
Ireland	63
Jordan	57

GEOGRAPHY

13 Year-Olds

Country	Average Percent Correct
Hungary	70
Slovenia	65
Canada	63
Soveit Union	63
United States	**62**
Spain	60
Korea	60
Ireland	59
Scotland	58

Mr. RANGEL. Mr. Chairman, I ask unanimous consent to ask just one question.

Are there parts of our educational system that warrant being indicted for failure to perform? Communities?

Mr. LONGANECKER. Yes, there are certainly. But again, as I think Secretary Reich says, it is difficult to brand all schools in all levels with the same brush.

Mr. RANGEL. I want to agree with you a hundred percent, but there are certain communities that are very costly, in terms of our budgetary problems, that can be, and should be, indicted.

Mr. LONGANECKER. There are school districts that one can look at and wonder why the productivity is not higher. But keep in mind, different communities face very different circumstances.

The community in which we live, this area, has to spend much more resource on protection of students, and on counselling services, and on issues that the student brings to the school——

Mr. RANGEL. You are talking about the reason for the indictment. I am asking whether or not, if the kids are not being educated——

Mr. LONGANECKER. Yes.

Mr. RANGEL. OK.

Mr. LONGANECKER. No, there are——

Mr. RANGEL. We have got to work on that, that's all.

Mr. LONGANECKER. Yes, absolutely.

Mr. RANGEL. We have got to work on it.

Mr. LONGANECKER. Yes, we do.

Mr. RANGEL. I am sorry.

Chairman CRANE. Were you finished, Mr. Coyne?

Mr. COYNE. Yes.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thanks very much, Mr. Chairman.

And thank you, Mr. Secretary.

Mr. LONGANECKER. You are welcome.

Mr. PAYNE. Because we are the Trade Subcommittee, and our interest is in how we can be more competitive in the world, certainly any improvements we make in education and training must be done with the public and private sectors working in conjunction with one another.

Mr. LONGANECKER. Yes.

Mr. PAYNE. What is the Department of Education doing with the private sector, and particularly business and industry, as it relates to some of the objectives you mentioned in postsecondary education?

Mr. LONGANECKER. A couple of things. The higher education community has been working closely with the business community for some time.

We have specific initiatives. Obviously the most significant is the School-to-Work Program, where a major partner is the business community providing the work-based learning component of that program.

The School-to-Work Program is a secondary/postsecondary linkage program as well. Therefore, I consider that to be part of my charge, as do the other assistant secretaries who deal with that issue.

In addition, we have developed our programs to encourage the participation of businesses. We have supported the provisions that allow businesses to provide education with a tax deduction for their employees, and we have worked closely with them.

It is also important to keep in mind that our system of higher education is fundamentally different from most other countries. Ours is a privatized system of higher education. We do not have Federal institutions of higher education; most countries run their systems of higher education.

We buy services in a system where about 75 percent of the students attend state institutions of higher education, about 25 percent in traditional colleges and universities that are private, not-for-profit institutions.

We also, in the Federal Department of Education, contract with over 3,000 private, for-profit trade schools, some of which have problems in their operation, but most of which are offering a quality, important service to the community by providing trade and technical education.

And so, we have got a variety of ways in which we work with an almost privatized system for high school graduates for the country.

Is that responsive, Mr. Payne?

Mr. PAYNE. It is, and one of my observations, and I think Secretary Reich alluded to this earlier, is that the community colleges seem to be playing a really important role, in terms of ensuring that the postsecondary education that people are getting is in fact applicable to their community, and to the employment needs in their communities.

I think that is because these institutions are very interested in working with the private sector, and understanding what the opportunities are.

Mr. LONGANECKER. Absolutely.

Mr. PAYNE. Anything that we can do to encourage more of that happening, so that the kind of education that people receive is as applicable in a practical way as possible to the needs in their community, would be very, very helpful.

Mr. LONGANECKER. Absolutely.

Mr. PAYNE. There is one other thing I wanted to touch on, and that is, one of the Goals 2000 objectives is that we will be first in the world in math and science by the end of this decade.

In terms of trade, in recent years the balance of trade in high technology goods has gone from a surplus to a deficit.

I understand that in 1975 the United States and Asia each graduated 60,000 bachelors of engineering, and yet 20 years later the United States is graduating 65,000 bachelors in engineering, and Asia is graduating 300,000.

It seems that one of the things that we really need to do is to encourage more people to participate in science and in engineering, in terms of postgraduate work.

What ideas do you have, or what can be done, to encourage that to happen?

Mr. LONGANECKER. Well, one of the dilemmas that is hurting us, particularly at the graduate level, is that some of those programs that traditionally have supported science and research in this coun-

try are areas in which we are currently, as a country, reducing our investment.

Now, that may make a lot of sense, but it is having the secondary effect. The Department of Defense—and normally you do not hear an official from the Department of Education arguing the case for the Department of Defense, and I do not intend to do that—but the fact that we are not investing in the kind of resources in defense research.

Much of that research was being done in our colleges and universities, in our science and engineering programs, and was providing support for students in those programs.

So, our disinvestment in various areas clearly takes a toll on the highest levels of achievement in our country.

I think one of the other dilemmas that we have is that the market really does work, in this country, and students go where they believe the jobs and opportunities are going to be and have been. There has been a tremendous amount of interest in business education at the postsecondary education level over the last decade, and a declining interest in science and engineering.

As the market requires and demands those services, and remunerates people appropriately for them, we will see a return in interest in those science and engineering programs.

They are relatively expensive programs for colleges and universities to provide, so unless there is a clear demand from the market, it is not one of those areas they are going to jump into without pretty strong evidence that student demand will be there.

You cannot support the program for long without a strong student demand component.

Mr. PAYNE. Thank you very much.

Chairman CRANE. Thank you, Mr. Secretary.

Mr. LONGANECKER. You are welcome.

Chairman CRANE. And with that we are going to recess.

Mr. RANGEL. Let me——

Chairman CRANE. You had another question, Charlie?

Mr. RANGEL. Yes, I just have one. This marketplace thing—some of our communities cannot compete in this market thing, and that is where my colleague and I have some major problems.

If those schools that we were talking about, that are operating at a substandard level, those districts—I guess that is the best way to describe them—is it possible that you could locate, geographically, where they are? Do they come up in clusters, and are there other indicators that would show why these schools are not being productive, the District of Columbia being one?

Would they be basically inner-city schools?

Mr. LONGANECKER. Mr. Rangel, I really—I do not know the answer to that.

Mr. RANGEL. Well, I never mentioned race or Hispanic or anything—I did not think there was any need to—but when we talk about the marketplace, certainly you are not talking about these places, that are not productive.

Mr. LONGANECKER. No, that's the——

Mr. RANGEL. And you would agree that there are clusters that have other characteristics besides unproductive schools.

Mr. LONGANECKER. Oh, absolutely, sure. There are a lot of schools where the students either do not come out, or when they do come out, have a very difficult time competing with the rest of the world.

Mr. RANGEL. So, if this is throughout the United States, that is Federal, isn't it?

Mr. LONGANECKER. Yes, it does sound like it. It is certainly national, and it certainly is a Federal interest, and it does suggest that the resources we put in, whether they are at the level that you and I might hope, or the level that we have, we have to do the smartest job possible of assuring that we——

Mr. RANGEL. OK, we have to go and vote, and I will be in touch with you personally. But I would like to see what Federal program you have that is constitutional and that says it is more important that this issue be left up to the local school boards.

I would like to see how you look at this, so that I can work with you.

Mr. LONGANECKER. Great.

Mr. RANGEL. With your restrictions.

Mr. LONGANECKER. We will work with you.

Chairman CRANE. Thank you again, Mr. Secretary.

Mr. LONGANECKER. You are welcome, Mr. Chairman.

Chairman CRANE. And the Subcommittee stands in recess until this vote is over.

[Recess.]

Chairman CRANE. Mr. Weill, we welcome you before the Subcommittee, and before your presentation I would like to have Mr. Rangel make an introduction.

Mr. RANGEL. Thank you, Mr. Chairman.

I will be brief, because the testimony will explain what an outstanding individual Mr. Weill is. He has proven his success as a businessman throughout the world, but the thing that has impressed me the most is that he recognizes that in order to have a strong economy you need a strong work force; in order to have a strong work force, we need a strong educational system.

And when he found the system was not working, it did not stop him. He went out and built one, and it serves as a model as to what can be done, and I am so glad that he is able to be here. More importantly, he is willing to share his expertise and his staff with the Federal Department of Education, and other businesspeople, so that we can come together and find out what works, what can be duplicated, without even thinking about another layer of Federal bureaucracy.

So, thank you for giving me the opportunity to introduce my friend.

And thank you, Mr. Weill, for being here.

Chairman CRANE. You are more than welcome.

STATEMENT OF SANFORD I. WEILL, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TRAVELERS GROUP, NEW YORK, NEW YORK

Mr. WEILL. Congressman, thank you for that kind introduction.

Mr. Chairman, I have managed to live for 63 years without ever doing this, so this is a first. So, you have got to forgive me if I am

a little bit nervous, but I would hope that you would be able to put my whole testimony in the printed record.

Chairman CRANE. It will be included, yes, sir.

Mr. WEILL. Thank you very much.

Basically, I would like to say that I am proud to be an American, I am a great believer in the free enterprise system.

I think that as we face the next millennium, our country is in a fantastic position vis-a-vis the rest of the world, and I think it is all of our collective jobs to make sure that we are in that position 50 or 100 years from now, for our grandchildren and our grandchildren's grandchildren.

That is why I think we all do what we do, but I want to talk today a little bit about the Academy of Finance and the National Academy Foundation, a little bit about why it started, what is happened since it started, and our hope for the future.

Basically, this program started with an idea in 1980. New York City was the financial capital of the world, and yet financial companies were thinking about moving out of New York City because they claimed there were not enough people in the work force to keep a vital kind of economy going in New York.

And yet, when one drove around the five boroughs in New York, you saw young people playing in the street, young people without having a clue of what life was about, and how they can become part of the system.

That was the beginning of the idea that maybe the private sector should get together with the public sector and see if we can create a high school level program that can train young people for a career in the financial services industry.

In 1980 I approached Frank Makurola who was then the Chancellor of the Board of Education, and I said, can you be a little enough of a bureaucrat that we can work together to try and create a program where the business sector will be part of writing that curriculum, so that the program will relate to what is happening today and tomorrow, rather than what happened 50 years ago.

And we developed that program. Sandy Feldman of the Teachers' Union cooperated with us, encouraged the teachers to work in business during the summer, so that they could understand what they would be teaching, rather than just teaching from the book, and to help develop the curriculum so that it would make sense to the young people.

We started this program in 1982, in John Dewey High School, with 30 students, and it was an example of public/private partnership, and it was an example of a School-to-Work Program.

We worked in that school for 3 years before we went to the next school. Today we are in 200 schools in 25 States, with 12,000 students, up from that original 30, 14 years ago.

And, what is even better than that, is, 90 percent of these students go on to college or some kind of higher education, because they have learned in this program the value of School-to-Work Programs. And part of this program, and our only limitation on the growth of the program, is getting industry to provide summer internships.

Because in internships, young people can find out the value of education, that education can take them beyond the entry-level job

and just sweeping at McDonald's. It is important in their seeing that they can have a future, because they are the future of this country.

Our program really operates in inner-cities throughout the whole country. The population of our program is 70 percent black, Hispanic, and Asian, so it is really a good representation of the people in this country.

And it is a program where, when the young people work on it, they realize the benefits. The participating industries see that these young people are really terrific. We teach them how to interview, proper manners, and we teach them how to dress.

We teach them how to feel good about themselves, the value of education, and the value of the future, and I think that our goal in the Travelers, and in America really, should be that we have a program here that is replicable.

It has been copied, it works everywhere, and we would like to go where we are teaching 1 million students a year, and have 1 million summer internships, because that is the future of this country, rather than the 12,000 that we now have.

I love to preach on this subject. I know I do not have much time, but I really want to say that I am thrilled to be here. I can talk about this all day, and if you give me the opportunity I will.

I would like to introduce John Dow, who is the chief executive officer of the National Academy Foundation, who is sitting in the back there, whom I work with. I am not sure who is whose boss, but we work pretty well together.

And this is a program that I think has worked, not only in the financial business, but it has been replicated in the travel and tourism business and can work well in other industries, with the cooperation of business and the public sector.

So, Mr. Chairman, thank you very much for giving me this opportunity.

[The prepared statement and attachments follow:]

STATEMENT OF

SANFORD I. WEILL
CHAIRMAN AND CEO
TRAVELERS GROUP
NEW YORK, NEW YORK

Introduction:

Mr. Chairman, thank you for the opportunity to speak to the Ways and Means Committee Subcommittee on Trade today. I am Sanford I. Weill, Chairman and Chief Executive Officer of Travelers Group.

Today, I want to describe to you a truly unique - and successful - program between the private and public sectors. The program is the Academy of Finance, which provides specialized education, college counseling and summer jobs to mostly inner-city high school students. I have attached a more detailed description as Attachment 1. The Academy of Finance has program sites in over 25 states nationwide (see Attachment 2). By 1995, we had a total number of Academy graduates of over 8,000 (see Attachment 3).

History of the Academy of Finance
The history of the Academy of Finance began in 1980 when I approached the then-Chancellor of New York City schools and the head of the New York City teachers union. As an employer in the financial services industry, we had trouble obtaining qualified employees and experienced high turnover of those we did hire. I believed that this was largely the result of a lack of proper education and training.

As a result of these shortages, many employers in our industry were less competitive and were considering leaving New York City. This would result in a vicious cycle: a lack of qualified employees resulting in fewer and fewer jobs. In order to stop this cycle of job loss and lowered skill levels, I believed we needed to match the needs of the students with the financial services expertise of New York corporations. This was the original "charter" of the Academy of Finance. By producing well-qualified employees, the Academy of Finance has helped young people and has increased the competitiveness of the financial services industry.

The first Academy of Finance started in 1982 at John Dewey High School in Brooklyn with 30 students. There has been a major expansion of the program since 1982. For the 1996 school year, we now have 202 programs (see Attachment 4) throughout the U.S. with over 12,000 students enrolled (see Attachment 5 -- 1995 numbers). In 1989, The National Academy Foundation was created as an umbrella organization for the Academy of Finance and other specialized academies of instruction.

Elements of the Academies
There are certain elements of the Academy of Finance which I believe have been key to its success. First, specialized courses developed with financial industry experts have been offered as part of the regular high school program. In addition, career-oriented courses are offered at a participating college at no extra charge. Second, the Academy places a strong emphasis on technology in order to give participants the skills needed to compete globally as well as interpersonal skills to help them in business and social situations. Third, we provide six to ten week paid internships which give students practical real life experience. Most importantly, the summer internships show the students that there are opportunities beyond the entry level positions. They learn that education is the path to reach those higher levels (see Attachment 6). Fourth, the Academy gives students access to successful, helpful mentors who can guide the students' careers. And to provide the proper background, the Academy offers college counseling. May of the students who have participated in the Academy and continue on to college and careers are very motivated. The mentoring and college counseling programs help to provide them with direction.

Criteria for Acceptance Into the Program
The criteria for acceptance into an Academy of Finance are also important. The criteria include: (1) a desire to learn about the financial industry; (2) a good attendance record;

and (3) a minimum grade point average. We don't just take the top students; a large majority of our students are considered at a "high risk" for dropping out of school.

Results Are What Counts

Having described our program, what counts is not our effort or our design but our results. The most important result is that virtually 100% of Academy students graduate from high school. In addition, numerous scholarships are given to offset the ever-increasing burden of college tuition. Consistently, over 90% of our students go on to two or four year colleges (see Attachment 7), and many continue to work in the financial services industry during college. Finally, over 50% of our students return to the financial services industry after college.

Corporate Support

Matching our record of growth is our record of private sector support. Today, more than 1,000 corporations and organizations in America support the Academy of Finance. The support comes in the very necessary form of financial support but also in sometimes more important ways. Summer jobs, real work experience and the involvement of senior executives are just some of the examples of how corporations can get involved in helping students. I would encourage more corporations to take part in this or other education efforts. Many corporations are already contributing time, expertise and money. I serve as the Chairman of the Board of the National Academy Foundation and many of the other fine executives and corporate supporters are described in the materials I have brought today.

Conclusion:

In conclusion, I want to state that I am very proud of the Academy of Finance and I'm sure that shows through. In just 15 years, the Academy of Finance has gone from an idea with no precedent to a nationwide program that benefits thousands of kids. I am especially proud of the major efforts - the partnership between the public school officials and the private sector comprised of corporations across the country. I firmly believe that the future of effective education will be found in this type of partnership between the private and public sectors.

THE NATIONAL ACADEMY FOUNDATION: A LESSON IN LEARNING

When high school students understand and confront the challenges of their lives beyond the classroom, their dedication to learning is transformed. Equipped with knowledge, skills and practical experience to solve real-life problems, young people acquire a sense of direction and resolve.

The National Academy Foundation (NAF) offers students academic opportunities and practical experiences within their own high schools through a two to four year Academy program. The Academy model consists of a comprehensive, exciting sequence of courses that focus on a particular industry and supplement regular curricula. Classroom learning is reinforced by on-the-job experience acquired through paid summer internships - a combination that bridges the gap between the classroom and the workplace while offering students a chance to explore career interests.

In 1988, after several years of success with the Academy model, the American Express Company created an independent foundation, NAF, to reach out to more students and respond to growing interest from the private sector to become involved in the education of America's youth. Today, NAF combines the resources of business, government, schools and communities to bring high school students a multifaceted, relevant educational experience. In addition to the American Express Company, the Travelers Group, the Corporation for National Service, the Bankers Trust Company, and the Fannie Mae Foundation, more than 750 corporations, civic agencies, non-profit organizations and small businesses have joined NAF in its drive towards integrating the real world into the classroom and offering students a choice about their futures.

The NAF Academy programs include the Academy of Finance, the Academy of Travel & Tourism and the Academy of Public Service.

NAF continues to replicate its Academy programs in new sites and will adapt the Academy model to new industries. NAF's Academy of Finance is a member of the US Department of Education's National Diffusion Network (NDN), which disseminates exemplary educational programs across the country.

A school principal or superintendent is often the first to contact NAF to request information about planning and developing an Academy. If the school system decides to request funding and other support services to establish an Academy, a proposal describing start-up plans must be submitted and approved by NAF.

PARTNERSHIPS AND WIDE COMMUNITY PARTICIPATION ENRICH SCHOOLS AND THEIR STUDENTS

At each Academy, local, civic and business leaders join educators to offer a comprehensive program of classroom instruction, work experience, and career preparation to every Academy student. Academy partners may assist in one or more ways.

They can:

- **Serve on Local Business Advisory Boards**

At each Academy site, a Business Advisory Board advises on policy and operations, assists in fundraising, provides guidance in locating and planning student internships and promotes the Academy in business, education and government forums.

- **Assist with Curriculum Development**

To ensure NAF curriculum is current and relevant, partners collaborate with instructors, supply support materials, develop teacher training opportunities and serve as guest speakers.

- **Provide Scholarships and Other Incentives**

Companies, organizations and individuals offer scholarships and financial assistance to students who wish to continue their studies in college.

- **Participate in Mentoring and Shadowing Programs**

Students receive valuable one-on-one guidance and encouragement from local business volunteers. They also learn about the world beyond the classroom through shadowing experiences in which students follow the daily activities of managers in businesses and government.

THE ACADEMY MODEL: A VEHICLE FOR SCHOOL REFORM

- Over 100 Academy Advisory Boards have been established and more than 700 business partners offer students paid internships.
- 167 public high schools offer their students a choice for enriched academic curriculum and a dynamic means of learning through Academy programs.
- Over 600 public high school teachers have undergone industry training, continuing education and professional development to teach Academy courses.
- More than 8,000 students have graduated from NAF Academies since 1984. The annual graduating class is expected to increase to 3,000 in 1996.
- 90% of Academy graduates nationwide pursue their education beyond secondary school.
- Academy students earned $3.5 million during summer internships in 1995.

DIVIDENDS

- Students stay in school and gain a meaningful base of knowledge and skills as well as work experience for career preparation.
- Schools offer a choice to students, improved credentials and opportunities for teachers, and up-to-date resources.
- Students successfully completing program requirements are awarded certificates which evidence skills competence.
- Business participates in educational improvement, and helps ensure the development of a well qualified, motivated workforce.

FROM THE CLASSROOM TO INFORMED CAREER DECISIONS

Thousands of students participate in NAF's Academy programs in communities across the country. Students applying for admission must meet a minimum grade point average, have a good attendance record and a positive attitude towards learning. Some students who enter Academy programs are at risk of dropping out of school, or are not realizing their full potential, but by the time Academy students graduate, virtually all are high achievers and motivated to succeed in higher education or their chosen career.

PROGRAM ELEMENTS

Specialized Courses
Academy students take specialized courses designed by industry leaders and educators in addition to their regular high school curriculum.

A Chance to Establish Personal Career Goals
Academy students get to know the people and organizations involved in their respective industries. They visit banks, tourism facilities, real estate offices, government facilities, attend industry meetings, hear guest speakers in the classroom, and meet business leaders who serve on the Advisory Board for their Academy.

Paid Internships
After successfully completing the Academy requirements in their junior year, students are screened and interviewed for paid summer internships. Each student is hired for a position that assumes entry-level responsibilities. Many interns later work part-time or full-time for the companies at which they interned.

Special Graduation and Scholarship Awards
Students attend a special Academy graduation ceremony and are often eligible for hundreds of thousands of scholarship dollars.

Encouragement to Pursue Higher Education
Academy courses are developed to give students strong academic experiences at the high school level. When possible, students take college-level courses in their home schools or at local colleges. Success with these programs encourages many students who had not considered continuing their education after high school to include college in their future plans. More than ninety percent of Academy students go on to college.

Teacher Training
Academy teachers strengthen their credentials and abilities through participation in industry training programs, local university courses, and staff development activities at NAF-sponsored conferences.

ACADEMY OF FINANCE

There is more to the financial services industry than money in the bank. Over six million people research, analyze, and buy or sell commodities, stocks, bonds, foreign securities, credit, real estate, insurance and other financial products. Hundreds of thousands more people work in accounting, computer programming, telecommunications and other industries that support the activities of the financial services companies.

Experts predict that there will be almost 1.86 million new jobs in the field by the year 2000, coupled with a simultaneous decline in the number of young people entering the workforce. Preparing students to enter the financial services industry is essential to maintain the continued growth and strength of America and to secure its leadership role in the world economy.

The Academy of Finance is a program that gives high school students an opportunity to learn about, and prepare for, careers in financial services. It is one of several model programs established to promote educational excellence by the National Academy Foundation (NAF). This partnership links the resources of business, education, government and community.

The Academy of Finance bridges the gap between the classroom and the workplace. It helps students develop career skills, evaluate their own potential for success and establish personal goals through an enriched, two-to-four year comprehensive academic program housed in public high schools.

In addition to required academic high school courses, students at the Academy of Finance take two or three specialized courses per semester developed by NAF in collaboration with leading educators and industry experts. These include: *Economics and the World of Finance, Financial Operations, Banking and Credit, Financial Planning, International Finance, Real Estate Practices and Principles, English for Finance,* and *Mortgage Banking.*

The June 1992 US Labor Department's SCANS (The Secretary's Commission on Achieving Necessary Skills) Report, "SCANS in the Schools," cited NAF's Academy of Finance curriculum as exemplifying the manner in which SCANS competencies might be successfully integrated into schools. The report also noted that "NAF curriculum has a wide range of activities to foster interpersonal skills needed in the world of work."

The recently enacted School-to-Work Opportunities Act validates that the Academy model and the Academy of Finance have been cited by many independent agencies and organizations as prototype programs for this new federal initiative.

NATIONAL ACADEMY FOUNDATION

ACADEMY OF FINANCE

PROGRAM SITES

1996 - 1997 Academic Year

Program Sites	# of Programs
Alachua, FL	1
Anderson County, SC	1
Anne Arundel County, MD	1
Baltimore, MD	1
Baltimore County, MD	2
Boston, MA	1
Broward County, FL	6
Buffalo, NY	1
Burbank, CA	1
Charlotte, NC	2
Chattanooga, TN	2
Chicago, IL	1
Cincinnati, OH	1
Clayton County, GA	3
Cleveland, OH	1
Cumberland County, NC	1
Dade County, FL	2
Dallas, TX	1
Denver, CO	3
Detroit, MI	1
Durham, NC	1
Duval County, FL	1
East Hartford, CT	1
Gloucester, VA	1
Hartford, CT	1
Henry County, GA	1
Hillsborough County, FL	1
Honolulu, HI	2
Indianapolis, IN	1
Jefferson County, KY	2
Jefferson Parish, LA	3
Jersey City, NJ	1

Program Sites	# of Programs
Lee County, FL	1
Los Angeles, CA	6
Mercer County, KY	1
Montgomery County, MD	2
New Hyde Park, NY	1
New Orleans, LA	2
New York City, NY	11
Northport, NY	1
Oconee County, SC	1
Okasis County, NC	1
Omaha, NE	3
Orange County, FL	2
Osceola County, FL	1
Palm Beach County, FL	1
Pickens County, SC	1
Polk County, FL	1
Prince George's County, MD	4
Providence, RI	1
Red Bank, NJ	1
St. John's County, FL	1
St. Lucie County, FL	1
Salt Lake City, UT	3
San Francisco, CA	7
San Jose, CA (East)	2
San Jose, CA (Unified)	1
Seattle, WA	3
Seminole County, FL	1
Union County, NC	1
Wake County, NC	1
West Seneca, NY	1
Wilmington, DE	1
Yonkers, NY	1

AOF TOTAL: 115

NATIONAL ACADEMY FOUNDATION

PROGRAM SITES

1996 - 1997 Academic Year

Program Sites	# of Programs
Baltimore, MD	1
Boston, MA	1
Broward County, FL	4
Burbank, CA	1
Charlotte/Mecklenberg NC	1
Chattanooga, TN	1
Chicago, IL	2
Cranston, RI	1
Culver City, CA	1
Dade County, FL	3
Dallas, TX	5
Deer Valley, AZ	1
Denver, CO	4
Detroit, MI	1
Duval County, FL	1
Fayette County, KY	1
Highline, WA	1
Honolulu, HI	1
Jefferson Parish, LA	2
Kauai, HI	1
Las Vegas, NV	1
Lee County, FL	1
Los Angeles, CA	2
Martin County, FL	1
Maui, HI	3
Minneapolis, MN	1

Program Sites	# of Programs
Monterey, CA	1
Newark, NJ	1
Newport, RI	1
New Orleans, LA	2
New York City, NY	6
Orange County, FL	1
Osceola County, FL	1
North Chicago, Il	1
Palm Beach County, FL	1
Providence, RI	1
Ridgeland, SC	2
Roanoke, VA	1
St. John's County, FL	1
St. Lucie County, FL	1
Salt Lake City, UT	2
San Francisco, CA	2
San Jose (East), CA	1
San Jose (Unified), CA	1
Seminole County, FL	1
Sweetwater Union, CA	1
Volusia County, FL	1
Warwick, RI	1
Washington, DC	1
Westbury, NY	1
Westchester BOCES, NY	1
Woodriver Junction, RI	1

AOTT TOTAL: 78

NATIONAL ACADEMY FOUNDATION

ACADEMY OF
APS
PUBLIC SERVICE

PROGRAM SITES
1996 - 1997 Academic Year

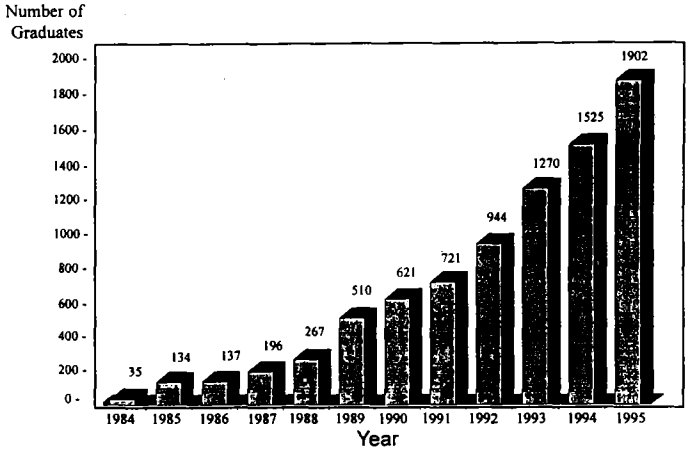
PROGRAM SITES	# of PROGRAMS
Boston, MA	1
Buffalo, NY	1
Hillsborough County, FL	1
Mobile, AL	1
New York City, NY	3
San Jose, CA	1
Tallahassee, FL	1

APS TOTAL: 9

NATIONAL ACADEMY FOUNDATION

NAF GRADUATE HISTORY

1984 - 1995

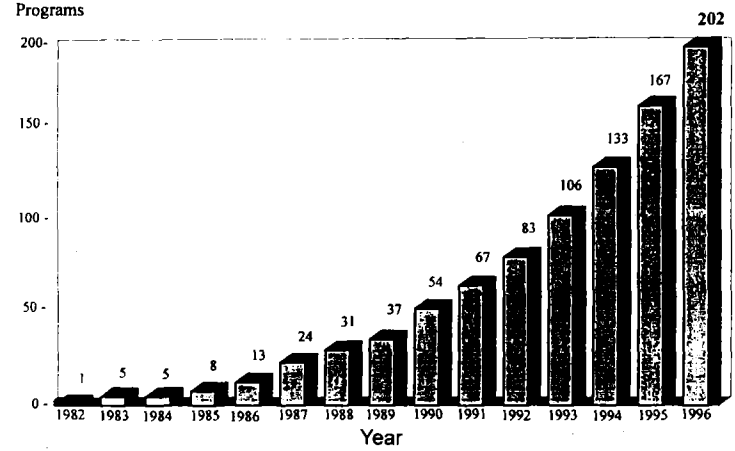


	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
AOF	35	134	137	196	267	458	547	639	757	926	1028	1112
AOTT						52	74	82	187	248	384	654
APS										96	113	136
TOTAL	35	134	137	196	267	510	621	721	944	1270	1525	1902

TOTAL NUMBER OF ACADEMY GRADUATES = 8262

NATIONAL ACADEMY FOUNDATION

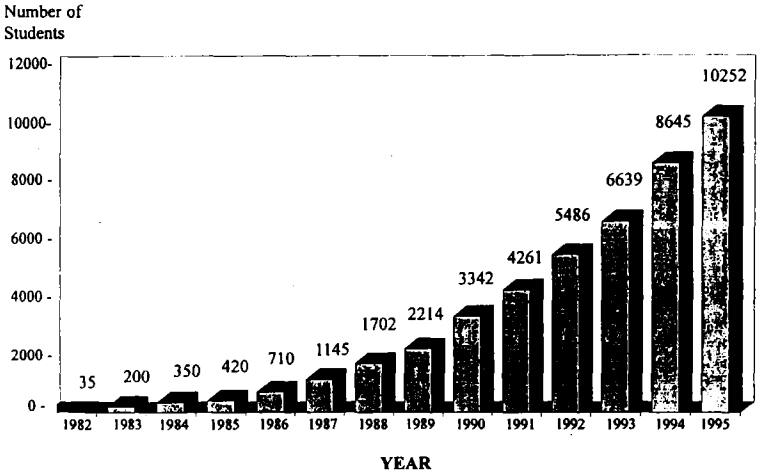
NAF PROGRAM EXPANSION
1982 - 1996



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
AOF	1	5	5	8	13	22	29	35	45	50	58	60	76	93	115
AOTT						2	2	2	8	12	19	38	49	64	78
APS									1	5	6	8	8	10	9
TOTAL	1	5	5	8	13	24	31	37	54	67	83	106	133	167	**202**

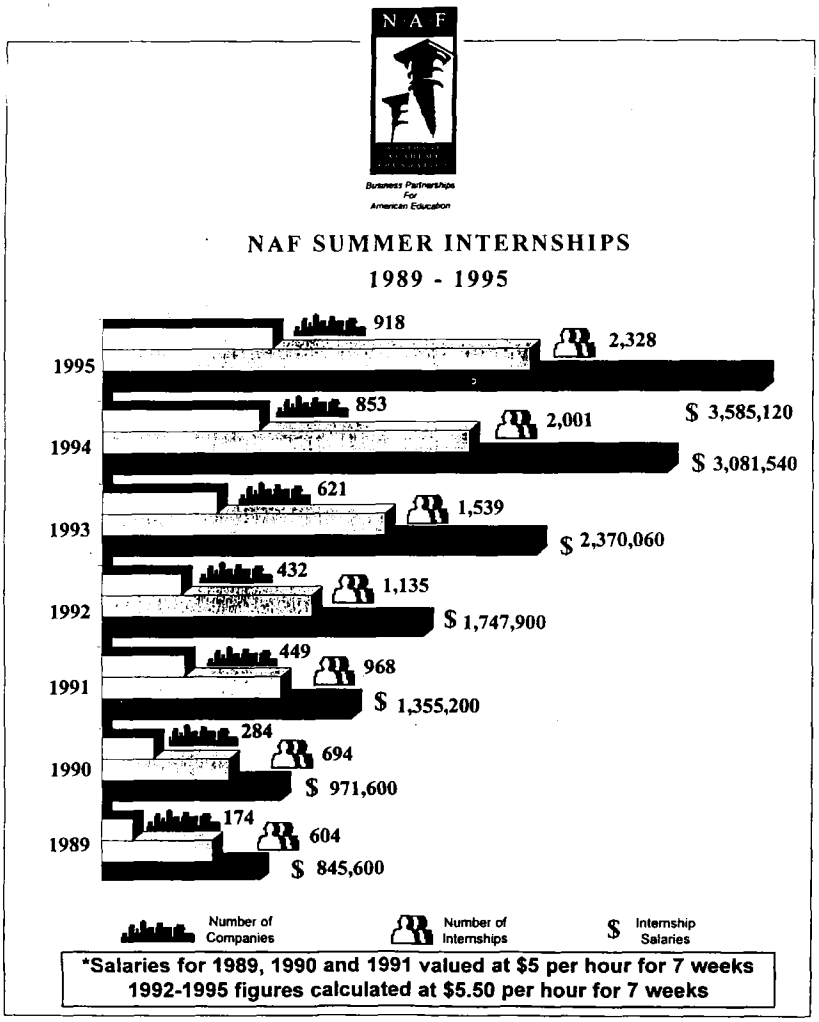
NATIONAL ACADEMY FOUNDATION

NAF STUDENT ENROLLMENT HISTORY
1982 - 1995



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
AOF	35	200	350	420	710	1069	1541	2019	2715	3169	3628	4139	5340	6226
AOTT						76	161	195	564	904	1519	2006	2878	3659
APS									63	188	339	494	427	367
TOTAL	35	200	350	420	710	1145	1702	2214	3342	4261	5486	6639	8645	10252

NATIONAL ACADEMY FOUNDATION



NATIONAL ACADEMY FOUNDATION

NAF ACADEMY GRADUATES
1989 - 1995

	1989	1990	1991	1992	1993*	1994*	1995*
Graduates	510	621	721	944	1270	1525	1902
College Bound	464	558	670	861	1139	1393	1708
College Bound	91%	90%	93%	91%	90%	91%	90%

* Figures include Academies of Finance, Travel & Tourism and Public Service graduates

Chairman CRANE. Thank you, Mr. Weill.

How do the courses designed by industry leaders and educators fit in with the regular school curriculum of these students? Are they required to take additional classes?

Mr. WEILL. They take courses that balance the normal high school course, and have courses in accounting, courses in investing. We have developed, with this program, college level courses. So, in their senior year the students who want to can take courses in a local college or a community college, so that when they go on to higher education, they are better equipped than a lot of other kids, because they are not intimidated by the education process.

We have lots of people from industry come in and speak to them quite often, so that they can better relate to people, and the mentoring program in this is alive and well.

Most of the young people who have these summer internships are offered jobs by the companies they work for. They want to have them back, because they are really terrific young people—they just were not given the chance, or shown, and a lot of them did not have the role model who could lead them into the future, and that is what this does.

Chairman CRANE. In your written testimony, you have talked about mentors, and I think all of us have experienced that at one time or another in our lives. Can you elaborate a little bit on that relationship?

I mean, some of the courses, as I understand it, are tailored on a very brief basis. I mean, it is not like over the entire 4 years of a high school education.

Mr. WEILL. No, the program really started as a 2-year program for the junior and senior years of high school. And we had this summer internship where every student would be guaranteed an internship in their junior year, so that they could get a better understanding of what they are studying, why education is important, and hopefully raise their self-esteem.

So, while it is only 2 years, I do not think that that is a short period of time, because we are getting over 90 percent of the participants to decide to continue their education, versus something that might be half that in a normal public school, and we are taking the same people who are in those public schools.

We have just started a full, 4-year program, so we have a full, 4-year high school. The first one was in New York next to the American Stock Exchange. We are going into our 4th year, so we have about a hundred students in each class.

We have started the same program in Hartford, and we believe that we can have a 4-year balanced education program, with an emphasis on accounting, finance, and business, because the financial services industry is one of the biggest employers in the United States.

It is an industry that we are a leader in globally. If we are going to keep that position, then it has got to be led by the people who are growing up in our high schools today.

Chairman CRANE. Well, you are to be commended.

Let me welcome Mr. Dow.

And, Mr. Dow, would you like to add anything to what Mr. Weill has already said?

Mr. DOW. Thank you, Mr. Chairman.

I would just say that you can see from his presentation that he is very passionate about this program. Certainly he had a vision, a long time ago, and I think he is to be commended for staying with that vision, and not only having a vision and starting a program, but some 15 or 16 years later he is chairman of our foundation, and still providing leadership.

I think that it is a wonderful opportunity to provide for Mr. Weill, and for everyone else here, to come and talk about improving the work force in this country.

You are right on target with what you are doing here, and I certainly hope that you can continue the momentum.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. Weill, you saw a need and you did not buck the system, you became a partner with the system, and you showed them what the needs were in the workplace, and how they could be partners in doing what they have to do to fulfill their mandate, but at the same time allow the graduates to be better prepared for a job opportunity.

There used to be a time that I used to feel so proud to say, without ridicule, "I am from the U.S. Congress, I am here to help you." But that is not accepted the way it used to be.

At the same time, we do get some things done. For example, we have provided for benefits in certain areas, and I represent one that has an empowerment zone, which provide tax relief in order to get private sector people to do what you are doing, because it is the right thing to do, for their business and for America.

But, if you did have the ability to have these additional resources available, it would seem to me that your creativity and your imagination could serve as a broader blueprint for the corporate world that may not see the instant benefit for their company, their industry, or their country, but they would see the instant benefits on the balance sheets, as they see their tax liability being reduced, as their participation in programs like this increases.

If we were to work with you and Dr. Dow, do you think that you could up with a list of things that could be done to allow you to increase and to spread the work you are doing for the country?

Mr. WEILL. I think there is no question that working together we can come up with a lot of ways to really substantially increase participation, and I think that that is really what is needed today, because, yes, we do have something that has proven that it can work in 25 different States, in 170 different cities, across America, over a decade and a half, and it has momentum.

So that sometimes, unfortunately, we need to have incentives to get a lot of our associates to want to play the game and be part of something, and I think that that would be a message to them, that this is something that has to happen.

If we are going to look into the future and say our tax dollars are going to pay it all, or we are going to leave it to the private sector to do it all, without the cooperation of all parts of our society, whether it is business, labor, or the public sector, I think that is the only way it is going to work.

And a lot of people in business also are proud, or like to be proud, of what we do, and what we accomplish. And we do not want people to want us for just our money; we want people to want us for our ability to make things happen, to lead change, to be a part of change.

And so this is a great example of how that partnership can work, and some of the things that you are thinking about can accelerate it dramatically.

Mr. RANGEL. Well, Mr. Weill, I want to thank you.

Sometime—I hope in September—we will have national leaders such as you coming together with Secretary Riley and his staff, to see whether they can imitate and expand these programs, or what can we do without putting another layer of bureaucracy out there, to support your good efforts, but to make certain it becomes a part of tradition.

Doctor, I had a chance to speak and meet with many of the teachers who had a conference in New York. How many teachers were there?

Mr. DOW. We had over 600 at that conference.

Mr. RANGEL. And how many States were involved?

Mr. DOW. All of them, some 25 States.

Mr. RANGEL. Mr. Chairman, you can tell, almost, the quality of education that a kid gets, without the kids, when you see the enthusiasm of the teachers. This was one of the most exciting groups of people I have ever seen, and all they were talking about was how they could do better.

Mr. WEILL. Congressman, they are doing it because they know they can make a difference in people's lives. That is why they are so enthusiastic, it is terrific.

Mr. RANGEL. And I am glad you mentioned Sandy Feldman, who is a very aggressive leader of the union, who has said a number of times that she is prepared to support any program that will show that teachers can teach, when given the tools and the environment to work with.

And so we do not have that union problem here, because the teachers are all union and enthusiastic.

And I hope, Doctor, that you might share with me some of the things—not now—that came out of the conference, that you think I, on any level, might be supportive of.

Mr. DOW. Certainly.

Mr. RANGEL. But let me thank you both, because it makes me proud to be a New Yorker, to see that we do not wait for constitutional changes, we move on with what we have to work with.

Thank you.

Mr. WEILL. Thank you very much. And as an American citizen, thanks for giving me the rest of the summer off, and not doing this until September.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. I have no questions.

Chairman CRANE. Well, I thank you both for your presentations, and keep up the good work, and I look forward to examining in depth, as Charlie already has, the program you have set in place.

Mr. WEILL. Thank you very much. We appreciate it.

Mr. DOW. Thank you.

Mr. RANGEL. Thank you.

Chairman CRANE. And now I would like to call up Mr. Jones, president and chief executive officer of the National Alliance of Business, Stanley Litow, president of IBM Foundation, and Leo Reddy, president of the National Coalition for Advanced Manufacturing.

And let me tell you panelists that, if you can condense your presentations to 5 minutes or less, all of your prepared testimony will be made a part of the permanent record, and we will start with Mr. Jones.

STATEMENT OF ROBERTS T. JONES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL ALLIANCE OF BUSINESS, WASHINGTON, DC

Mr. JONES. Thank you, Mr. Chairman and Congressman Rangel.

We appreciate the hearing. We think that it is not only important on the substance, but this Subcommittee has a growing leadership role on this set of issues.

I will keep my comments quite short. Many of the items that I would speak to you about on the changing nature of the economy and its impact on human beings and workers have already been stated. I would suggest two things.

One is that this set of behavior, from global competition, technology and everything else, is not going to abate, it is going to increase, and its impact on our institutions and on individuals will be felt more in the future, not less, and we need to deal with the underlying implications of that.

The greatest underlying implications are, in fact, as the Secretary pointed out, good jobs, and high skill, but the key to the future, in terms of wages, benefits, tenure on the job, reemployment, access to the original job, all, more and more, come back to the education investment that is in our system.

We are replete with data about the increasing impact of education on each of those points. I will not go through them now. But, we would raise it as a significant issue for the Congress, and for the public to understand.

One of the implications of this is the growing role of corporate leadership on this issue. You just heard an outstanding example of it, you will hear more in a moment from IBM and other companies. But, across this country, Mr. Chairman, the increasing role of large and small businesses on this set of issues is visible and seen, not as a political issue, or a social issue, but as an underlying economic issue, both for the company and for the individual.

You may have heard that we now live in an era in which we do have data that show directly the impact of education on productivity in a company. We have data which show the direct impact on the individuals.

So, when companies take leadership, both in the school system, in their own company, or in the broader community, it is for very significant and serious reasons.

Let me just cite a couple of things. Corporate spending is increasing rather dramatically. The Secretary indicated $30 billion a year; indeed, the recent number is $52 billion a year, just up since 1990.

Sixty percent of the companies are increasing their spending, while only 2 percent, in the last 2 years, have decreased it. Forty-one percent of employees are now receiving skill training, compared to 36 percent just 5 years ago.

Companies providing remedial education have increased from 4 percent to 20 percent, from 1990 to 1996. There are over 1,000 company universities, increased over 50 percent in 5 years. Business involvement in community coalitions across this country—we now have over 240 business-led coalitions in every major state and community in the country, focused on education reform and training reform, within those communities.

Indeed, I would suggest to those of us today who want to look at this issue, we need to be looking outside of Washington, in the communities. School reform is alive and well, and going phenomenally successfully. Reform inside the companies, in terms of how we relate to employees in training and education, is growing rapidly.

But it is all on a local basis. There is a commitment, as you heard, in the summit recently from New York, where education leaders agreed unanimously from across the country, to stay focused on high education standards, high assessments, and for companies to use transcripts in hiring and concern themselves greatly with Congressman Rangel's question about where schools in fact are dealing with these issues when they locate their businesses.

Goals 2000, controversial as it is, was supported by the business community; the financing, indeed, this year in this Congress, was supported by the business community. The CAREERS bill that has been in trouble was supported dramatically by the business community.

National skill standards, to communicate these kinds of things to people, are supported by the business community.

The bottom line is, there is a great concern that without those kinds of success efforts, the ultimate discrimination will take place by people not being skilled enter into the workplace.

We think in the end this is a partnership issue. As the Congressman pointed out earlier, it is not a Federal issue by itself, it is not a local issue by itself, it takes the business community, the government, and the schools to work together, both financially and substantively.

There is a role for the Federal Government, and it is a role of strong and vociferous leadership on this important issue. The role of the companies indeed is a responsibility to their employees and their communities, a different kind than we had in the past, and there is a role of the individual, but it will take all three working as partners to make this happen.

Thank you.

[The prepared statement follows:]

TESTIMONY OF
ROBERTS T. JONES

ON BEHALF OF THE
NATIONAL ALLIANCE OF BUSINESS

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ON
"THE IMPACT OF WORKFORCE QUALITY IN THE NEW AMERICAN ECONOMY"

JULY 25, 1996

Mr. Chairman, I appreciate this opportunity to discuss the changing world of American business competitiveness and the impact of those changes on human resource issues.

I am Roberts T. Jones, President and CEO of the National Alliance of Business. The Alliance is a nonprofit corporation advancing business leadership at local, state, and national levels to increase workforce quality through improved training and education.

Fundamental Economic Changes

The economic world that American companies compete in today is very different from that of even 15 years ago, and the change is both continuing and accelerating. Unprecedented challenges are coming from new pressures of competition worldwide, technological developments, deregulation, shortened product life cycles, and new standards of quality and customer satisfaction. These factors are restructuring entire industries while reshaping how companies organize their workplaces and manage and train their employees. Staying in the competitive game requires companies to have unprecedented flexibility, constantly refocusing as new technologies and emerging players reshape markets virtually overnight.

These realities have fundamentally and permanently changed the U.S. economy. Static institutions and old assumptions about roles and responsibilities (including those of government, the company, schools, and the individual) are increasingly irrelevant.

The Change is Necessary

Some of the short-term, transient effects that accompany these changes, like downsizing by an employer, often generate headlines. But, painful as they are, these changes are often vitally needed if companies are to remain responsive to economic realities over the long-term. What the media often misses is that layoffs are only a small part of the story. In an industry where layoffs might occur with one large employer, millions of new jobs are being created through new technologies, spin-offs, and new customer services. For example, even as major telecommunications companies have announced workforce cuts, the rapid convergence in computers, communications, and entertainment technologies has generated about 400,000 jobs in the past year alone in that industry.

Corporate leaders are predicting that this period characterized by constant turnover in the structure of markets, innovations in technologies, and customer needs will continue well into the next century. So the issue is not how to police the short-term economic effects of change, but how to restructure public policies to support the long-term productivity of companies, individuals, and educational institutions.

Impact of Economic Change on Employees

The ramifications of all this change on people must be looked at in a new light also.

- *New jobs require more education.* Job growth in the past decade has been concentrated in sectors requiring high education attainment, which outpaced job growth in less-demanding sectors by about 3 to 1. The trend shows no signs of abating. Sixty percent of all jobs created by 2005 will require some postsecondary education, according to the Bureau of Labor Statistics.

- *Better knowledge of job requirements is needed.* Due to the accelerating rate of change in needed skills and workplace structures, far more explicit information about worker knowledge and skill requirements is needed. We need a common, clear language of quality and expectations for everyone -- employers, employees, job seekers, educators, students, and human resource managers. Initiatives that develop voluntary, industry-based skill standards are necessary to improve training and to inform people seeking jobs and promotions about employer's needs.

- *New employment options and flexible benefit packages emerge.* As skill demands escalate and the competition for labor intensifies, we are seeing a host of new employment relationships, including full time, part time, contract, or contingent workers. This calls for a new relationship between employer and employee which is rooted in building employability. To cultivate the long-term employability of their employees, and to increase loyalty, companies are restructuring benefit packages to provide: portable health insurance and pension benefits, family friendly workplace policies, more dependent care options, and flexible education and training for all employees, including education aid for additional knowledge outside of the person's specific job requirements. In addition, firms are participating in the development of portable skill credentials. Employers that provide these things have the best chance at winning skilled employees and gaining their loyalty.

What Employers are Doing for Workforce Quality

The rapid changes in the labor market have made employers far more attentive to human resource development issues, because their competitive advantage relies on workforce quality. Companies are investing more in workforce development, because new data directly links the value of education and training to the bottom line of business.

- *More is spent on education and training.* Corporations are increasing their investments in education and training. In 1995, corporate training budgets totaled about $52 billion. That represents a 15 percent increase from the level reported in 1990. Over 60 percent of companies surveyed are increasing training investments, and only 2 percent are decreasing investments. More employees are receiving training. Over 41 percent (approximately 46 million employees) reported receiving skill training from their employer in the most recent data (1991), a 36 percent increase over the prior 1983 figure.

- *Corporate programs for educational remediation are increasing.* The number of companies providing remedial education programs has increased five-fold, rising from 4 percent in 1989 to over 20 percent in 1994. For example, MCI Communications Corporation, which spends about $75 million per year on training, devotes 10 percent of that total to basic educational skills.

- *Corporate universities are increasing.* We are seeing a dramatic growth in corporate "universities." There are now over 1,000 company universities, up from a level of 400 in 1989. These institutions commonly train the employees of suppliers, contractors, and service companies in addition to training their own employees. Some better known examples include: McDonalds, Motorola, Xerox, Disney, Intel, General Electric, and Sprint.

- *Business involvement in community coalitions for education reform is up.* Business has increased its involvement in community partnerships to improve local schools. The number of formal state and local coalitions of business, educators, public officials, parents, and administrators has increased to over 240 nationwide that the Alliance has been able to document so far.

- ***Smaller companies are linking to form learning consortia.*** For smaller companies, the cost of training is a major concern and economy of scale is a practical problem. The importance of training for economic success has produced innovative arrangements Companies in similar economic sectors pool resources, define common curricula for job skills and quality standards, and work with training institutions or community colleges to share costs. The employer defines the curriculum and pays for individual tuition; the institution provides teacher training, facilities, equipment, and certification.

Direct Benefits from Education and Training

There is a direct payoff to both the company and the employee for the investments in education and skill development.

For companies, studies show that productivity directly increases based on the educational level of the comapny's workforce. A 10 percent increase in the education level of a corporation's workforce (about 1 year of additional education) increases productivity by 8.6 percent. By contrast, a 10 percent increase in investments in plant and equipment increases productivity by 3.4 percent. [National Center on the Educational Quality of the Workforce, University of Pennsylvania.]

For individuals, the clearest basis for economic success is education and skills. Estimates for U.S. workers suggest that an individual's earnings increase about 8 to 9 percent for each year of educational achievement beyond high school.

- According to 1994 data a high school graduate (including GED) earns 64% more than a high school dropout. A person with 1 to 3 years of college (including associate or vocational degrees) earns 21 percent more than a high school graduate. A college graduate with a BA degree or higher earns 52 percent more than a person with 1 to 3 years of college. [U.S. Census Bureau]

- The benefits for individuals are not just in dollars. There is a direct correlation between education levels and reemployment rates, job tenure, and participation in benefit plans. Unemployment also decreases with greater education. Individuals with more education and training have more stable employment compared to those with less. And more educated workers are likely to be covered by, and participate in, a pension or health plan.

The New Social Compact

The social compact, which traditionally defines the relationship between employer and employee, is not dead, as the media would have us believe, but there is a change in what in contains. While the old compact was founded on adversarial assumptions about the roles of individuals and companies, the new compact is built on maximizing life-long learning for the benefit of employees and employers.

The success of the social compact in the new economy requires new ways of looking at the roles of companies, individuals, and the government.

A New Role for Business. Companies have responsibilities for continuous growth and profitability of their business in a complex and changing world market. But, they also have responsibilities to their employees. They are responsible to provide employees with portable benefits like health care and pensions, and with credentialed skills that are world-class, and therefore portable to other jobs. These factors comprise the foundation of worker security in the new economy, and employers have a responsibility to help provide them.

A New Role for Individuals. Individuals will take on added responsibilities for pursuing additional learning, for making key decisions about investments for health care and pensions, and sharing in higher level decision making at the workplace. Individuals will have a responsibility for pattern of life-long learning.

A New Role for Government. The role of government becomes very different in this new environment. Government must provide strong policy leadership, encourage flexibility so companies can adjust rapidly to competitive needs, and, at the same time, ensure the security of workers in this environment by facilitating the portability of benefits and increasing investments in training. Most current government programs and institutions are not structured to respond to changing labor market needs. Our challenge is to build a new foundation for worker security that embraces change, renovates laws and regulations to accommodate new realities, and equips workers with the tools they need for the economy ahead. Policies must reflect the new labor market realities, not the old ones. Government officials must work with, not against, market forces.

The Commitment to Learning

At the heart of these new economic realities and social relationships lies an increased demand for education and life-long learning. It is a fact that job security, mobility, portability of skills, and gains in standards of living rely on increasing levels of education and continuous training. This is why business sees education as important.

Education is such a critical foundation for economic success that the marketplace will become a place of absolute discrimination for those without it. Recognizing education as the core of our social and economic strength, business has also been involved in opportunities that bring schools and academic curricula into close coordination with work site learning curricula. That is why business has been dedicated to education reform for over 10 years and continues its involvement in everything from the recent education summit with the governors to the more than 240 state and local coalitions. That is why business leaders and governors have committed themselves to establishing higher academic standards, meaningful assessments of educational progress, reviewing transcripts and academic achievements in making hiring decisions, and other activities to encourage state and local reforms.

The corporate value placed on education is also why more and more companies are increasing investments for in-company training that meet the life-long learning needs of employees.

Proceeding as Partners

Mr. Chairman, the new economy requires increased investments in education and skill development on a life-long basis. Not all of it can be financed by government, particularly at the federal level, nor should it be. Success will require the joint efforts of business, government, and schools working together. None of these can make it happen by themselves. New partnerships that ensure all parties are working together toward the same goals are essential.

I would be happy to answer any question you may have.

Chairman CRANE. Thank you, Mr. Jones.
Mr. Litow.

STATEMENT OF STANLEY LITOW, PRESIDENT, IBM FOUNDATION, ARMONK, NEW YORK

Mr. LITOW. Thank you very much, Mr. Chairman and Congressman Rangel. I am delighted to be here.

You have our written testimony. I would just like to highlight a couple of points, because IBM is one of those companies that thinks education, and education and adult training included, are the primary issue that we should focus our attention on.

And we came to that conclusion after doing a fair amount of our own research. We asked our employees, since IBM is the leading company in terms of corporate social responsibility in the country, what issue do you think is most important in your community? Where would you like to see the IBM company involved?

They identified education as issue number one. In five cities around the country where we did surveys of community leaders and our customers, we asked them what issue they felt was most important, where should we focus our effort and our attention; they said education, kindergarten through 12th grade.

We looked at the CNN poll that demonstrates that Americans overwhelmingly believe that the quality of our schools is the major issue facing the country today.

So, we have focused our contributions program within the IBM company on energizing our people, our cash, our technology and our technical assistance in finding ways to use technology to improve our schools.

We have moved beyond join-a-school and adopt-a-school to working in two States and eight cities around the country to identify ways where technology can eliminate some of the key barriers that have stood in the way of reaching those high standards that we want to achieve.

So for example, in Charlotte, North Carolina, we have put our technical ability to work on the gap that exists between home and school. Many parents cannot or are not involved in their children's education.

IBM has designed a system, grounded in IBM technology, that will permit parents in the Charlotte school system to view their child's academic records and portfolios, to talk to their child's teachers, electronically, through access points at public libraries and community centers, and housing authority projects, so that they can be involved in their child's education on a day to day basis.

It does not have to be between the hours of 9 a.m. and 3 p.m., it does not have to be once a year at a parent-teacher conference; it can happen on a regular and steady basis.

We think, by this example, not in one school but an entire school system, we can demonstrate to other school systems some constructive ways to involve parents in their child's education, and it does not have to depend upon technology in the home to be able to do that.

In Cincinnati, Ohio, we are experimenting with a system that will extend the school day and the school year, by allowing stu-

dents to work on independent projects through the use of technology and distance learning.

In Dallas, Texas, we are working on a program that will combine the teaching of math and science in a technology base, so that we will not have to segment the school day in a 45-minute math period, or a 45-minute science period.

And through technology, in the Philadelphia schools, we are creating electronic teacher mentor programs, so that teachers can have steady and regular access to experienced teachers, who can advise them, work with them, and sharpen their classroom techniques.

In this way, through a program that we call reinventing education, we have identified 25 million dollars' worth of IBM talent and technology, to be able to create these systems, and then make them available to school systems and states around the country, who want to reach high standards, but need the technology and the help to be able to do that.

We would agree that we are never going to attain any level of achievement unless we have an agreed upon set of high academic standards, a regular system of measuring and assessing how we are doing, and some way of holding people accountable for the results.

The question was asked earlier about the status of grades kindergarten to 12. In some cases we are doing all right, in some cases we have lost ground, and by and large we have been treading water, while many other countries are improving dramatically.

And if we want to improve, there is no way that is going to get us there faster or better than by having a system of high academic standards, quality assessment, and some measure of accountability for performance, that holds people accountable for results.

Now, we have extended our work in grades kindergarten to 12, working with adults and those people who are out of school, because the challenge is to see to it that technology is not something that creates a gap between haves and have-nots, but closes the gap.

So, we have identified 12 projects around the country where we are using IBM technology to simulate work experiences, so that people can be trained through technology, that connects training sites to work sites, so that people can have access to the high quality training materials that they need, and that we can use technology to create a network of programs that can help meet people's educational needs, and skills training needs.

IBM is a company that offers its technology to paying customers. In our philanthropy we are treating school systems and adult training providers as if they were valued customers. We are sitting down with them, with our resources, and we are designing the systems that can help take them to the next level.

That is what this company is doing. We are doing it largely out of self-interest, because we cannot be a successful company if communities are not successful, and communities will not work unless their schools work.

So, thank you very much for inviting me. I have left you with our written testimony and a lot of materials that we have developed, and I would be happy to answer any questions at a later point.

[The prepared statement follows:]

STATEMENT OF STANLEY S. LITOW, PRESIDENT
IBM FOUNDATION

Chairman Crane and members of the Trade Subcommittee, my name is Stanley Litow, President of the IBM Foundation. We appreciate the opportunity to discuss our education and training programs with you.

These programs are designed on the belief that the same information technology innovations that are revolutionizing business can provide important breakthroughs for public and nonprofit organizations. Technology has the power to help these organizations deliver higher quality services, manage costs, maximize effectiveness and implement exciting new programs.

IBM's commitment to solutions-oriented innovation requires that we go beyond simple checkbook philanthropy to more comprehensive programs of corporate citizenship.

Our primary focus for our corporate citizenship efforts are K-12 education and adult education and training. We focus on the issues of education and training because our employees, shareholders and customers tell us they think education is the number one challenge facing our country, and also because we know that no business can succeed in an unsuccessful community; and the most important factor in determining the success of a community is its education program. The American public agrees since the latest CNN poll suggests Americans rate education as our number one challenge. Moreover, all research indicates that educational attainment is the greatest and most reliable predictor of economic success and a stable work life.

One way we are using IBM expertise and corporate contributions to improve education is to help school systems solve some of their toughest challenges through the use of technology. We are investing $25 million through IBM's Reinventing Education initiative in 10 school districts and states over the next three to five years. This program reflects our belief that technology solutions can redefine and improve how our schools function. To be selected for an IBM Reinventing Education grant, school districts or states had to commit to setting world class academic standards, but we did not select only the highest performing districts. In fact, we selected some of the most challenging geographies in the nation. We wanted to find locations where there was a commitment to change and a desire to use the power of technology to bring that change about. The nature of this initiative is best demonstrated by describing the sites in which we are working.

In Charlotte, North Carolina we are using technology to get at the serious question of parent involvement. As the Charlotte schools struggle with the challenges of parent involvement and fight to overcome the twin barriers of time and distance that oftentimes keep parents (especially working parents) from full involvement in their children's education, we are building a "parent friendly" computer network to bridge the gap between school and home. In Charlotte's new Governors Village complex of schools due to open next month, computers will connect parents to their child's school via access points at community centers, public libraries and homes. In these locations, parents and community caregivers will be able to review information about current classroom activities and homework, view test papers and examples of student work. In addition, "electronic" parent-teacher conferences will keep

parents connected to the process of education and learning. If successful in Charlotte, this system can be replicated in other districts and states and applied to increase connections between teachers and teacher, parents and other parents, etc.

In Dallas, Texas educators are struggling to overcome the segmentation of the school day which often frustrates learning, especially in areas such as math and science. The typical 45 minute class period stands as an impenetrable barrier to the teaching of advanced math, especially problem solving and laboratory and hands-on science. Working together, IBM and the Dallas Public Schools will create the first ever interdisciplinary math and science software. Initially focused on the middle schools (grades 4 - 8), it will provide more time on task in math and science. All of this is designed to help students meet new, tougher math and science standards. Obviously, the software can be utilized by a host of school districts and states.

In the other areas such as Vermont, West Virginia, San Francisco, San Jose, Philadelphia, Chicago, Broward County, Florida and Cincinnati, Ohio, technology is helping rethink teacher training, lengthen the school day and year, improve student assessment and develop better information for school-based decision making.

Just as technology can be vital in the education of our children, it can also be a powerful tool in education and job training for those who are out of school. Contrary to the view that technology deprives people of jobs and deepens the divide between society's "haves" and "have-nots" we have discovered through organizations we support through IBM's new Workforce Development Technology grant program that technology can help broaden opportunities and strengthen programs and services available to those in need of new skills and education. By simulating real work conditions it can make the acquisition of education and skills more effective. Moreover, technology can bridge the gap of time and distance connecting people to training and then to available jobs.

Unfortunately, while technology can provide a vital set of solutions, for the most part adult education and job training programs currently use technology in very limited ways, i.e. simple keyboard training or the teaching of basic office skills. At a leaders forum that IBM sponsored a year and a half ago for those involved in adult education and training programs certain key barriers were identified, standing in the way of the more effective use of technology in adult education and training. They are: cost, knowledge of technology, staff expertise, equity, poor practices and the need for clear standards. To develop the practical experience base to help eliminate those barriers we targeted our technology and technical expertise on programs that deal with the core elements of effective training and education. These elements are: Recruitment and Assessment: the central and critical first step in adult education or training. Program Content and Education: i.e. increasing the scope, and quality of the tools used in adult education and training. Job Development and Placement: i.e. developing the right match between skills and jobs, the A´er Placement Process: ensuring that people succeed on the job and, lastly, Staff and Professional Development: i.e. ensuring

that staff who work in adult education and training programs are able to meet the demands of their jobs. In each of these five areas, we agreed to support programs that use our technology to eliminate barriers and resolve systemic issues.

In March, after sponsoring a nationwide competition, we awarded a dozen technology grants valued at a total of $2.5 million.

Let me give you a sense of the scope of this initiative by running through the organizations that have been selected to receive IBM equipment, software and technical support:

Veteran's Leadership Program (New York) -- The Veteran's Leadership Program (VLP) provides interactive modules of education and training that enable participants to translate their military skills and experience to the job market and entrepreneurship. VLP will use IBM technology to provide on-line access to curriculum modules, individualized education and employment planning, job development and placement services, communications lines with employers and one-to-one training and consultation for staff and trainees.

Atlanta Regional Commission (Atlanta) -- IBM will provide technology to ARC to create a regional technology model for case management, training, employment services and referrals. An innovative voucher program will allow clients to purchase education and training directly from a list of pre-approved institutions that will increase flexibility in client choice.

El Centro College (Dallas) -- IBM will provide technology to El Centro College to create a comprehensive career path in digital imaging. This program will provide leading-edge technology and training to all student populations, including the physically challenged. Faculty support and professional development will be accomplished through the use of interactive teleconferencing and on-line networking.

F.E.G.S. (New York) -- Since 1934, F.E.G.S. has been helping new immigrants and displaced workers enhance their job skills. Their grant from IBM will be used to establish a Technological Applications Learning Center to integrate technology into an array of existing programs and demonstrate effective uses of technology in training clients. The Center will also provide a valuable link between job listings and employment listings.

Na Ohana Ho omalamalama (The Hawaii Collaboration) -- IBM will fund a collaborative adult basic skills and workforce training program that links Alu Like, a local multi-service community-based non-profit organization, with the Governor's Council for Literacy and Lifelong Learning and the Hawaii Literacy Policy in Action Academy. The technology from IBM will help this collaboration use telecommunications and create multiple access points for clients for distance learning, on-line services, a referral system for job training, and resources for clients and practitioners throughout the four islands of Hawaii.

Jobs for Youth (Boston) -- Jobs for Youth is a nationally recognized school-to-work transition program. IBM multimedia technology will be used by Jobs for Youth to convert their environmental industry instructional materials to computer-based instruction that will enable

Chairman CRANE. Thank you, Mr. Litow.
Mr. Reddy.

STATEMENT OF LEO REDDY, PRESIDENT, NATIONAL COALITION FOR ADVANCED MANUFACTURING, WASHINGTON, DC

Mr. REDDY. Thank you very much, Mr. Chairman.

I would like to congratulate you and your colleagues for having the insight to recognize the direct relationship between our trade competitiveness and the importance of having a skilled work force, able to produce the goods and services we need to compete globally.

It is a connection that people have needed to make more firmly than in the past.

For our part, our organization, which represents a broad coalition of companies, trade associations, and technology centers around the country, focuses on introducing advanced technologies into our factories. Our coalition has taken a very close and hard look, in the last year, at what the public policy climate should be to accelerate the movement and transition of our industrial base into the third wave, if you will—into the information age.

We will distribute our report, which we published this year, separately to all the Members of the Subcommittee. The report is called "U.S. Industrial Strength for the 21st Century."

I can confirm Mr. Rangel's observation earlier this morning that, indeed, work force training and education is now up front on industry's agenda, and I think you have already heard that from my colleagues here at the table.

The reason for that is quite evident. Companies are facing a growing shortage of the kind of work force they need to be competitive, and it is hitting the bottom line.

As one example I could give you—there are many examples—I am going to distribute to the Members of the Subcommittee a chart which one of my members just gave me, which describes the advantages of a career as a precision machinist or tool maker, where many experienced tool makers are making in the $40,000 to $60,000 range annually.

And basically they are no longer working in gloomy rooms and on greasy machines. They are working with computers and high technology machinery.

It is a wonderful career. The problem is, there are now 20,000 jobs in this particular area that cannot be filled, in a $25 billion industry. There is a real problem. Our data show that 4 out of 10 companies are unable to adopt advanced technologies to improve their productivity because they lack sufficient skilled workers.

After looking into and debating this issue carefully, we came to the conclusion that the Federal Government indeed plays an important leadership role. The government can act as a catalyst. It has done some excellent things. I think the skill standard projects that Mr. Jones mentioned are a good example.

We certainly support School-to-Work, Tech Prep, and other programs—Job Corps, JTPA—these are all worthy programs. However, the Federal Government is limited in its resources in this area.

Our basic feeling is that the only way we are going to begin to close the gap between what schools are providing and what the employer community needs is far-reaching structural reform—a change in priorities, a change in philosophy—that goes well beyond individual programs, that goes far beyond individual tax credits.

It is a fundamental change in priority.

To illustrate that, let me very briefly go over the four principal recommendations in our report. The first, in the area of priorities, is the Charlottesville Education Summit—you may remember that in 1989, between the President and the 50 Governors.

They put out a communique that said the purposes of education are threefold. First, responsible citizenship; second, further learning; and third, productive employment.

We would submit that these priorities should be reversed, that productive employment should be put at the head of the class. Our view is perhaps too much of a business oriented view, but it is a practical one, and I think it goes back to another point Mr. Rangel made earlier this morning.

Without a good job, it is very difficult for an individual to discharge the responsibilities of citizenship, or to afford further learning. It really is the starting point.

The next recommendation we have is that, again, to close the gap between what schools are doing and what the employer community needs is to place much greater emphasis on the development and use of standards—skills standards—for people coming out of the school system.

The key to the success of skills standards—and we hear a lot about skills standards these days—is they must be employer driven. The starting point has to be the employer community. They first have to use those standards themselves in their own workplace, and when they do that, then they can communicate effectively to the broader community what they are seeking.

Our third recommendation is to place much greater emphasis on beginning career awareness and preparation at a much earlier stage in a student's development. Begin even in the primary grades to get people used to developing some of the skills they need in the workplace, and to begin to think at a much earlier age about future career directions.

In our perspective, the whole dialectic about college-bound and noncollege-bound and work-bound is entirely wrong. There should be only one question, namely whether all individuals—not an exclusive, but inclusive approach—whether all individuals graduating from school or leaving school, are prepared for productive employment.

If they can get that preparation in grades kindergarten through 12, so much the better. The idea that everybody has to go into 2 more years of school, misses the point. That is a process point.

The substantive point is that everybody should be prepared for productive work, and should be thinking much earlier in life about their careers. They should not be going to college just for its own sake, but to go to college to get additional skills they may need for special areas of employment.

students to learn at their own pace. Software training applications will be based on the most current industry requirements, and will be developed in close consultation with industry experts and with the MIT Media Lab.

Michigan Career Technical Institute (Plainwell, Mich.) -- MCTI will coordinate the Michigan Workforce Support and Development Network, which is a collaboration of six non-profit organizations. IBM technology will be used to create on-line training and employment systems for Michigan's workforce, especially workers with disabilities. It is anticipated that this program will enable persons with physical disabilities to gain access to quality training and appropriate services regardless of where they are located. Emphasis will be on training for the automotive, pharmaceutical and food service industries.

National Center for Adult Literacy (Philadelphia) -- Based at the University of Pennsylvania, the National Center for Adult Literacy with technology from IBM will significantly expand the national capabilities of the Adult Literacy Technology Innovation Network, which will provide hands-on training, as well as on-line training and technical support to the adult literacy community.

Rebuild LA/Los Angeles Trade-Technical College (Los Angeles) -- IBM technology will be used to create a "teaching factory" model for technical training of students studying the apparel, fashion and textile industries. A high tech apparel production line and simulated work environment will help students learn to operate in a real-time computerized production mode. The program, based at Los Angeles Trade-Tech College, will also offer seminars and courses to employers interested in learning about technological developments in the fashion design and production industry.

SER Jobs for Progress National (Dallas) -- SER Jobs for Progress, the largest Hispanic service-oriented non-profit corporate in the United States, provides extensive employment training. SER will use IBM's technology to create new instructional English-as-a-Second Language (ESL) and Adult Basic Education (ABE) training materials and distance learning programs geared specifically to high-growth occupations such as those found in health care, insurance, travel and pharmaceutical industries.

Tennessee Urban League Affiliates (Memphis, Chattanooga, Nashville, Knoxville) -- Working in partnership with the Tennessee Valley Authority and the University of Tennessee-Knoxville, the Tennessee Urban League Affiliates will use IBM technology to develop a model to analyze local economic data to identify industry-specific job opportunities, profile local industry requirements for these jobs and then develop computer-based training for staff and clients. Using on-line communications, all offices will be involved in project design, development and testing of an industry- specific career path training program which moves from entry level through advanced skills. It is expected that distance learning programs will also be established to provide training at the workplace and at multiple training sites.

Training, Inc. (Boston, Indianapolis, Newark) -- IBM will provide technology to three Training, Inc. Affiliates to help redesign and upgrade student assessment, training, employment services and staff development. Training, Inc./Boston will create a database of individualized student portfolios for assessments, personalized education and employment plans and outcomes. Training, Inc./Indianapolis will enhance existing workplace simulations by adding interactive communications between customers and other entities outside the simulated business environment. Training, Inc./Newark will develop new workplace simulation models for the security and surveillance industry and for computer aided manufacturing and design (CAD/CAM).

All grants consist of the outright donation of IBM equipment and software, as well as IBM consulting assistance to develop the systems and know-how necessary to use technology effectively in workforce development and training.

The issues in K-12 education and those in adult education and job training are different, but the applications of technology to the core operating questions have in fact more similarities than differences.

What is most vital to us, however, is our conviction that the technology that is driving change and economic growth in the private sector can, if used properly, help us cope with the educational challenges in front of us. As a technology company we take our responsibilities in this regard very seriously.

In cash and technology valued at market rate, we will contribute over $90 million this year. It goes to a host of programs and projects in the United States and around the world targeted on technology as a problem solving tool in education and training. This makes IBM's contribution efforts in education and technology one of the nation's largest -- and we think one of the best.

Our final point is that we need much stronger engagement by the business community in this whole process, and I am delighted with Bob Jones' report about the growth of business school consortia.

We are very encouraged by IBM's leadership in forming and convening the summit meeting in Palisades, New York, earlier this year. We think those are encouraging steps in the right direction.

But all of these are essentially moving around deck chairs on the Titanic and putting Band-Aid solutions on the problem, unless we really look at the need for structural reform and change in priority and philosophy.

Thank you.

[The prepared statement follows:]

U.S. TRADE COMPETITIVENESS AND WORKFORCE EDUCATION AND TRAINING

Testimony by Leo Reddy, President
National Coalition for Advanced Manufacturing (NACFAM)

Before the Subcommittee on Trade,
Committee on Ways and Means
U.S.House of Representatives - Longworth Building
July 25, 1996, Washington, D.C.

Mr. Chairman:

I would like to congratulate your committee on its foresight in organizing this important hearing on U.S. trade competitiveness and workforce education and training.

You have recognized that global competitiveness and growing exports exert added pressures on the American workforce.

The only way in which our workforce can withstand those pressures is to continuously improve the skills it needs to produce globally competitive products and services.

No sector of our economy understands this better than manufacturing. Manufactured durable and non-durable goods represent over 80% of our nation's exports. Employment in the manufacturing sector together with nonmanfacturing industries directly related to manufacturing accounts for about 41 percent of the nation's workforce.

I would like to focus my remarks, therefore, primarily on the manufacturing workforce--although much of my analysis and recommendations could apply equally to the services sector.

Industry Perspective

The National Coalition for Advanced Manufacturing is a non-profit, non-partisan organization of companies, technology and training centers, and national trade and technical education associations that are working on and around the factory floor to improve the quality and competitiveness of products made in America. We are committed to developing and helping to implement national programs and policies designed to accelerate the use of advanced, Information Age technologies by all tiers of the U.S. domestic industrial base.

This year, NACFAM published a comprehensive White Paper, *U.S. Industrial Strength for the 21st Century*, that represents our industry-led view of the public policies measures needed over the next five years to maintain the U.S. lead in global industrial competitiveness well into the next century. We will distribute copies of this paper to all the members of the Subcommittee.

One of the principal sections in that White Paper is on workforce education. I will use the analysis and recommendations in that paper as the basis for my testimony today.

Changes in the Workplace

The aggressive development and deployment of Information Age manufacturing technologies offer immense opportunities for expanded economic growth and competitiveness. Yet the key to the practical use of these technologies is the availability of a highly skilled workforce.

The pace of technological change is transforming the manufacturing workplace. Advanced production technologies have replaced large quantities of unskilled, low-skilled jobs and single-craft jobs with positions requiring multi-skilled "techno-professionals" able to deal flexibly with information-based, computer-integrated technologies and to participate in decisions related to process and product improvements and scheduling.

In a flatter, "high performance" manufacturing environment, these workers must have the personal attributes, communications and business knowledge to work in teams, accept responsibility for customer satisfaction, and be fully accountable for their own actions.

Industry is discovering that it can not enjoy the full flexibility offered by advanced manufacturing technologies without a skilled workforce. The demand for techno-

professionals is growing. Technological change leads to a shift in favor of workers with higher levels of education.

Shortage of Skilled Workers

The supply of techno-professional workers, however, is insufficient, sometimes dramatically so. For example:

- Twenty percent of our adults are functionally illiterate, compared with only one percent in Japan.

- Four in ten business executives say that they can not modernize their equipment because their workers do not have the appropriate skills.

- Many employers have to work their way through 40 to 60 interviews to fill a single position.

- The lack of basic job skills also compels firms to invest heavily in remedial training, leads to higher wastage rates, and increases downtime.

This gap has grown so wide that many companies have given up on the school system, the traditional source of preparedness for entry level workers:

- A 1992 study by the National Association of Manufacturers, based upon a series of 14 CEO-level focus group meetings across the U.S. concluded that "school systems have failed...All groups felt that the school systems are providing neither adequate basic skills nor an adequate understanding of business and the necessary work ethic."

- The 1993 report of the Competitiveness Policy Council concluded, "we will have to dramatically improve the education and training for new, young labor force entrants if we hope to compete effectively."

The Root Problem: Wide Gap Between School and Work

The root cause of this shortage of techno-professionals is the yawning gap between what schools are teaching and what the workplace is demanding.

Many of the nation's high school graduates move to low paying, low skills stop gap jobs, usually in the retail and service sectors, and have to wait several years before they are even considered for a job with decent prospects. It is with reason that this large population of the nation's youth has been dubbed "the Forgotten Half."

The problem of transition from school to productive work is not confined to secondary school graduates. Many college graduates also finish school without a clear career direction. Large numbers drift into assorted jobs, experiment with postgraduate courses, remain living at home, and postpone family responsibilities until they are in their late 20s and early 30s. According to recent research findings:

- Even seven years after high school graduation, less than half of our young adults can correctly predict the occupation they will be in five years later.

- Twelve years after high school graduation only 28 percent of young adults followed a pattern of either full-time school followed by full-time work or had worked the entire 12 years.

- By age 30 only a third of working adults in the U.S. have been in their jobs for more than one year.

A very substantial research challenge would be to assess the enormous cost and productivity loss to the national economy and to our global competitiveness of:

- the years spent by both secondary school and college graduates between the completion of their studies and entry into their principal place of future employment

- the cost to employers of remedial training needed to educate entry level workers in basic math and communications skills that they should have learned in K-12

- the cost to parents of sending their children to schools that do not prepare their graduates for productive employment.

This disconnect between school curricula and workplace needs is a basic structural problem that will only grow more serious as schools, as they are presently organized, are unable to modernize rapidly enough to keep pace with the dynamics of technology.

Federal Programs: Only Partial Solutions

In parallel with growing concerns the 1980's over the ability of the U.S. to compete effectively in the global marketplace, there was a heightened awareness of the need to focus more strongly on developing the skills and knowledge of the American workforce. This, in turn, led to various federal initiatives. These programs, however, represent only partial solutions that do not address the underlying structural gap between school and work.

The Job Training Partnerships Act, JOBS, and the Perkins Vocational Education Act are worthy programs and deserve support, but they are focused heavily on special populations. The Tech Prep and subsequent School-to-Work programs enable the federal government to stimulate local initiatives to close the gap between school and work, but their funding levels are modest. Indeed, in a 1993 NACFAM study of all federal education programs, we found that less than 10% of the funds were allocated for all forms of vocational-technical education.

The federal government has an important leadership and direction-setting role. Even modest federal funding can have a strong catalytic effect at the local and industry level. As noted in the recommendations below, the federal role in supporting industry-led, voluntary national occupational skill standards is an example of this federal leadership role at its best.

The principal responsibility for educating and training America's industrial workforce, however, rests with employers, teachers, schools, and state and local government. In keeping with our national culture, the major resources for this purpose also reside with states and localities, not with the federal government.

As suggested in the recommendations that follow, more fundamental reform is needed far beyond what the federal government can accomplish. These reforms go to the heart of the school culture and business-school relationships and would give the employer community more leverage, but they do not require additional resources. Indeed, they will lead to greater efficiencies and cost savings.

In preparing NACFAM's recommendations in this field, we thus went on the assumption the education improvements would have to be effected through re-direction of resources and organizational change, not in additional dollars or school hours. This U.S. already scores high among OECD countries in both categories.

NACFAM Recommendation 1: A Basic Change in Priorities: Make Productive Employment for All Students the First Goal of the Nation's Schools

The starting point for genuine school reform must be at the level of basic priorities. Current priorities are embodied in the "National Education Goals" adopted by the President and state governors at the Charlottesville Education Summit in 1989, which stated that students should be prepared for "responsible citizenship, further learning, and productive employment."

This paper recommends that "productive employment" be put at the head of the class. Under this approach, the first priority of schools should be to prepare its graduates to move promptly into a rewarding career field that is commensurate with the student's interests and abilities.

This change in priorities does not signify indifference to education for "responsible citizenship" and "further learning," but rather makes the simple point that rewarding employment is the foundation stone upon which the other benefits of education rest. A citizen without a good job is less likely to meet his civic responsibilities and to afford "further learning" than is a citizen who is productively employed.

Under this new approach, the measure of a school's success and of student achievement would be the placement of all graduates onto a clear track toward a productive career either immediately following school or through more specialized training at post secondary level.

With career placement as the driver, the distinction between "college-bound," "vocational," and "work bound" students would be irrelevant, since all students will be

viewed as bound for productive employment. Indeed, if a student can move quickly to satisfying, economically rewarding work without the time and expense of college, this should be viewed as a more successful model than a student going on to college without a specific career objective.

The focus on preparation for work would give greater motivation and recognition than is presently the case to students who are gifted in team-building and applied learning and technical skills. In addition, schools would have greater accountability for the employment of *all* its students and give far more emphasis to career preparation than is presently the case.

This shift in priorities would require a far closer interaction between the employer community and the schools. In particular, employers would need to take greater ownership of the schools and communicate their own workforce skills requirements more clearly.

Some of the succeeding recommendations point to how this basic change in priorities could be accomplished.

NACFAM Recommendation 2: Use Employer-led Standards as an Important Tool for Curriculum Planning and Student Learning

One key to ensuring that students can gain productive employment is to base the school curriculum on employer-led standards. The employer is, after all, the "customer" of the school system. Employers will become better "customers" if they communicate clearly their specifications for job skills--and follow up by employing individuals with those skills.

Fortunately, new methods are now available to facilitate this communication process. States and communities are beginning to make employer-driven skill standards, often in connection with School-to-Work programs, an integral part of their education systems.

They are aided in this connection by innovative work done by industry groups since 1992. In that year, the U.S. Departments of Education and Labor began providing federal matching funds to leading national trade groups to identify voluntary national occupational skill standards for their respective industry sectors.

In supporting this program, the federal agencies wisely let the national associations design the standards according to their own perceptions and needs, thus making them more authentically employer-led. These are thus *national*, not federal, skill standards.

The main value of these pilot projects is that they provide useful national benchmarks against which states, communities, and companies can develop *standards of their own that fit into their individual economy and labor market conditions* .

States, colleges and schools must take these skill standards and integrate them into broader curriculum frameworks and performance standards. In addition, each state must decide at what level (secondary, post secondary or incumbent worker) they will be targeted for instruction.

While the employer community should take the lead in initiating work on skill standards, participation in the standards setting process by school, state and local governance, parent, and labor organizations will also be needed. Standards must be updated on a regular basis and should be cross-checked against national standards.

This requires a higher level of employer-school collaboration and partnering. Business-school skills standards councils, co-chaired by employer representatives, might be the appropriate format. This process is beginning: In several states, schools are required by law to work with business advisory committees to assure that school programs meet local employer needs.

In basing curriculum and student learning on demanding employer-driven standards, the school systems would take a major step towards shortening the time between school and productive employment. There would be another major benefit: making the high school diploma meaningful again for all students.

This would reinforce the efforts in some states to do just that and would help elevate the skills of the entire national workforce, not just those who go on to college. To participate successfully in an information age economy, *all* students should perform at the 12th grade (not the 9th grade) level before receiving their high school diplomas.

NACFAM Recommendation 3: Strongly Emphasize Career Preparation

Another requirement for effecting a basic shift in school priorities towards productive employment is to place much stronger emphasis on career guidance. Most students are not well informed about the world of work and have few guideposts to steer by. As a Competitiveness Policy Council report observed, "Students not immediately bound for college get little in the way of occupational counseling or know anything about career opportunities and requirements and their rights and responsibilities on the job."

Career orientation and preparation for work in an Information Age economy should start should start in the primary grades and continue throughout secondary school--not be postponed until graduation time.

An effective system of career orientation would require that teachers also become more familiar with the employer community in their areas. Teachers and employers should create increased opportunities for teacher summer training within local firms and for company experts to offer instruction at schools. Teacher interning, job shadowing and career mentoring are invaluable tools in furthering student learning and workplace awareness. Provision should be made to fund the release time for teachers to engage in these activities.

Some of the same practices described above could also be applied to good effect at the college and university level. In particular, these institutions are weak at helping students with job placement and tracking their progress after graduation (except for alumni contributions). Industry-university ties should be greatly strengthened for this purpose.

In sum, meaningful career preparation requires a seamless web of orientation from the early grades through technical schools, community colleges and higher education through which youths and young adults can obtain information about:

- careers and the qualifications needed to enter them
- the academic and occupational skills needed to enter the field
- post secondary systems that offer more advanced programs, and
- employer programs that offer opportunities for greater expertise.

This continuum of opportunity will provide students a chance to "be all they can be"--a slogan that the military did not choose by accident.

NACFAM Recommendation 4: Increased Employer Engagement and Leadership

The work-based school system described above would require a major culture change in most school districts. Yet even employers who take a direct interest in the schools feel that their ability to change the system is limited.

Perhaps the most effective way for employers to increase their influence over the schools is to become actively involved at the community level, following the lead of employers that already do. A more vigorous role by industry underpins all these recommendations in the field of workforce education.

The employer community must communicate its needs in specific terms through leadership in creating skill standards, preferably benchmarked against national standards. They should strongly support those educators and trainers who undertake change to meet those needs, and insert the concept that "all students can learn" into every discussion. Most importantly, when individuals who have met employer-driven specifications are prepared for work, employers should give them good jobs.

An investment of human resources and leadership in helping to re-direct the schools towards preparing individuals for productive employment will provide companies with workers with the skills needed to increase productivity, improve quality, and response to customer needs.

This investment will also enable companies to enjoy substantial cost savings in recruiting and screening entry-level workers, remedial training, and re-training of incumbent workers. In addition to helping students find rewarding employment, employer leadership will also assist schools and teachers in gaining the support of the employer community in meeting their resource needs.

For these reasons, NACFAM is highly encouraged by the meeting this spring in Palisades, New York, organized by industry leaders. The focus of responsibility was correct: on employers and state governors. The strong emphasis on standards was also right. The key requirement is follow through to ensure that those standards are, in fact, employer driven and that the schools use these standards as the foundation for curriculum at the classroom level.

Mr. Chairman, the challenge of educating and training the American workforce to meet the pressures of the global competitiveness challenge of the 21st Century is vast. As the recommendations I have cited suggest, the starting point for rising to this challenge is to make productive employment for all of our students the first priority of the nation's schools.

Chairman CRANE. Thank you, Mr. Reddy.

I commend all of you for your presentations, and the information you have provided the Subcommittee.

Let me throw out a generic question, and that has to do with even better integration than we have now between the private sector and our government sector, if you will, referring to government's involvement in education.

You people are in the frontlines, in the trenches, so to speak. Is there any impediment to the advancement of the initiatives that you have all made already, and want to see continue and expand with any of our exiting government programs?

Mr. LITOW. We selected 10 school systems and states to operate in. There are 15,000 school districts in the United States. We selected those districts that were willing to make systemic and fundamental changes. That assumes that there were thousands of school districts that were not.

I think that largely the structure of education, grades kindergarten through 12, is a vestige of the 19th century; we are getting ready to go to the 21st century.

The length of the day, the length of the year, the training of teachers the jobs people have in the school system, the total absence of any new technology, is basically, the way that schools were operated decades before.

And we need to create incentives for school systems to change, and obviously to reward those incentives, but also to have some sanctions for those that do not, or will not, change.

I think that this is not an industry that is going to change by the few shining examples, and then allow the overwhelming number of schools and school systems to exist the way they existed before, whether that pressure comes from one level of government, at the Federal level, or from the State level, which has most of the responsibility for education.

I think it has to come from all levels, of government and the private sector, to let people know that the current way that we operate our schools is just not satisfactory, and parents and citizens overwhelmingly agree.

If you read the latest public agenda poll on what people think about education—we had a speaker earlier who said that people are largely happy with their neighborhood or local school. I would wake up and read the latest polls, which indicate that is no longer the case.

People are not so happy or content with the schools the way they are, and they do not think that their children are going to graduate with the skills to be able to work in the workday today.

So, I would think that we need to get a consensus among government and business that there are going to be some serious and system changes. That is what people began by agreeing to at the National Education Summit in the Palisades, but it is going to take a lot of work to make it happen.

Chairman CRANE. Well, something that I do not begin to grasp is our sophisticated computer technology, and I have seen studies that indicate that in a lifetime you tend to, on average, make five career changes.

And, since I am 65 years of age, and I was a traveling salesman, a university professor, a headmaster of a private school, and then a politician, I am going to have to go back to school before I make that next shift.

I thank you for your presentation.

Mr. Rangel.

Mr. RANGEL. I knew today was going to be one of the most exciting days in my legislative career, and your testimony has proven it.

I would hope that before I set up this conference that I would have the opportunity just to meet with the three of you, to make certain that we do not have a waste of time. And when you said that your firm, IBM, was doing this for the company, you meant the broader community, and that there has to be change.

What is really working against us is the system that allows local property owners, and state legislators, to fund the schools. The schools are not funded according to need, they are funded according to equality.

And so each legislator has to go back home saying he got just as much as someone else did, or the bill is not going to pass. And since the majority of the legislators do not have the same problems that a few of the districts have, we do not have a system that is based on the needs of our country, it is based on the political needs of our legislators.

One of the things that has been missing is that the private sector, recognizing this, could not find a forum to express the issues in the way that the three of you have today.

If we met with the people who set the policy, and if indeed this Subcommittee, that not only deals with tax policy, can provide incentives, we can provide ways that in every town and every village it would not be just the local legislator, it would be people saying, "Well, what about America?"

And so, as you said, Mr. Jones, so eloquently, I am out of doing social work. I am with Mr. Crane, I want to broaden the economy; economic wealth is the only answer, and reducing our national deficit, and reducing taxes, and providing more incentives for those people with money to invest with little or no risk, so that we'll be more productive.

And while we are doing those things, you will be also a part of the national group that are saying, "And do not forget that investment in human productivity, because we need them both."

And so, I am out of social programs, and I think what we say is three things. One, we have to find out from you what your specifications are going to be, not just for your balance sheet this year, but for the decades after, and what you need.

Two, we cannot just merge our companies, and say that we do not need this human machinery, and so you are just dismissed. We have to find a way to make certain that these people are going to be trained for something, because they have mortgages, they have families, they have responsibilities, but for God's sake, do not let them lose hope.

Because there are some people who depend on taking advantage of their hopelessness, they do not make a positive contribution.

Finally, and again staying away from social work, we have to make certain that we do not create economic problems for ourselves by having to invest productive money into programs that do not produce anything, and hardly contain the problems.

I find this to be very exciting, not what we have done today, but to consider this a beginning, where nobody's going to tell you to stop what you are doing, but it will give you an opportunity to see what the other partners and government can do to encourage and enhance your efforts.

And Mr. Litow, people who do not see the advantage of doing what you are doing in selected communities can be made to understand better that those who produce get, and there is a nicer way to say it, and I will find that language.

But you do not take Federal dollars and just say, in a general way, we have got scholarships. We want to be able to see what are the results of the investment that we are making, especially since the private sector has not come to the Congress and asked for the type of assistance which you do for research and development, and any other number of things that allow you to remain competitive.

But I want you to know that I am going to be here, and receptive, when you start asking for those incentives to make a more educated and more productive America.

We are not going to change anything overnight, but I have an idea that more Americans are reading from the same page than we hear in the halls of the U.S. Congress.

Let me thank you so much, for what you have been doing, but more importantly for what you are going to help me, this Subcommittee and this Congress to do for America in the future.

Thank you very much.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Houghton.

Mr. HOUGHTON. Yes, thank you, Mr. Chairman.

Gentlemen, I am sorry I was not here for most of your testimony, but in reading quickly over your papers, and some of the questions that you have suggested, let me just ask this.

You know, we could talk about increasing governmental programs, and you have said that that is really not the answer, although it is part of the answer. We can do a variety of different things in terms of our communities; businesses can increase the educational component.

But doesn't a change in attitude have to take place, because our problem is that there is a whole group of people here who are not getting educated at all, and those are the people who have the potential, but there is no incentive for them—there is no Sputnik out there, to enthuse them.

How do we change that around? There are all sorts of things which businesses can do, but it cannot change the attitude outside of the corporation—peripherally in a community, but not that much.

How do we change this attitude.

Mr. JONES. Congressman, let me suggest that business does have a role on that issue, in conjunction with government. It may be one of the most important ones of all, in getting the American people's

attention, to understanding a very significant shift in the ultimate American value.

That was the belief that you could get a job in this system, and you could work your way up to be president of the company, or indeed President of the country, and that simply is not true any longer.

Without basic education skills, the ability to get in, and to maintain wage equity, has changed forever, and the American public—parents, teachers, students—do not understand that. It goes to the heart of the financing issue, it goes to the heart of the way we run schools, it goes to the heart of the public policy structure, and how we work within companies.

But we need to make the public, business, parents, teachers more and more aware of the impact of this shift that we are seeing, and its growing impact over the next few years, and I think we all have a role in it.

But if we do not do that, all the programs we pass, all the structures we engage in, are only going to have minimal impact on this discussion.

Mr. HOUGHTON. Would anybody else like to make a comment on this?

Thank you, Mr. Jones.

Mr. LITOW. Well, I think it comes back to this issue about standards. We are the only country that does not have a set of clear academic standards, that people are held to, and are accountable for.

Again, the latest public opinion poll indicates that while people have a lot of different opinions about what to do about the education problem, the thing that they all have consensus on—rich, poor, black, white, north, south—is that they would support high academic standards, and they are actually quite frustrated that there are no standards in the schools—a clear expression of what children should be able to know and do, by grade level.

So, I think if you are looking to get at the issue of attitude and motivation, I do not think that there could be anything that would contribute more to that than having a clear set of standards, assessments that tie to them, and some sense of accountability for performance.

Mr. HOUGHTON. Mr. Reddy.

Mr. REDDY. Just a couple of points, Mr. Houghton. Some of our research has indicated that—I can cite a couple of points here that you will find in more detail in my written testimony—even 7 years after high school graduation, less than half of our young adults can correctly predict the occupation they will be in 5 years later.

Related to that, by age 30, only one-third of working adults in the United States have been in their jobs for more than 1 year.

This is what we have come back to in our analysis. There is an enormous yawning gap between what the education system is providing and what the workplace is demanding. The best solution that we have been able to come up with on that is for companies and employers of all kinds to communicate more clearly, to parents, schools, and to students, what the workplace needs.

And the school system needs to respond. That means that when people move out of school, they are prepared to move into produc-

tive employment. So far that is really not happening, and we are very far from that.

So, I just want to reemphasize the importance of that point.

I shy a little bit away from the fact that people place a lot of this blame at the feet of teachers and say that schools are "failing." I do not really think so. I think that most of our teachers really do want to teach young people, knowledge and skills they will need for their future.

I do not think we have some kind of an evil school bureaucracy out there, that is really trying to undermine our young people at all.

I think one of the larger failings comes from the fact that the employer community has not addressed this question effectively enough, and has not made clear enough to the schools what it is they are seeking, and we hope that the standards movement will help to close that gap.

Mr. HOUGHTON. Could I just ask one more question, Mr. Chairman? I know my time has run out.

You know, there are many issues out there that you cannot quite tie together, the many different solutions to those issues, and I suppose we have just got to peck away at it, and the greatest example, probably, is better than a lofty sermon or a set of principles.

But there is one approach that has been used in the area in which I live, Upstate New York, It is the relationship—and maybe you have talked about it, and I am sorry if you have, and I missed it—of businesses and secondary schools, high schools—summer programs for people to come in—coming in and understanding what the manufacturing, retail, or the service process is.

So that the business leaders in the community have this sense of responsibility, and all of a sudden opened up to many others who never would have that opportunity, other than just going and knocking on the door and asking for a job—an introductory exposure to what the business is all about.

It seems to be working, and I do not know whether that is so in other parts of the country, or what your experience has been.

Mr. JONES. There are several programs, Congressman Houghton, around the country that are designed to bring teachers and administrators into the workplace during the summer, on a rotating basis, and vice versa—bringing businesspeople into the school system.

It is a piece of this equation, there is no question about it. It helps a great deal. Standards become more real if they can relate them to such an experience, but the standards issue still is at the heart of the debate.

There is no question that putting these together, along with the recognition that standards are not created for the final outcome. Twelfth grade is a little late in life to solve this problem.

The standards movement is really designed because the major impact on education in this country, with young people, is up to the fourth grade. If we do not keep them at standard by the fourth grade we lose them; it is hard to ever recapture it after that fact.

Putting teachers in workplaces together, getting this message across to them, in that place, but the real meaningfulness of stand-

ards and assessments and impacts—and it is not just teachers, it is administrators——

Mr. HOUGHTON. OK, let me interrupt you for a minute. I mean, let us cut to the chase for a minute. Is this something business should do? Is it something government should do? Should we do it together?

What has to happen in order to make your vision come closer to the goal?

Mr. JONES. Business has to take the leadership for stepping up in these communities to do what we talked——

Mr. HOUGHTON. OK, so is that going to happen by spontaneous combustion? Do we do something about it? What happens?

Mr. JONES. It is happening now, almost by spontaneous combustion. It is growing at a rate that we cannot even keep up with across the country, these kinds of programs, and it is growing because, if you will, of the bankruptcy of the debate in Washington.

This is a real, underlying economic issue in communities, in families and companies, and it is happening out there, in business leadership and school leadership, and we have all said to you, teachers are not the problems, even schools are not the problems—it is getting people together to sit down and understand what is going on, what its impacts are, and then how you do business.

Now, it happens that there is a role for the government, in the sense that there are a lot of things that need to be supported and put into this system that are not there, that can help in the new way we are going to go.

But you cannot dictate that from here, in terms of behaviors of people; It has already moved far beyond where the Congress is.

Mr. HOUGHTON. OK.

Thank you very much, Mr. Chairman.

Thank you.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

I thank the panelists for all your testimony; it was very informative.

Mr. Reddy, you called for structural changes if we are to address the problem of matching training for job opportunities.

Mr. REDDY. Yes.

Mr. COYNE. I wonder if you could expand on that. Where would you make these structural changes?

Mr. REDDY. Mr. Coyne, the concept we would have is that—and we are working in some communities to try to develop this concept—is that using the concept of standards as sort of the keystone, if you will—the core idea.

We would start with a series of companies and have them use national standards as a benchmark to draw upon, essentially to develop standard-based work force skills. We are actually working in some factories right now.

We think the starting point has to be to use standards in your company. I mean it is easy to come to the Palisades and talk about standards; it is different, however, to actually use those standards in your company, and to use standards as the basis for your work before they are conveyed to the school system.

Once a company sets its standards, they will have a much clearer idea and be able to define more systematically the skills they are seeking from the work force.

Then we will collate these skills, and discuss them in communitywide groups, in order to try to find commonalities that schools can deal with. But it is really a bottoms-up approach.

By the way, I should mention that when we do factory floor standards, those standards are defined by the workers, not management. People actually using the skills define the standards.

Then that gets interpreted back into the community, and through meetings with school boards and teachers, then it is up to the schools to reexamine their curriculum, reexamine their classroom instruction, and make sure that there is a greater correlation between those requirements and what the schools are actually doing.

I am not just talking here about the factory floor, by the way, I am talking about the work force generally. This would apply as well up through white collar, up through management—the same kinds of principles. We are thinking of doing the same thing with engineers, for example.

With the concept of employer driven standards being the driver, the schools then would adjust their curriculum appropriately, and then there is an obligation back on the employer community to give those people jobs.

The key thing is that employers use the standards themselves, so that when people come back prepared with those skills—which have to be revised continuously, by the way, to make sure they are still relevant—then they will get the work.

But if that happens, then you can see a very close correlation between what people are getting at school and what they are taking to work.

In drafting this part of our report, we got involved in a very volatile argument, with people who thought that we were taking a grossly utilitarian approach, and were attacking the whole concept of liberal arts, that we were attacking the whole concept of learning for its own sake.

Of course we are not really saying that. However, I think we would agree with the observation, from my friend from IBM, that, when you really look at it, the way our school structure and philosophy is currently organized, it is a very old kind of philosophy.

It has its roots in a society where people really did not need to get an education for a job. They already had wealth. I mean, they had aristocratic lineage, or they were the gentry, they did not need to work. Therefore learning for its own sake, and dabbling in various areas of knowledge was enough, and perhaps appropriate for that particular time in history.

But at a time when our work force is in a globally competitive environment, where their skills are being tested every day, by countries that are fiercely competitive in the global marketplace, we think we are not doing a service to our own people unless we much more consciously prepare them to be prepared for the workplace, using the kind of approach we mentioned.

I am sure there are other approaches, but that is really more or less what we mean by structural change.

What I am describing, by the way, bears no relationship to anything that is actually going on, that we have seen at the present time. This is really quite different.

Mr. COYNE. You had mentioned that at the present time there are 20,000 job openings for, I believe you described them as some type of machinist—tool——

Mr. REDDY. Sure, this is just one example of what employers mean when they talk about a shortage of skilled workers. We will hand copies of this out. This has been produced by Charmilles, Inc., an advance technology company, talking about career opportunities in tooling and machining.

In this example entry level toolmakers average $27,000 a year. Experienced precision metal workers earn $40,000 to $60,000. The industry has thousands of unfilled, high paying, secure jobs that do not require a 4-year degree.

Gloomy rooms and greasy machines are replaced by computers and high technology, and so forth. These are highly desirable jobs—well-paying, solid jobs—in the information age. They have 20,000 openings that they cannot fill; they cannot find the people with the skills to fill these jobs.

That is just in one industry, and if you have been out in the Midwest recently, the common figure there is that "the Big Three" are going to need to fill over 250,000 jobs in the next 5 years, because the work force is graying, and the old work contracts are ending.

We have got all kinds of people in their fifties or sixties who are going to go to Palm Springs, and companies just do not see the supply of skilled workers coming in to take their place, at a time when they are adding more and more technology to their plants. This is causing very serious and deep concerns out there in U.S. manufacturing.

So, there really is a shortage of people with the right skills, and the only way we can figure out to close that gap is, first of all, for employers to say what are those skills. I mean, companies complain to schools and say we need good workers, but the schools do not know what they mean when they say they need good workers.

Exactly what are companies looking for, when they are asking for good workers?

That is the kind of structure, at least, that we have in mind.

Mr. COYNE. Thank you.

Chairman CRANE. Well, I want to thank all of our panelists for your presentations, and Mr. Rangel wants to make one final comment.

Mr. RANGEL. Yes. First of all, I hope that the three of you would agree that we could meet when it is convenient, to see how we can better form a closer relationship with business and the government, so that the type of changes that have to be made can be made in a way that you do not find the heavy weight of the Federal Government, but you find the encouragement of the Federal Government.

And also, I have heard from some very high tech companies that, in order to do these jobs, as Mr. Reddy said, you do not really need the Ph.D.'s. We do have master teachers, and videos, and so many things, that we can take someone almost from zip to the threshold,

as where the company can take over from there, and do what has to be done.

And I have 36 videos in my office that were sent. I have not the slightest idea what to do with them, but I will have a chance to listen to New Yorkers.

When we see all that you have done, believe me, I am excited about the possibilities. You will have an opportunity to express to those people who are restricted constitutionally, but have the same goals that you have, to say how we can do it.

You have spent more time on this than the public sector, and it is not, Mr. Reddy, that the teachers are not dedicated, or the school system is falling apart, it is that, as somebody said, they were taught to deal with the nuclear family—mother, father, and a dog, and go to church on Sunday, and to have reasonably sized classes that they could teach.

They were not prepared to go into communities where the parents are more of a problem than the kids—the kids bring in problems of neglect and abuse and addictions and weapons, and the teachers are 40 and 50 years old. The teachers are appointed by seniority now.

They pick where they want to go, and the least experienced can burn out when they do not have the proper equipment to teach the kids.

So, they find one or two students who are going to make it, and they stick with that, in order to survive.

But I think what you are saying, and I totally agree, given the opportunity for them to do what they were trained for, they will be excited about change. Just do not mess with their pension, and we can take care of that too.

But they are wonderful people, and we will be meeting, and I am going to ask that Ms. Whittaker just take your cards, and find out when it is convenient for you, and then we will plan that bigger meeting, with a structure, because the three of you is all I need, since where you want to go is where I want to go.

And I think that your companies are going to have more persuasive power than my Secretary of Education. I have got that feeling.

Anyway, thank you so much for what you have done, and for sharing it with us today.

Chairman CRANE. And I want to thank you all again, and I take an offense. Maybe I misunderstood what Mr. Rangel said, but I have got a Ph.D., and you just said we do not need those Ph.D.'s.

Mr. RANGEL. Oh, no, I am sorry. [Laughter.]

Mr. RANGEL. I have a half dozen of them that I have not earned, but no, we were saying everybody does not need a Ph.D. to be productive.

Chairman CRANE. Oh, very good, Charlie. Thank you.

And thank you all.

I would like to call our next panel: Howard Rosen, executive director of the Competitiveness Policy Council; Thomas Bailey, director of the Institute on Education and the Economy, and professor of economics and education—undoubtedly another Ph.D.

And Howard Samuel, senior fellow on the Council on Competitiveness.

And gentlemen, we will proceed in the order I introduced you: Mr. Rosen, Mr. Bailey, and then Mr. Samuel.

STATEMENT OF HOWARD ROSEN, EXECUTIVE DIRECTOR, COMPETITIVENESS POLICY COUNCIL, WASHINGTON, DC

Mr. ROSEN. Mr. Chairman, thank you very much.

My name is Howard Rosen, and I am with the Competitiveness Policy Council, which is one of a rare and becoming almost extinct breed of bipartisan Federal advisory commissions. The Council was established by the wisdom of Congress, to bring together representatives from business, labor, the public and the government, to develop policy recommendations to enhance U.S. competitiveness. The group makes reports to the President and Congress, and is chaired by Fred Bergsten, the director of the Institute for International Economics.

I cannot resist the opportunity to comment that Congressman Houghton was instrumental in setting up this Council. In fact, when Fred Bergsten was appointed Chairman, he and I visited Congressman Houghton. He was one of the first people to whom we spoke, and his insights that day have been a very important part of the way we have been running the Council.

With your permission, I would like to request that my full formal statement be entered into the record, and I would also like to include some of the Council's reports, which directly addresses these issues.

I also want to commend this Subcommittee for holding these hearings. First, we have not had much discussion, on these issues, and I think it is very important to continue having these discussions.

Second, I have had the privilege, and honor to testify before this Subcommittee in the past, in my role as a trade economist, to talk about trade issues, and the one important thing that I think needs to come out of this discussion today is that we can no longer just look at these issues discretely and separate. We have to see them as linked. The fact that this Subcommittee is holding hearings on the relationship between education and training to trade, is an example of this point.

This morning I have heard a lot about the issue of competitiveness. Let me just say, that competitiveness is not a static. It is not something you have today and is gone tomorrow. It is an ongoing challenge. I get quite concerned when I hear people saying that the United States is the most competitive economy in the world. We are, and I am very proud of that. It is due to a lot of the effort by the business community, and by workers in this country. But it does not suggest that we can just sit back and rest on our laurels. It does not mean that we have won the battle. Competitiveness is an ongoing and we have to continue thinking about it that way.

We have heard some very successful individual stories today. They are great cases, and one of the great parts of this hearing today is to get these stories out. But we have to ask ourselves, why is it that they are doing it and others are not?

Part of the reason is because people do not know about these great stories. We have to share these success stories and that is part of the function of these hearings. I think that you should be

congratulated for that. But, at the same time, we have got to make sure not to lose sight of the fact that these are individual stories; these are the trees, and there is a very big field out there, with not many trees. There is no great forest to look at. There are many great, individual stories and we need to capitalize on them. But they do not really reflect what is going on in the whole economy.

If we do nothing else today, I would like to leave you with one question, which I think we all need to answer. Mr. Chairman, if training is so good, why do we do so little?

Let me turn to the real issue which brings us here today, which is the anxiety over wage competition. That is what this is all about. We are afraid that we are going to have to compete against wages from lower wage countries, which will hurt our jobs and hurt our living standards.

I have two responses. First, overtime labor costs are becoming increasingly less important in deciding who wins markets.

Second, it is really competition over wages and productivity, not wages alone. If we were competing purely on the basis of wages then the United States would not produce anything, because our wages are higher than those in other countries. But it is the fact that we have higher productivity that allows us to enjoy higher wages. And so the real question becomes, if we want to preserve our higher wages, how do we enhance productivity?

The only way I know how to do that is through investment in physical and human capital—no great surprise. And here I want to just pick one example: Personal computers. At some time we have all sat in front of a personal computer, and I am sure there has been some frustration in terms of our own skills and using that personal computer. A computer is an investment. That is an investment in physical capital, but it really cannot enhance our productivity unless we know how to use it. Putting it a different way, the ability of that computer to improve our living standards is limited by our ability to use it.

And that is why we have to have a trained work force. Workers have to be trained to use the equipment—not just physical equipment, but also used to produce goods and to provide services.

Training in this country is ad hoc and inadequate. In fact, the major ingredient to training in this country is luck. A person's education and training depends on what school district you are from, on which industry you go into, and on which state you live in, if you are eligible for a Federal program or not. And in the case of programs for dislocated workers, it even depends on the cause of your dislocation.

Luck is at the center of our system, and in fact we really do not have a "training" system per se.

Mr. Chairman, we know why we should train, we know how we should train. In fact, we have heard many good examples this morning. The key question is, who is responsible for providing the training, and who should be trained?

Should the worker or the employer be taking on that responsibility? Or, is it some shared coalition between workers, employers, and other institutions in our society?

There is one other thing I want to leave with you. There is a lot of talk today in Washington about the level of government spend-

ing. I believe we need to move beyond discussing the level of spending and focus on the composition of spending.

We are spending more on training, but it is going to the same people. We are not training the people who really need it. We are still not training the low-skilled workers, These people need the training and if trained, can make a contribution to society.

There is a lot of rhetoric on the issue of training, and if only we could just turn some of that rhetoric into actual action, I think we would not only have a more productive economy, but we could return to the time when our living standards were rising.

Again, I want to end where I began: Competitiveness is an ongoing challenge. There are no simple answers, there are no magic bullets. It is going to take a lot of things, being done by a lot of people, together, and a shift in the way we think about things, in order to solve these problems.

I look forward to our discussion. Thank you.

[The prepared statement and attachment follow:]

INVESTING IN EDUCATION AND TRAINING: SIMPLE RHETORIC OR THE KEY TO US COMPETITIVENESS?

A Survey of US Efforts

Statement by

Howard Rosen
Executive Director, Competitiveness Policy Council

before the

Subcommittee on Trade
House Committee on Ways and Means

July 25, 1996

Thank you for the opportunity to appear before the Subcommittee this morning to present the views of the Competitiveness Policy Council on the issue of education and training and US competitiveness. The Council is a 12 member, bipartisan advisory commission comprised of three business CEOs, three labor union presidents, three representatives of government, (both federal and state), and three representatives from the public. (Complete membership list is attached.) The Council reports its findings and policy recommendations to the President and Congress. Dr. C. Fred Bergsten, Director of the Institute for International Economics, chairs the Council.

The Council defines competitiveness as "the ability to produce goods and services that meet the test of international markets while our citizens earn a standard of living that is both rising and sustainable over the long run." Thus the Council's work focuses on ways to raise US living standards in an environment of increasing international competition. Sustainable improvements in living standards, in turn, must be based on gains in productivity, and continuous investment in human and physical capital are key to achieving those gains in productivity.

Investment in human capital -- developing an educated workforce, equipping workers with relevant skills and strengthening the science and technology base -- is now considered to be as important, if not more important than traditional forms of investment in plant and equipment in terms of contributing to economic growth and raising incomes. In a competitive environment, firms must continuously invest in maintaining the most up-to-date equipment to produce goods and provide services at the highest quality, although at a price people are willing to pay. But equipment can only be as useful as the skills of the people who use it. This awareness has brought businesses and workers to appreciate the importance of continuous investment in their workforce.

Until recently, there has been a tendency to view human capital development as a series of separate and discrete stages. By contrast, building and maintaining a world-class knowledge base demands continuous investment with the various pieces feeding into one another. Instead of discrete, unrelated programs, continuous investment in human capital should be viewed within the context of a system of "lifetime learning."

Lifetime learning begins with basic education at the primary and secondary level. Some students may continue onto higher education at colleges and universities. Others will attempt to immediately find jobs in the workplace. Efforts at facilitating this "school-to-work" transition may include apprenticeship programs, vocational training, skill certifications, business-labor compacts, co-op education and professional mentoring programs. These programs are designed to ensure that youngsters learn the kinds of skills they need to enable them to find and maintain productive, rewarding and stable employment.

It is not enough to just acquire skills in order to enter the workplace; it is also important for workers to maintain a high level of skills in order to continuously contribute to improvements in productivity and facilitate labor force flexibility. Thus the next stage in the lifetime learning continuum is ongoing training for active workers. The final stage of the continuum is training to assist workers who move from job-to-job, from occupation-to occupation.

THE WHAT, WHEN, WHY, WHO AND WHERE OF TRAINING

WHAT

Training is undertaken in order to improve workers' skills with the aim of increasing productivity and economic efficiency. Consequently, training is seen as an investment in the workforce, i.e. an investment in "human capital."

There are both private and public returns to training. By improving workforce skills, raising economic efficiency and contributing to the creation of wealth, benefits from training are expected to be widely shared throughout the economy. Accordingly, investment in education and training is viewed as a classic "public good." Training also produces private returns to both firms and individuals. By improving worker productivity, training should result in reducing costs and raising profits for firms (holding everything else constant) which in turn should lead to higher wages for workers.[1] Thus training has qualities of both public and private goods.

WHEN

Training has traditionally been viewed as primarily acquiring skills for a new job and has concentrated on people either entering the labor force or voluntarily or involuntarily changing jobs. In recent years, a more comprehensive view of investment in human capital has emphasized the role of training in the system of lifetime learning. This broader view of human capital development includes basic education, the transition from school to work, active worker training to improve skills, and training for dislocated workers in order to assist them move from job to job. This understanding of training has expanded beyond acquiring skills to also include skill enhancement.

WHY

Training is usually undertaken for five reasons[2]: (1) Training is viewed as a response to a labor market failure. Individuals are physically constrained from diversifying their knowledge base, thereby constraining labor flexibility. Publicly supported training is seen as a means of offsetting this market failure. (2) Training facilitates labor market flexibility, which in turn contributes to improving economic efficiency and increasing economic growth. (3) Investing in human capital is believed to improve the marginal product of labor (raise labor productivity) and enable workers to warrant higher wages (higher living standard). (4) Training is sometimes provided to compensate for lower wages or job loss. For example, as a response to massive layoffs, the government or individual firms may provide some training to assist workers find new jobs. (5) Training is simply undertaken as part of one's quest for more knowledge.

WHO

According to the lifetime learning model, training should be seen as part of an ongoing process, for which everyone is eligible and continuously participating in order to expand their skills and knowledge. Returns to training are based on an individual's potential for using the newly acquired skills. Basic education is geared toward children and adolescents, school-to-

---

[1] Under conventional free market economic models, the price of labor is set at the marginal product of labor (the change in labor productivity).

[2] This list is not intended to be comprehensive.

work transition programs are generally provided to older adolescents and younger adults, and training for active and dislocated workers is usually provided to adults.

Those undertaking training tend to differ from those financing it. Basic education has traditionally been viewed as having high public and private returns. Furthermore, based on the premise that the public returns from basic education outweigh its private returns, the costs tend to be shared throughout society (a classic "public good").[3] The balance between public and private returns shifts at later stages in the lifetime learning model, and the ratio between private and public returns increases. Accordingly, costs for school-to-work programs tend to be shared by government, firms and unions, active worker training tends to be financed primarily by firms and unions, and training for dislocated workers tends to be financed by the government and individuals.

Government support for training is divided into national, regional and local efforts. National governments generally aim to achieve full-employment and therefore have the greatest interest in labor market flexibility. Regional and local governments tend to be more concerned with raising living standards. Thus national governments tend to focus their efforts on programs geared toward unemployed workers and state and local governments tend to focus their resources on attracting high wage jobs into their regions. In this sense, regions should be concerned with workforce skills in order to attract investment. Firms are more concerned with increasing economic efficiency in order to raise profits rather than labor market flexibility. Accordingly, firms tend to care more about the complete complement of skills within a firm rather than the skills of individual workers. Individuals, concerned about job and income security, obviously have the most to gain through training.

WHERE

Basic education takes place in public and private primary and secondary schools. School-to-work programs take place within schools, firms, and community facilities. Active worker training can take place at the firm (on-the-job training), at public or private educational facilities, like secondary schools, community colleges, or universities, or at community facilities like churches, adult education centers or public libraries. Individuals may perform independent study, working on their own at home or at work. Training for dislocated workers can occur at any of the places mentioned above.

THE MISSING PIECE

Many assertions are made concerning its value, yet very little is known of the actual returns to training. This is primarily due to the fact that very limited evaluations are performed on the effectiveness of training programs and their short and long term effects on workers and the economy. Methodologies to determine the impact of training on productivity are inadequate and almost non-existent. Accurate evaluations would entail labor-intensive and costly studies over a lengthy period of time. Many variables may also be involved, beyond the actual training program, which would require additional expertise. To date, there has not been much collaborative work between those who study human capital and those who study broader business and economic issues such as productivity, investment and business management.

This lack of information is convenient for those who expound on the virtues of training. Thus there is no evidence to contradict the common sense view that the marginal returns to education are always positive (i.e. more education is better than less).

---

[3] This view has been changing in recent years and there is a movement to subsidize private education.

A SURVEY OF TRAINING IN THE UNITED STATES

Outside of basic education, the United States tends to invest less in formal training programs than other nations (see Tables 1 and 2). For the most part, government programs are limited and targeted toward select populations. This is due in part to the fact that the labor force is growing, which relieves pressure felt by firms to have to train their workers. In addition, beyond basic education, Americans tend not to place a high value on skill enhancement, especially for one's current job.

To compensate for this lack of training, over the last thirty years the federal government has developed an array of labor market programs, primarily designed to assist unemployed workers move into new jobs (see Table 3 and Graph 1).

Basic Education and School-to-Work Transition

There are two important developments relating to government support for basic education which have occurred over the past few years. One development is the move toward subsidizing private education and allowing more choice in where to send children to school. The second development is the establishment of academic standards and assessing the achievement of those standards. In 1993, the US Congress passed and President Clinton signed into law the Goals 2000 program which established national educational goals and provided funding to those states interested in implementing them.[4]

It appears that federal school-to-work programs may face a similar fate. Approximately fifty percent of all US high school students enter college or university. Of those, only fifty percent complete four years of schooling. Spending on basic education is directly related to the amount of schooling, but inversely related to the number of students (See Graph 2). The United States has a consistent history of investing very little, particularly in the transition from school to work.[5]

Several experiments are currently underway with different types of school-to-work transition programs in the United States: apprenticeship programs, compacts where employers guarantee jobs to students who do well in school, cooperative education where seniors work part-time in areas connected to their training specialty, and career academies where students develop skills around a specific field. Several elements are essential whatever technique is followed: provision of mentoring and jobs by local employers, integration of academic and vocational learning, protection against exploitation of student-workers, and the provision of broadly recognized certificates of occupational skill mastery that will be readily accepted by employers.

The federal government, despite its historically limited role in easing the school-to-work transition, has recently initiated several steps to expand its efforts in this area. One of the centerpieces of President Clinton's initial legislative agenda included expanded financing for pilot school-to-work programs and the creation of a national youth service corps (Americorp).[6]

---

[4] Since 1993, the House of Representatives and the Senate have tried unsuccessfully to terminate the Goals 2000 program.

[5] In contrast, 20 percent of German students who qualify for college participate in the government-sponsored apprenticeship program, and German companies contribute about 3.5 percent of payroll to national training accounts which back a wide range of employment and training institutions (including the apprenticeship program). The results are stunning: two thirds of the German workforce has completed an extensive apprenticeship program compared with three-tenths of one percent in the United States.

[6] There have also been several Congressional attempts to terminate or significantly cut-back funding for both of these initiatives.

Unemployment Insurance

Unemployment Insurance (UI) is the primary labor market adjustment program in the United States. It is clearly the largest and most far reaching. Under the existing unemployment insurance scheme any unemployed worker on whose behalf contributions have been made to the UI trust fund is eligible to receive 26 weeks of benefits, equal to, on average, between 35 to 40 percent of his previous wage. The program also allows for an additional 13 weeks of benefits under certain conditions during periods of considerable economic downturn. Workers must show evidence of an active job search in order to receive benefits.

Reflecting a reluctance for large government-supported income maintenance programs, the US unemployment insurance program is shorter and less generous than similar programs in other industrialized countries. Advocates claim that the shorter program has resulted in less long-term unemployment in the United States relative to Europe, where unemployed workers receive benefits for longer periods. On the other hand, only about one-third of unemployed workers collect benefits under the US program, due in large part to restrictive eligibility criteria. Only half of the total number of unemployed workers in the 1980s were eligible for these benefits, as UI does not cover new entrants, re-entrants, disgruntled job-seekers and voluntary job leavers.[7]

Unemployment insurance aims primarily to offset income loss during spells of unemployment. Only limited attention is paid to making job search assistance available, and there is no training provided under this program. The program is structured around previous wages, and is not sensitive to difficulties which individual workers might experience in finding a new job, such as age, family status, education level or location.

Job Training Partnership Act

Dislocated workers receive job search and training assistance under the Jobs Training Partnership Act (JTPA), and more recently under the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program. The Reagan administration proposed JTPA in 1982 as a replacement for the Comprehensive Employment and Training Act (CETA). JTPA contains many of the same activities which were available under CETA, except for public service employment, but funds allocated for JTPA are substantially lower than the level of CETA funding. JTPA is a decentralized program, providing states with increased benefit delivery and oversight responsibilities. JTPA covers training services for economically disadvantaged youth and adults (Title II-A), the summer youth employment and training program (Title II-B), employment and training services for dislocated workers (Title III), employment and training services for native Americans and migrant and seasonal farm workers (Title IV-A), the Job Corps (Title IV-B), and veterans' employment and training programs (Title IV-C).

Title III of JTPA authorized state programs to provide job search assistance, classroom training, on-the-job training, relocation assistance, and pre-layoff assistance to dislocated workers, defined as those people laid off and who are unlikely to return to their previous industry or occupation. This includes workers who lose their jobs as a result of a permanent plant closing, and long-term unemployed who have substantial barriers to employment, such as age and lack of skills. States received three-quarters of the Title III funds according to a formula based on unemployment and long-term unemployment rates.

---

[7] It is becoming increasingly evident that the traditional survey of the labor force is missing many people. For example, the survey does not follow people if they move. In addition, individuals can decline to be interviewed and only people actively looking for a employment are counted in the survey. It is unclear how this affects the survey, but some have suggested that it results in under-counting the long-term unemployed.

In addition to decentralizing the distribution of the program's benefits, the Federal government also delegated data collection and program monitoring to the states, making it more difficult to evaluate the program's effectiveness. An early review of the program by the US General Accounting Office (GAO) suggested that less than 10 percent of the eligible displaced workers received benefits under Title III of JTPA in the first three years of the program.[8] Another early evaluation of the program suggested that older workers and those with less education are less likely to be served by JTPA than would be expected by their representation in the population of displaced workers. These findings suggest that those individuals who are most in need of assistance are the ones least likely to receive it under JTPA programs for displaced workers.[9]

Economic Dislocation and Worker Adjustment Assistance Act

Two important developments relating to JTPA occurred in 1988. The Worker Adjustment and Retraining Notification Act (WARN), enacted in July 1988, requires certain firms to provide 60 days advance notice to workers prior to a mass layoff or plant closing. In addition, Congress enacted significant changes in Title III of the JTPA program under the Economic Dislocation and Worker Adjustment Assistance Act, which passed Congress as part of the Omnibus Trade and Competitiveness Act. These changes call for: (1) the creation and use of state rapid-response units; (2) states to pass on at least 60 percent of JTPA/EDWAA funds to sub-state areas; and (3) half of those sub-state funds to be spent on training rather than job search assistance and related activities.

Under JTPA/EDWAA, the federal government provides most of the program's funding, but benefits are distributed locally. This separation of responsibilities reflects recent evidence that locally provided programs are better suited for reaching targeted populations. On the other hand, it is difficult to measure JTPA/EDWAA's true effectiveness at helping workers adjust because only a small percentage of eligible workers participate in the program. The number of people who participated in JTPA between 1985 and 1989 represented only 18 percent of the number of dislocated workers during that period.[10] Although this program may be successful in assisting those workers who participate, it appears to be much too small to make any difference in addressing any overall adjustment pressures in the economy at large.

Trade Adjustment Assistance

The third major labor market program is the Trade Adjustment Assistance program (TAA). Created in 1962, TAA was an attempt to garner labor support for the Trade Expansion Act of 1962, authorizing US participation in the Kennedy Round GATT negotiations. Under TAA, workers identified as losing their jobs because of trade concessions could apply for income maintenance payments and training benefits. Strict interpretation of eligibility requirements prevented anyone from receiving benefits under the program from 1962 until 1969. Even after a more liberal reinterpretation of these requirements, only 46,000 workers received benefits over the following five years.

---

[8] US General Accounting Office, Dislocated Workers: Local Programs and Outcomes Under the Job Training Partnership Act, GAO/HRD 87-41, Washington, D.C.: US General Accounting Office, March 1987.

[9] Margaret C. Simms, "The Effectiveness of Government Training Programs," paper prepared for the US Department of Labor, Commission on Workforce Quality and Labor Market Efficiency.

[10] See US Department of Labor, "Summary of Title III Program Performance for Program Year 1989," mimeo, and Herz, Diane, "Worker Displacement Still Common in the Late 1980's," in Monthly Labor Review, Vol. 114, No. 5, May 1991.

Congress made significant program changes in the Trade Act of 1974, once again as a means for gaining support for another round of trade negotiations, this time the Tokyo Round. Eligibility requirements were liberalized and the benefit package was enriched. Workers no longer had to prove that their job loss was due to a trade concession, but only that increased imports "contributed importantly" to their job loss. Income maintenance payments (Trade Readjustment Allowances, or TRA) were set at 70 percent of the worker's previous wage, but could not be more than the national average wage in manufacturing. TRA payments were made in addition to regular UI payments, although both benefits together were capped at 80 percent of the worker's previous wage. The eligibility period remained 52 weeks, with a possible 26 week extension for workers over 60 or enrolled in a training program. Workers could also be compensated for 80 percent of their job search and relocation costs, up to a maximum of $500.

Less restrictive eligibility requirements and a more than doubling of merchandise imports between 1974 and 1980 resulted in a significant increase in petitions for TAA benefits. The number of workers receiving TRA grew from 62,000 in 1976 to over half a million workers in 1980. Likewise, TRA outlays grew from $71 million in 1976 to $1.6 billion in 1980.[11] The number of workers receiving training under this program never went above 5 percent of the workers receiving TRA payments. Coupled with administrative problems, which resulted in many workers receiving lump-sum benefits after they had found new jobs or returned to their old jobs, TAA was not seen as contributing to long-run labor market adjustment.

This criticism, together with the administration's efforts at reducing non-military government expenditures, led President Reagan to recommend abolishing TAA in 1981. The administration argued against any rationale for maintaining a separate program for trade-impacted workers, and instead supported a revised, although smaller, economy-wide training program.[12] Congress accepted JTPA but also insisted on maintaining TAA, albeit with certain revisions. As a result of the Omnibus Budget Reconciliation Act of 1981, TRA payments were reduced and the emphasis of TAA shifted from providing income maintenance to training and other reemployment benefits. TRA payments were reduced to the same level as standard UI benefits, and payment could begin only after workers exhausted their UI benefits. UI and TRA payments were capped at 52 weeks, except if a worker was enrolled in training, in which case benefits could continue for another 26 weeks.

Following the 1981 changes there was a noticeable decline in the number of TAA petitions received and approved, and accordingly a decline in the amount of government outlays under the program.[13] Even so, the Reagan administration continued in its efforts to abolish the program and bring these workers under the umbrella of JTPA. Congress refused every attempt, although it agreed to several program changes. The Consolidated Omnibus Budget Reconciliation Act of 1985, which extended the life of TAA, required workers to be enrolled in a job search program as a condition for receiving TRA benefits.

Under the Omnibus Trade and Competitiveness Act of 1988, TAA was extended to September 30, 1993, and eligibility was expanded for a one-time inclusion of workers engaged in oil exploration and drilling. Injury determination criteria and the benefit package were left intact, although enrollment in training as a condition for receiving TRA payments was strengthened. In

---

[11] Some critics claim that the Carter administration used TAA in an attempt to win union and other labor support in its 1980 reelection bid, resulting in a large increase in benefit outlays in that election year.

[12] See the previous discussion concerning the JTPA and its replacement of CETA.

[13] When the percentage of petitions certified for benefits fell below 10 percent in 1981, there were some charges that the Department of Labor was being more restrictive in its certification process. This criticism was never proven, and the percentage of petition approvals since 1983 has returned to their pre-1980 levels.

1993 the program was extended for another 5 years, with declines in funding to become effective in 1997.

The training component of TAA remains rather small, with expenditures equalling only one fifth of the amount allocated for TRA payments. Outlays for job search assistance and relocation benefits are even smaller. For the most part, TAA's primary function remains income maintenance, even after several attempts to change the program's focus.

Other Targeted Programs

The development of US labor market adjustment programs has simultaneously taken two paths. The federal government supports programs with broad eligibility criteria. These programs include the UI scheme and programs such as CETA, JTPA and EDWAA. At the same time, the government also supports smaller programs targeted at specific populations. The TAA program is the largest among these targeted programs. Other such programs include assisting workers adversely affected by the Clean Air Act, by defense conversion and by North American Free Trade Area agreement. Most of these programs follow the TAA model, which includes rather generous income support (cash benefits), limited training benefits and other employment services such as job search and relocation assistance.

Two reasons are traditionally given for these targeted programs. First it is argued that those workers covered under these programs face a more difficult adjustment process and thus deserve additional public assistance. For example, it has been argued that workers adversely affected by trade liberalization tend to be older and less skilled than other dislocated workers. In the case of defense conversion it has been argued that workers in defense-related industries tend to be geographically concentrated, thus placing them under a higher adjustment burden.

The second motivation for these targeted programs is more political. There is evidence that a willingness to assist those people adversely affected by government action (i.e. trade liberalization, regulation, defense cut-backs), makes it easier for politicians to vote in favor of the action itself. Thus these targeted programs are often used to "buy" votes in Congress.

One of the problems with the proliferation of smaller programs is that it has resulted in a maze of discriminatory government programs which workers must navigate themselves. This has proven to be particularly confusing during periods of higher general unemployment, when workers from the same firm, or even plant, may be eligible for different benefits. This confusion has contributed to calls for greater harmonization among government supported programs. The fact that the benefits offered under these programs differs widely are usually more generous in the targeted programs is a major impediment to efforts toward consolidation.

Workforce Development Act of 1995

A recent report by the General Accounting Office found that the US government is supporting 163 separate programs, across 15 federal agencies, and costing more than $20 billion a year to assist workers. This finding has led to calls for better coordination and consolidation of federal training and labor market adjustment programs. In addition, continuing a trend begun during the Reagan administration, Congress has been advocating transferring more responsibility for these programs to the states. The result of these two objectives, program consolidation and transferring more responsibilities to the states is the Workforce Development Act of 1995.

The legislation provides $7 billion per year in the form of block grants to the states over the period 1998 to 2001. This amounts to a 15 percent reduction from current spending levels on the programs in question. The block grants are to be made available based on the following formula: 60 percent of funds based on a state's percentage of the population aged 15 to 65 years; 10 percent of funds based on percentage share of individuals ages 18 to 64 who are at or below the poverty line; 10 percent based on the state's percentage share of the unemployment rate for the previous 2 years; and 20 percent based on each state's percentage share of adults receiving

Aid to Families with Dependent Children (AFDC). Of the total authorization, 93 percent will be distributed to the states and the remaining 7 percent will be reserved for national activities.

States must meet four conditions in using the block grant funds: (1) a minimum 25 percent of funds be used for workforce employment activities and 25 percent be used for workforce education activities; (2) job training centers must be based on the one-stop-shopping centers; (3) school-to-work activities must be supported; and (4) performance benchmarks must be developed.

Both the original House and Senate versions of the bill called for repealing the training component of TAA beginning July 1, 1998, while maintaining the program's cash benefits. The full Senate adopted an amendment maintaining the program at current funding levels as a separate initiative and not be consolidated with the other programs ($119 million was appropriated for TAA in FY 1995, and that would decrease to $92 million in FY 1999).

Under the legislation JTPA will be repealed as of July 1, 1998, along with the Adult Education Act, the Carl Perkins Vocational Education and Applied Technology Act, the School-to-Work Opportunities Act, the Wagner-Peyser Act, Title V of the Older Americans Act, and Title VII of the Stewart McKinney Homeless Assistance Act. According to the block grant formula, a minimum of 25 percent of funds would be devoted to work force employment activities. Training activities covered under the JTPA would be covered under the block grant. For FY 1996, Congress has appropriated $3.2 billion for JTPA, a reduction of $750 million from FY 1995 appropriation and a reduction of $2.3 billion from the administration's request. Final Congressional action on this consolidation proposal remains in doubt.

One-Stop Centers

In addition to the problems of eligibility and inadequate programs and funding, workers are also confronted with a maze of state and federal programs. Many of these programs, while aimed at addressing the same problem, actually work at cross purposes, and end up only serving to further confuse the worker in serious need of assistance. This cacophony of programs is particularly unfortunate during times of limited public funds for such efforts.

One idea that has been circulating is to use federal funding to encourage states to develop "one-stop" centers which bring together all government programs to one location, making it easier for workers seeking assistance. In order to establish such centers, state governors would be asked to submit a plan to the Secretary of Labor detailing how they intend to bring together (or have already brought together) the various resources available to unemployed workers. This could range from establishing actual centers housing representatives of all relevant state and federal program to creating a automatic bank teller-type system of providing written material on various programs to a phone-information system. This coordination effort would be jointly financed by the Pubic Employment Service (ES) and the JTPA/EDWAA funds. In those states where these centers already exist, the Labor Department would review their effectiveness and make recommendations of how they may be improved.

These "centers" would bring Unemployment Insurance (UI), ES and JTPA in-take services and program information and referral under the same roof. Most people who receive UI intend to return to work and they should have access to ES and JTPA services.

Employment Services would include skill assessment, job search assistance, including resume writing and interview skills and identification of employment. JTPA should focus on the need for and availability of training. In order to provide these services, these offices must have access to qualified counselors and the adequate information concerning potential jobs and training programs. Centers could choose to contract out for counseling services.

In addition to UI, ES and JTPA/EDWAA (which in some states are already combined), these "centers" would also bring together representatives from other worker-oriented programs, including EDWAA, TAA, all defense convergence programs and other targeted programs (Clean

Air and Spotted Owl, where applicable, and NAFTA, etc.) Initially, representatives from each of these programs would be on hand to provide information and possibly assist eligible workers to apply for benefits. Eventually, state counsellors would each become informed of these programs so that a worker need only speak with a single person to learn about all of the programs available to him.

In addition to traditional worker-related programs, representatives from other public assistance programs should eventually be brought into these "centers." This includes Aid to Families with Dependent Children (AFDC), Veteran's benefits, state economic development programs, etc. Centers could choose to provide information on each of these programs, or in some cases provide in-take services. Federal and state guidelines would be reviewed to encourage maximum coordination of benefits into a single package. States could choose to train individuals to represent several programs, in order to prevent having one person for each program at these centers. This would be particularly important in smaller localities.

States would also choose to house representatives from the school-to-work programs and National Service program at the centers. In addition, centers could also provide information and assistance to employers and employees on training programs for active workers.

Under the current JTPA program, Private Industry Councils (PICs) are responsible for developing the strategy and overseeing its implementation. Each Service Delivery Area (SDA) has a PIC, established by the lead elected official in that SDA, made up of representatives from private business, unions and public assistance agencies, including the ES, welfare, and education. The responsibilities of the PICs would be expanded to oversee the coordination of these various programs as well as setting priorities and managing these centers. Membership on the PICs would also be expanded to include at least one representative from each program participating in the centers.

In addition to bringing together all job-related services, these "one-stop centers" would also be conveniently located, accessible, and have hours which meet the needs of employed and unemployed workers.

States could include private service providers in the "centers." One primary candidate would be to contract out to private companies to provide career counselling services. These contracts would be competitively bid, based on some kind of outcomes-based performance record. A voucher system could be used to help measure customer preferences and outcomes.

As with all programs, adequate provision for proper evaluation should be written into any program changes. This should include short-term evaluation of response and appropriateness of services. In addition, attention should be given to evaluating the long-term effects of such programs. This means tracking workers through the program as well as how they are faring three or four years after. These evaluations are probably best performed by private consultants.

Private Efforts

Anecdotal evidence suggest that those firms which invest in their workers, primarily through training and the creation of "high performance workplaces," tend to outlast and outperform firms which do not. Unfortunately, it appears that only a minority of firms seriously invest in training. One of the by-products of this under-investment is a lack of credible data about how much training takes place, who does it, and what is the return.

The American Society for Training and Development estimates that US companies currently devote approximately $55 billion annually for formal training.[14] Although the private

---

[14] Laurie Bassi. "Expenditures on Employer-Provided Training," American Society for Training and Development, mimeo, July 1996.

sector may spend more on worker training, less is know about these efforts -- both in terms of program design and participation and effectiveness. Averaged across the nation, US firms spend slightly more than one percent of payroll on training and most of this investment is concentrated among a handful of firms -- one-half of one percent of all employers spend 90 percent of the formal training dollars. (Graph 3 presents data comparing private training efforts in Japan and the United States).

Based on a 1991 Current Population Survey, the Bureau of Labor Statistics reports that only 16 percent of the workforce participate in some kind of employer-provided formal training. This includes on-the-job training (15 percent of workers), schooling (13 percent of workers), and other (7 percent or workers).

Training is highly concentrated by industry: Twenty-one percent of all training is performed in professional and related services, 20 percent is performed in manufacturing industries, 12 percent in finance, insurance and real estate, and 11 percent in transportation, communications and utility industry.

Almost two-thirds of those workers who receive some kind of employer-based formal training have had at least some college education. Thirty-eight percent of workers in receiving training are college graduates. An equal percent of workers receiving training have high school or less education. Thirty-one percent of the workers receiving training were between 35 and 44 years old and 29 percent were between 25 and 34 years old.

According to another study by the US Small Business Administration, there is a relationship between firm size and training. Firms with greater than 500 employees are more than twice as likely to provide formal training to new hires than are firms with less than 25 employees.

The key requirement is to induce more companies to devote considerably expanded resources to continual skills development. All firms need to participate, partly to obviate the concerns of those who already do that workers they train will go elsewhere. This "free rider" problem is used by some to argue in favor of broader government-sponsored training programs.

One proposal to foster increased training, made popular by candidate Bill Clinton in 1992, would require all firms with more than 50 employees to invest 1½ percent of payroll for training (for all employees, not just top managers as in many current cases). Such a requirement would represent a training guarantee, under which the firms either conduct the training themselves or contribute the equivalent to a national training fund ("play or pay").

Currently, only very weak incentives are in place to encourage individuals to undertake continuous retraining on their own. In fact, under existing tax law, individuals can only deduct from their taxable income expenses for training for their current job, and not for future jobs. The Clinton administration has suggested expanding this tax deduction to include any training expenses for a current or future job, but no final action has been taken yet. In addition, the United States is the only industrial nation without a formal system for developing and disseminating skill standards. There have been recent efforts to develop such standards, but proposed budget cut-backs could significantly curtail this exercise.

Concluding Thoughts

Training should be seen as a means towards an end, and not an end in and of itself. The primary objective should be to assist workers meet the challenges of productive work. To do so, workers must have access to good and timely information concerning employment opportunities, skill requirements, and availability of training programs.

On the other hand, training should not be solely for the purpose of getting a job. Recent evidence suggests that those firms willing to make serious investments in their workers are more likely to succeed in the globally competitive world market. While there are still many questions

concerning what constitutes a "high performance" workplace, one thing we do know is that there is a high return to firms which spend more than the national average on worker training.[15]

It is also difficult to measure the returns from investing in training. Contrary to most evaluations which compare a worker's salary immediately before and after training, in fact, the returns to individuals and the economy from investing in worker training must be seen over a longer period.

What should be the federal government's role in providing training and adjustment assistance? US workers are increasingly being asked to shoulder the burden of economic change in the economy. Technological change, defense conversion and trade liberalization, while each resulting in long-run benefits for the economy as a whole, also bring some concentrated costs in the short-run which threaten our willingness to accommodate these changes. The challenge to public policy is to minimize the short-run costs in order to preserve the long run benefits. Furthermore, government assistance is warranted in cases where dislocation may result from changes in government policies, like in the cases of defense conversion and trade liberalization.

The United States needs a comprehensive adjustment program which assists dislocated workers regardless of cause to encourage labor market flexibility and improve our nation's competitiveness. It is increasingly difficult to disentangle the actual causes of economic dislocation in our economy. Workers face pressures from the introduction of new labor-saving technologies, increased competition from foreign producers both at home and in third markets, and reductions in defense-related production. Any new program should be expansive enough to provide assistance to all workers, regardless of cause of dislocation, yet flexible enough to enable tailoring benefits to best suit an individual worker's needs. Benefits should be determined by a person's prospects for re-employment, not cause of unemployment and should include income maintenance during the period of transition, training and job search and relocation assistance.

Such a program should combine various aspects of existing programs. As in the current EDWAA program, all workers in need would be eligible for benefits. But the level of benefits should go beyond those provided under EDWAA, and be more similar to those provided by the TAA. The complete set of benefits would include job search assistance, skills assessment, counseling, referral services, adequate income support (covering at least 50 percent of lost wages), payments for retraining programs and extended income and benefit (including health care) payments through the training period.

The various worker training programs need to be coordinated at the local, state, and national levels in order to better serve our training needs. The United States needs to create a comprehensive network of one-stop centers for students, workers and firms which provide a full range of services: skills assessment, career counselling, training, job search assistance, job placement, recruitment and referral assistance. Training programs should also be flexible enough to meet the needs of individuals.

Most importantly, structural changes in the US economy require new thinking about how to preserve labor market flexibility. These changes are significant enough to require new thinking concerning adjustment policy and not just changes in existing programs. Current discussions seem to be primarily motivated by reducing budgetary expenditures rather than by what works. It is ironic that at a time when American workers are facing more pressure than ever before, due to changes in technology, globalization and corporate down-sizing, the current buzzword in Washington concerning training and labor market programs is "consolidation." If enacted, these efforts at consolidation could lead to <u>less</u> government resources for training, and possibly less effective programs, overtime.

---

[15] For example, some departments within Motorola spend approximately 6 percent of payroll on training as compared to 1 percent of payroll for the majority of US companies. Motorola is certainly not sorry about its investment, on the contrary, other companies are trying to learn how to emulate their success.

A new model of labor market adjustment should be based on three pillars:

(1) Labor market policies must be viewed within the context of a system of lifetime learning. Training for active and dislocated workers should be able to be built upon a strong foundation of basic education and school-to-work transition.

(2) For too long American workers have shouldered most of the costs associated with labor market flexibility. These costs should be more evenly shared by the private sector and the government. Where appropriate, the government should finance labor market programs delivered to the workers by the private sector.

(3) Training must be linked to employment in order to be effective. The ultimate objective is for American workers to be gainfully employed in high skill, high wage jobs. Although labor market flexibility is important in order to respond to the current economic challenges, this flexibility should not come at the expense of earning an income through employment.

Labor market flexibility depends on training and climbing up the skill and wage ladder is especially difficult for workers who lack basic skills. In spite of the fact that the Clinton Administration and Congress often speak about the virtues of training, this attention has yet to be translated into adequate programs and funding for those programs. Any new program for dislocated workers should be an integral part of a strategy of lifetime learning which includes improved performance at the K-12 level, substantially increased resources devoted to the school-to-work transition, and access to continuous training for all active workers.

A more flexible labor market is crucial to meeting the current economic challenges in the international economy. The US government should follow a policy of encouraging this flexibility at the least cost to American workers. Existing US labor programs are too small, inadequate, and short-sighted to support this flexibility. Any serious adjustment program must provide adequate income maintenance to enable workers to undertake the kind of retraining they need to fully adjust to the changes currently taking place in the US labor market. Most importantly, the government's commitment to labor market adjustment must be backed up with secure and adequate funding if there is any hope for serious adjustment to take place.

Competitiveness Policy Council

Appointed by the President:

Robert E. Nelson *(Business)*
Chairman
Nelson Communications Group

Claudine Schneider *(Public Interest)*
Senior Vice President
Energia Global, Inc.

Albert Shanker *(Labor)*
President
American Federation of Teachers

Laura D'Andrea Tyson *(Government)*
Assistant to the President for Economic Policy
National Economic Council

Appointed by the Bipartisan Leadership of the US Senate:

Rand V. Araskog *(Business)*
Chairman and CEO
ITT Corporation

John Barry *(Labor)*
President
International Brotherhood
of Electrical Workers

William Graves *(Government)*
Governor
State of Kansas

Bruce Scott *(Public Interest)*
Professor of Business Administration
Harvard Business School

Appointed by the Bipartisan Leadership of the US House of Representatives:

C. Fred Bergsten, Chairman
(Public Interest)
Director
Institute for International Economics

Donald V. Fites *(Business)*
Chairman
Caterpillar, Inc.

Edward V. Regan *(Government)*
Former Comptroller
State of New York

Lynn R. Williams *(Labor)*
Retired President
United Steelworkers of America

Table 1

Government Expenditures on Labor Market Programs

(Percent of GDP)

Country	Training	Unemployment Compensation	All Labor Market Programs
Canada	0.22	1.58	2.09
France	0.28	1.34	2.87
Germany	0.23	1.30	2.32
Japan	NA	0.36	0.52
United Kingdom	0.22	0.94	1.62
United States	0.10	0.38	0.62

Source: Organization for Economic Cooperation and Development, Labor Market Policies for the 1990s, Paris, 1990. Table 14. Data refer to the period 1988 to 1990. (US data include Perkins Act vocational training.)

Table 2

TRAINING PROGRAMS IN SELECTED INDUSTRIALIZED COUNTRIES

Country	Participation (Percent of Labor Force)	Average Duration (in Months)	Total Spending (Percent of GDP)	Expenditures per Participant	Expenditures per Participant as a Percent of Average Income
Canada	1.1	6	0.22	US $7,000	37
France	2.3	2.5	0.28	$4,600	27
Germany	1.5	8	0.25	$7,200	37
United Kingdom	1.4	NA	0.22	$5,000	31
United States	1.0	3.5	0.05	$1,800	9

Source: Organization for Economic Cooperation and Development, Labor Market Policies for the 1990s, Paris, 1990. Table 5. Data refer to the period 1988 to 1990.

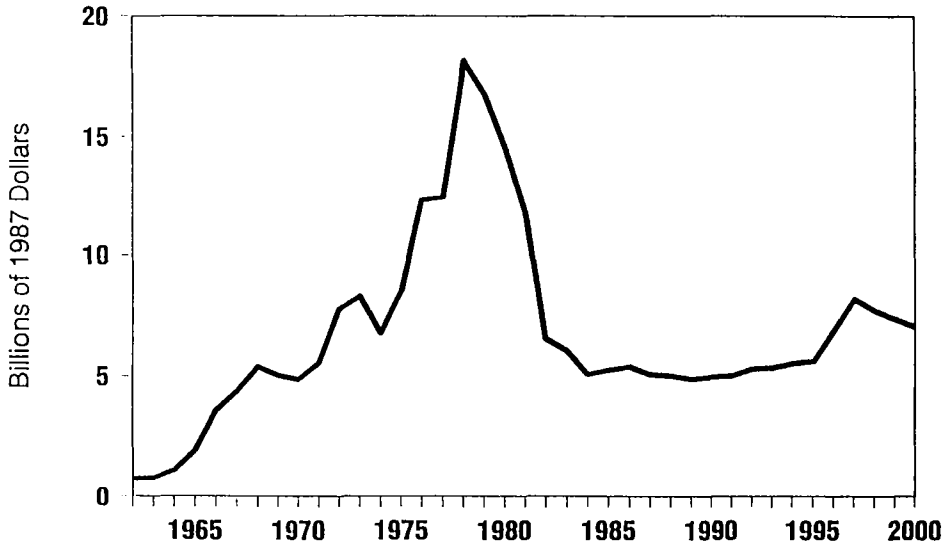
Table 3

US Labor Market Adjustment Programs

	Eligibility	Benefits	Financing
Job Training Partnership Act/ Economic Dislocation and Worker Adjustment Assistance	Dislocated worker defined as those who have little possibility of returning to their previous job.	Job search assistance, training and relocation benefits. Possibility of needs payments if enrolled in training. All benefits are determined and distributed at the state and local level.	Federal share is budgetary outlay by Congressional appropriation. 3/4 of funds are allocated to states based on matching formula, of which 60% must be further distributed to sub-state level. Half of all JTPA/EDWAA funds must be allocated for training. $1 billion in FY 1994 and $1.3 billion in FY 1995.
Trade Adjustment Assistance	Workers previously employed by firms which have been certified by USDOL as being hurt by imports. (Entitlement)	Income maintenance payments set at UI level for up to 52 weeks (inclusive of regular UI benefits) and may be extended for an additional 26 weeks. Payments conditioned on enrollment in training. Job search assistance, training and relocation benefits available.	Financed entirely through budgetary outlay by Congressional appropriation. $128 million for benefits and $99 million for training in FY 1994, $179 million for benefits and $98 million in training in FY 1995
Clean Air Act	Workers adversely affected by implementation of acid rain regulations.	Same as JTPA. Needs-related payments are conditioned on training.	$50 million additional Congressional appropriation to JTPA for FY 1990
Defense Conversion Act	Workers displaced by cut-backs in defense programs	Same as JTPA.	$150 million additional Congressional appropriation to JTPA for FY 1991
NAFTA Transition Adjustment Assistance	Workers adversely affected by NAFTA	Expanded TAA benefits	$2 million for benefits and $8 million for training in FY 1994, $33 million for benefits and $32 million for training in FY 1995

Graph 1

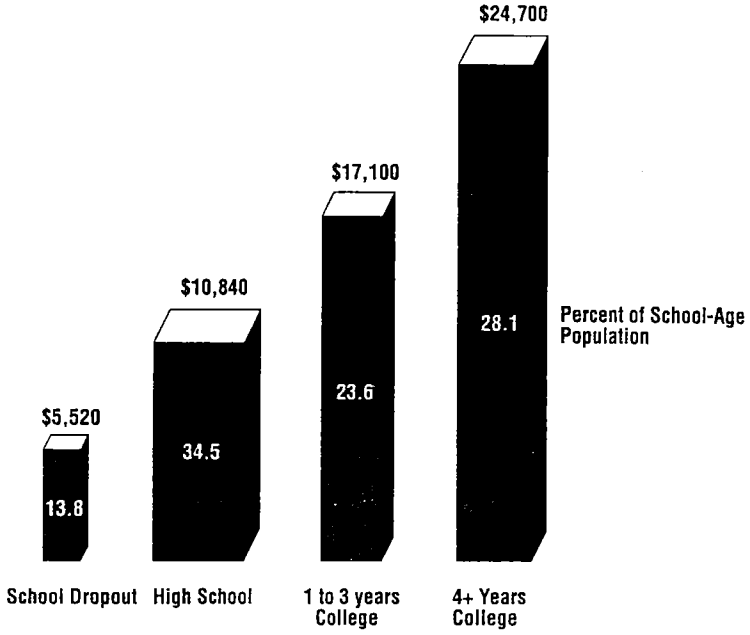
Federal Spending on Training and Employment



Source: Office of Management and Budget

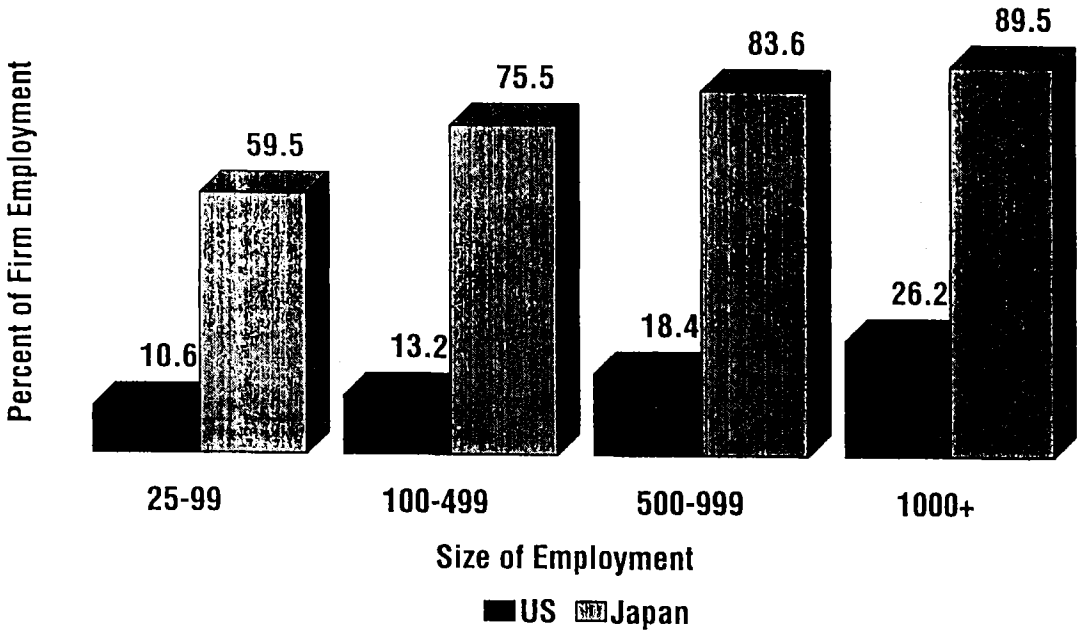
Graph 2

Public Spending Per Person Age 16 to 24 on Education and Training in 1988 Dollars



Source: US General Accounting Office and Department of Education

Private Sector Training



Source: OECD

Chairman CRANE. Thank you, Mr. Rosen.
Mr. Bailey.

STATEMENT OF THOMAS BAILEY, DIRECTOR, INSTITUTE ON EDUCATION AND THE ECONOMY, AND PROFESSOR, ECONOMICS AND EDUCATION, TEACHERS COLLEGE, COLUMBIA UNIVERSITY, NEW YORK, NEW YORK

Mr. BAILEY. Thank you, Mr. Chairman, and especially our Congressman, Mr. Rangel. I am also happy to see that we have another New York Congressman here, Congressman Houghton, being from New York myself.

I am very pleased to have been invited to speak to you today. I have devoted most of my professional career to looking at the relationship between education and economics, both in terms of individual well-being, as well as the economic strength of the country as a whole.

I, think it is certainly timely and very important that you conduct these hearings.

I would like to say that much of my research is funded by the Federal Government, through the National Center for Research and Vocational Education, which is in the Department of Education—a function in education for the Federal Government that I think is extremely important, and want to emphasize.

I am the director of the Institute on Education and Economy at Columbia, and we have done research in many areas having to do with how education can enhance work, as well as how we can better use educated workers on the job.

I want to emphasize today one aspect. We have been doing research on School-to-Work, transition, funded by the School-to-Work Opportunities Act, and I am enthusiastic about that program. One reason is because it does provide skills for workers and for young people.

But I am particularly enthusiastic because more and more I have come to believe that School-to-Work, especially if it is linked strongly to employers, has the potential to engage many students in academic learning, in ways that traditional approaches to education cannot.

We are talking about using the School-to-Work strategy to emphasize academic learning, not only vocational skills.

One thing we have learned, in the last 15 years, about employment and about work is that, in general, business was not really using the full potential of its work force.

Workers were expected to come to work, to leave their brains at the door, and to follow orders. Over the last 10 or 15 years, many businesses realized that. Through the use of teamwork, and other types of employee involvement, through development of what is called high performance work organizations. Businesses have tried to engage fully the creativity, energy and imagination of their workers, and I think this is an important reason why we have had solid gains in productivity, especially in manufacturing, over this period.

Now, what does that say about education? Well, I think parts of our educational system are indeed second to none in the world, but, in far too many cases, schools also fail to fully engage their stu-

dents in the activity of learning. Just as workers are not engaged in their work, students are not engaged in their work.

Many students find their schooling boring, and they fail to see the relevance or importance of what they are learning in school. They see no reason to work hard.

But this is a tremendous waste. Increasing education, which I think many people agree is necessary, by increasing the hours or days of schooling, is probably a good idea, but it is also tremendously expensive.

Increasing education by increasing the focus and engagement of our students, and the hours that they work, perhaps on their own, or with their parents, has much less of an impact on the taxpayers.

I think that is an unexploited resource that we need to focus on. Learning is a demanding activity, and we need to get our students to work more at that activity.

Now, how do we do this?

Several previous witnesses have presented several good examples of how we can do a much better job of connecting school and the school experience to the adult world, to the broader community and to the world of work.

Through this we can exploit students' interests and aspirations to enhance their academic learning. Why is it that in almost all cases, outlets for student interests and passions are found outside the classroom?

One of the key objectives of education reform is to try to take those interests, and incorporate them into a student's academic learning.

Of course, I want to stress that many students do not have the slightest idea what their interests are, or what their aspirations are, and I think we can do a lot more to help them think about that. I am not saying that students must make a decision about their futures at the age of 16.

None of us could probably have done that, but we must help students think systematically about what their interests and aspirations are. That is the only way that we can then use those interests, to engage them more in their education.

Another important finding from our research is that many young people who are engaged in internships find it useful and motivating to be treated like adults, and given responsibility.

It is an interesting thing about our society, that just when we are preparing our young people to enter the adult world, we isolate them from adults in a youth world. And I think one of the real advantages of internship programs is that they give an adult role to young people, but in a situation in which they can also receive guidance.

I agree with the previous speaker that much of our knowledge about successful education reforms is based on stories. Stories are useful, but they do not give us a rigorous measurement of the effectiveness of programs. At Columbia, we are carrying out a rigorous evaluation of career magnet schools in New York City, many of which have strong contacts with employers, including internships.

And just to highlight a few of our findings, we found that, 2 years after graduation, career magnet graduates were more likely

to have declared a college major, and earned more college credit, than their counterparts who went to regular area high schools.

What is particularly important is that we found that magnet schools had a positive effect on social behavior, including reduction in teen pregnancies, alcohol and drug and tobacco use.

We often ask what schools can do to enhance business, to enhance our competitiveness? We also have to ask, what is it that business can do to enhance education?

Schools and colleges can only be effective in preparing a skilled work force if they have a strong partnership with employers.

I will end here. I would be happy to talk about how I think that can be brought about.

Thank you.

[The prepared statement follows:]

Testimony to the House Committee on Ways and Means
Subcommittee on Trade
July 25, 1996

Thomas Bailey
Director of the Institute on Education and the Economy
and
Professor of Economics and Education
Teachers College, Columbia University

This statement is based on Bailey, Thomas and Donna Merritt (1996). *School-to-Work for the College Bound.* New York: Institute on Education and the Economy, Teachers College, Columbia University.

Mr. Chairman and distinguished members of the Committee, I thank you and your colleague, our Congressman Mr. Rangel, for inviting me to testify before you on the importance of education and training for our country's's competitiveness and economic growth. I have devoted most of my professional life to the study of the role of education for work and the economy, as a professor of economics and education at Teachers College, Columbia University and for the last four years as the Director of the Institute on Education and the Economy. I am also on the board of the National Center for Research in Vocational Education, a education research center funded by the Office of Vocational and Adult Education in the Department of Education. Much of my own research and the research of my colleagues at the Institute has been made possible by this funding from the Department of Education.

During the last few years, our Institute has been devoted primarily to looking at how skills and human resources can be more effectively used to promote productivity and competitiveness and how schools and employers can more effectively teach those skills and abilities to the country's young people. I can only mention a few of the things that we are doing, but I think that our research on initiatives funded by the School-to-Work Opportunities Act of 1994 might be particularly relevant to your interests. The school-to-work strategy combines high standards with career guidance and exploration, and stronger links between schools and the community, especially employers. I have become increasingly enthusiastic about this approach, not only because students learn useful skills, but even more because I believe that school-to-work has the potential to engage many students in **academic** learning in ways that more traditional approaches to education cannot. And I believe that the problem of student engagement in learning is a crucial educational issue, especially as it relates to competitiveness and growth.

While economists disagree about many things, all agree on the importance of education for economic productivity and for individual economic well being. Thousands of studies have shown that individual earnings rise with education. Studies of macro economic growth show that as much as 60 percent of the growth in per capita output can be attributed to increases in education. Studies that we have done at the Institute have shown how the increasing pace of technological change is increasing the importance of flexible skills in both service and manufacturing industries.

One of the most important lessons that businesses have learned over the last 15 years is that in general they do not use the potential of their employees. Many employees were asked to come to work, "check their brains at the door," and follow orders. Recently through the use of teamwork, modern human resource strategies, and so-called "high performance work organizations" many employers have tried to engage fully the creativity, energy, and imagination of their workers. This is an important reason why we have had important productivity gains over the last decade at least in manufacturing.

In far too many cases, schools also fail to engage their students in the activity of learning. Many students find their school boring, and they fail to see the relevance or importance of what they are learning in school. They see no reason to work hard. But this is a tremendous waste. Increasing education by increasing the hours or days of schooling is expensive, but increasing

education by increasing the focus and engagement of students, and the hours that they work on their own or with their parents, has much less impact on taxpayers. Our job as policy makers is to make those more modest investments needed to promote the greater engagement and motivation of our students.

How do we do that? One important way is to hold all students to high academic standards. This has already received a great deal of attention.

Case studies that we are carrying out in schools and workplaces are beginning to suggest that we can also do a better job of connecting school and the school experience to the adult world, to the broader community, and to the world of work. Through this we can exploit student interests and aspirations to enhance their academic learning. Why is it in almost all cases, outlets for student interests and passions are found outside the classroom on the athletic field, in extracurricular activities, or in activities with their friends. A key objective of education in general, and the school-to-work approach in particular, should be to try to connect those interests to academic learning.

Of course, many students have not the slightest idea what their interests or aspirations are. Certainly if we are going to try to connect student interests to learning we also have to help them think about where they are going and what might interest them. Students with a coherent plan and goals do have higher academic achievement.

When we talk to high school students who are involved in internships, we often find that they get a tremendous amount out of the opportunity to take responsibility and to be treated like an adult. In our society we prepare students for adult life by isolating them in youth enclaves, and often by giving them little to compete with a youth culture that does not value academic achievement.

Coherent-education, well connected to the adult world can have many benefits. We are conducting a rigorous evaluation of career magnet schools in New York City, many of which have significant similarities to the school-to-work model outlined in the legislation. We found several important effects. Among other findings, the project concluded that two years after graduation, career magnet graduates were more likely to have declared a college major and earned more college credits when they went to college than their counterparts at area comprehensive high schools with no career focus or exposure. Attendance at a magnet school also had positive effects on social behavior including reductions in teen pregnancy and alcohol, drug, and tobacco use.

Increasing productivity and improving education are closely linked, but a key to both is to engage the energy, imagination, creativity, and commitment of both workers and students. By failing to do so, we waste human resources on the job and prevent their full development in school. A growing body of research, including our own, suggests that the school-to-work model and other types of education reforms can improve that crucial motivation and commitment of students. But this is an extremely difficult task because we are asking that the entire community be involved in education.

Mr. Chairman and Congressman Rangel, thank you again for this opportunity to discuss this important issue, I would be happy to elaborate on any of the points that I have raised or to discuss the role the Congress could play in the types of changes that I think are necessary.

Chairman CRANE. Thank you, Mr. Bailey.
Mr. Samuel.

STATEMENT OF HOWARD D. SAMUEL, SENIOR FELLOW, COUNCIL ON COMPETITIVENESS, WASHINGTON, DC

Mr. SAMUEL. Mr. Chairman, my name is Howard Samuel, and, since my retirement in 1992 as president of the Industrial Union Department of the AFL/CIO, I have served as a senior fellow at the Council on Competitiveness.

The Council on Competitiveness, unlike the Competitiveness Policy Council—we are two different groups—is a private, nonpartisan organization, consisting of business leaders, labor leaders, and leaders from the field of higher education, which is dedicated to improving our ability to raise the standard of living, at the same time meeting the demands of the global marketplace.

Mr. Chairman, as the final witness in a day which has been distinguished by outstanding witnesses, I have been looking for ways in which to earn your approval, and I thought perhaps the best thing to do is really not to look very carefully at my testimony, which will appear in your record, I understand, but to summarize very briefly two or three points that have not been raised.

Second, and perhaps more important, to be brief.

Let me raise these issues first. The issue of training and the worker in the work force must be regarded much more holistically than we have.

One term which has not been heard today is low birth weight babies, and I suggest to you that the problem of low birth weight babies has an impact on our educational system, and therefore on the ability of our work force to meet the challenges of the global marketplace.

In short, what I am suggesting is that we have got to look at the problem of the worker, holistically, as part of a continuum, starting with the mother's prenatal care, moving through the early health issues, obviously through early education, and then into the workplace.

We have got to look not only at training, but at the climate within which training occurs. One of the things we have learned, and I think this has been agreed upon by both the business organizations, such as the NAM and the NAB, and by the AFL/CIO that is that training is far more effective when it is undertaken in a climate of cooperation and partnership, when workers feel that they are able to participate in the decisionmaking process, where there is possibly some system of gain sharing, when workers have a sense of security on a job.

Training, by itself, is not as effective as when it is done under that kind of a climate.

The second issue is an issue which has been touched on here, but which I would hope this Subcommittee would look at more carefully, and that is the role which technology, learning technologies, will play in the spread of training and education in the years ahead.

Computer based training, the Internet, electronic distance learning, interactive systems, and and electronic performance support

systems, these are the terms of art which I think are going to rule the world of training and education in the years ahead.

They hold the promise of making training faster, cheaper, and more accessible to even the smallest companies. The small and medium sized companies are the furthest behind in undertaking training activities.

The Council on Competitiveness has initiated a major research project on training, with an emphasis on the development of learning technologies, with the belief that they may be the key to improving the ability of the work force to meet the challenges of the future.

Finally, let me mention the role of the government, which has been touched on briefly today. The government has a role to play, obviously, in the creation of a capable work force. There is an effort in Congress and the administration to rationalize government training programs, which would surely be of benefit to dislocated workers.

The Goals 2000 Program, which was initiated by a Republican administration, and endorsed by a Democratic, should continue to serve as a guidepost for improving our educational systems.

The National Skills Standards Initiative, and the School-to-Work Transition Program, both of which were endorsed by our Council in 1993, should be maintained at a level which will assure their effectiveness.

The Manufacturing Extension Partnership, in the National Institute of Standards and Technology, is the only institution today which is systematically reaching out to small and medium sized firms, and should continue to be supported.

And finally, an area which we have not touched on at all—perhaps this Subcommittee would be interested in studying it further in the future—the training experience of numerous government agencies should be shared with the private sector.

This applies particularly to the Department of Defense, where training for readiness is a major budget element, and which has been in the forefront of developing new learning technologies.

At the Council we are now working with several of these government agencies, and with a number of business, labor and professional organizations, to bring about a closer association. I would urge the Subcommittee to develop this issue further.

[The prepared statement follows:]

TESTIMONY OF
HOWARD D. SAMUEL

SENIOR FELLOW, COUNCIL ON COMPETITIVENESS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

JULY 25, 1996

Mr. Chairman and Members of this Committee:

My name is Howard D. Samuel, and since my retirement in 1992 as president of the Industrial Union Department of the AFL-CIO, I have served as a senior fellow of the Council on Competitiveness. The Council, which was founded ten years ago, is a non-profit, non-partisan organization of chief executives from business, labor and higher education dedicated to improving the nation's ability to build a rising standard of living while meeting the demands of the global marketplace.

The Council has formed a Task Force to benchmark best practices in on -the-job training, with a special focus on the deployment of learning technologies to improve workers' skills. Chairing the Task Force are Richard Notebaert, chairman and CEO of Ameritech, George Becker, president of the United Steelworkers of America, and Harold Raveché, president of Stevens Institute of Technology.

It has become clear to the leadership of the Council--as it has to much of the nation--that growing global competition and rapid technological change would require major changes in the American workplace if the nation were to maintain and enhance its standard of living. Indeed, it has become apparent that in today's world, when capital and technology move easily from continent to continent, the structure of the workplace and the ability of the workforce to meet changing conditions may be one of the principal determinants of industrial survival and success.

The company of yesterday usually based its workplace on the principles espoused by Frederick Taylor and Henry Ford at the beginning of the century: "tight divisions of labor and narrowly designed jobs," in the words of MIT Professor Paul Osterman. The auto worker was classified as an installer of front seats or rear seats and didn't switch from one to the other. This eased the responsibility of the supervisor, and gave a certain job security to the relatively unskilled and untrained worker--but it is a far cry from what is required in today's rapidly changing industrial scene.

Today's challenges are different, and tomorrow's will be more so. These challenges include constantly changing technologies and an increasingly demanding customer base, which can shop the world for quality products at a good price. A successful company today must build a flexible work organization, capable of meeting changing customer requirements and taking advantage of changing processes.

A key factor in achieving such a workplace is a well-trained workforce, motivated to commit itself to continuous learning.

The creation of a motivated worker doesn't start at the factory door. A secure family, an effective educational experience in earlier years, and a program which eases the transition from school to work all play vital roles in producing a worker capable of meeting today's challenges. On the job, skill training may not be enough to produce a commitment to

continuous learning. Numerous studies have demonstrated that providing workers the right to participate in the decision-making process is a key element in the high performance workplace. Other practices which bolster the training function may include organizing work through teams in place of the assembly line; a system of gain-sharing or skill-based pay; an assurance of job security; and a reduction of layers of supervision.

Although every company must meet its own special competitive circumstances, there seems to be little controversy over many of these workplace practices. A number of studies, by the U.S. Department of Labor, by numerous scholars at a number of universities appear to demonstrate conclusively that the introduction of high performance practices in the organization of work produces improved productivity and financial returns. Statements by the National Alliance of Business, which is focussed on workplace practices, by the American Society for Training and Development (ASTD), the chief professional organization, and by the AFL-CIO all endorse the need for workers and management to be "partners in change" (NAB) in the high performance workplace.

In addition, numerous case studies have called attention to the success of individual firms which have adopted some or all of these practices. Such companies as Motorola, Xerox, Corning Inc, Hewlett Packard, AT&T and several of the regional Bells, Johnson & Johnson, Eastman Kodak, Magma Copper have been studied and cited as examples of companies which have reaped the rewards of workplace practices which have resulted in a workforce committed to continuous learning. These and other companies which have organized workforces have usually found that their trade union relationships have eased the transition.

But there is another side to this story--a record of companies which have failed to recognize the challenges of today and have not instituted the practices, including training, which underlie business success in our modern age. According to a study by the ASTD in part based on a recently released study by the Bureau of Labor Statistics, in 1983 the U.S. private sector spent $47 billion (in 1995 dollars) for formal, employer-provided training. In 1995, the amount was $55.3 . The ASTD points out that with adjustments for inflation, the amount employers spent on training rose a bit less that 20 percent, while the BLS reports that the workforce has risen by 24 percent.

Business in general appears to be increasing its investment in training, but the increase is slower than the growth of the workforce.

The decline has occurred not so much among large firms, but among small and medium-size business. Firms with 50-100 employees spend about a third less per employee than larger firms. The same studies disclose that workers with less education and fewer skills, as in the past, receive less training. In other words, employer-provided training appears to continue to be focussed more on management and supervision--usually employees with a college education--than on hourly workers on the shop floor.

The BLS/ASTD report occasioned little surprise. Six years ago, the Commission on the Skills of the American Workforce, co-chaired by two former Secretaries of Labor (Bill Brock and Ray Marshall) undertook an exhaustive study which demonstrated the failure of most firms to adopt training and other high performance practices. That study has been substantiated by a number of other studies by numerous university scholars, all testifying that although a growing number of firms have awakened to the need to adopt best workforce practices, there still remain a shockingly large number of companies which have not adopted them at all, or have done so minimally that they are off the charts.

An international comparison, published last year by the Council in its Human Resources Competitiveness Profile, substantiated the problem. The U.S. government spends a far lower proportion of its GDP on job training than many other industrialized countries. In Japan, the percent of workers who receive training is almost 3-5 times higher than it is in the U.S. In Japan, training starts when a worker is hired and continues through his career; in the U.S. training starts later and only increases with a worker's tenure.

Finally, high school graduates receive much less training in the U.S. that they do in France, Germany and Japan.

What of the future? What will be the challenges of the years ahead, when more nations will enter the global economic fray, when technology change will increase its pace, and when both phenomena will be complicated by a U.S. workforce which will probably include more groups--minorities, immigrants--whose disadvantaged background will challenge management? Let me summarize a few of the problems and opportunities that will face all of us in the period ahead:

1. There is ample evidence, statistical and anecdotal, that the educational preparation of our population does not meet the needs of the modern workplace. As a result many companies have difficulty in recruiting adequately educated workers, and more and more companies are obliged to sponsor remedial training programs. There is some evidence that this situation is improving, through the efforts of both the public and private sectors, a partnership that should be encouraged.

2. The changing demography of the workforce could add a burden on American business. A growing number of immigrants will have language problems. Members of minority racial and ethnic groups often face major educational handicaps, and their numbers are increasing. Women have now become a major part of the workforce in virtually every industry, but many women still face the conflicting demands of work and family.

3. Much of American industry, in every major sector, has felt it necessary to impose sharp reductions on its workforce in order to cut costs. At the same time, wages and salaries have remained stagnant for most workers for a number of years. And finally, more and more companies are substituting part-time or temporary workers to fill what used to be full-time permanent positions. Downsizing, stagnant pay envelopes and contingent workforces have had and will continue to have an impact on the ability of managers to maintain morale among their workers and make it more difficult to maintain an environment which encourages a commitment to quality and continuous learning.

4. There is a growing awareness that training and skills are no longer static. New technologies require new skills; training must develop the ability to acquire them. And the effectiveness of training must be measured not by the amount of inputs (hours or money spent), but by the performance improvements of those trained.

5. A factor which will surely have a substantial effect on education and training will be the development of learning technologies. Computer-based training and the Internet, electronic distance learning, interactive systems and performance support systems are the terms of art of the future. They hold the promise of making training faster, cheaper and more effective, and bringing it within the reach of even the smallest companies. As I indicated earlier, the Council of Competitiveness has initiated a major research project into training best practices, with an emphasis on the development of learning technologies, in the belief that they may be the key to improving the capability of the workforce.

I suggested above that some of these challenges can best be met by a partnership of the private and public sectors. Government has an important role to play in assuring that our workforce is equipped to meet the challenges of the future.

For example, there is an effort in Congress and the Administration to rationalize government training programs, which would surely be of benefit to dislocated workers. The Goals 2000 program, which was initiated by a Republican Administration and endorsed by a Democratic, should continue to serve as a guidepost for improving our educational systems. The National Skills Standards initiative and the school-to-work transition program--both of which were endorsed by the Council in 1993--should be maintained at a level which will assure their effectiveness. The Manufacturing Extension Partnership, in the National Institute of Standards and Technology, is the only institution systematically reaching out to small and medium size firms, and should continue to be supported.

Finally, the training experience of numerous government agencies should be shared with the private sector. This applies particularly to the Department of Defense, where training for readiness is a major budget element, and which has been in the forefront of developing new learning technologies. The Council is now working with several agencies and with a number of business, labor and professional organizations to help bring this about.

Chairman CRANE. Thank you, Mr. Samuel.

Mr. Rosen, Motorola has its corporate headquarters located in my district, and they are currently investing about 6 percent of its payroll in training employees, and that, I have been told, is one of the highest levels in the entire country.

What would you suggest to encourage other companies to follow that kind of an example? I mean, I have heard nothing but high compliments back home on what Motorola has been doing.

Mr. ROSEN. Yes, Mr. Chairman, I note that example in my written testimony, in the context of the term high performance workplaces. This is a term of art which has been used over the last 2 years, and I am reminded of the Supreme Court Justice, who said, when asked about pornography, "I do not know how to define it, but I know it when I see it." Well, that is a "high performance workplace." There are many explanations of what it really is, but Motorola just puts its money where its mouth is, and trains its workers. And it pays off, the company is better because of it.

Now, the key question, as you ask, is, by now everyone should know that story, so why are not other companies following Motorola's example? And in part, I think it goes to a bigger set of issues, which is that not all corporations share Motorola's, committment to investing in their workers, and their long-term vision for the company. It takes a lot to try to change that, and I do not know who is responsible for changing that kind of thinking. It really should come from within the company.

But again, I would have to say we need to keep getting that message out there, and bringing out the success stories. You have provided an opportunity to do that today. I applaud you for having these hearings today but I do not think we have heard anything new. The key is we have to get this message out to the people. Maybe what needs to be done, as an example, is for the Business Round Table to devote one of its meetings to this issue, and Mr. Weill to tell his story. Then another CEO may ask himself why don't I do that? And he calls his aide over and he says, "look into that, I want to do that—I want to be like that guy."

Unfortunately, there are not many people here today to hear Mr. Weill's story, and to congratulate him for his efforts. There are no TV camera crews, and he will not get recognition, outside this room. Please do not misunderstand me. I applaud the Subcommittee for what you are doing—and we need to have more of this kind of meeting.

And like I said, the Motorola example is clearly documented. It is there, we know it works, and it is something that I would think every businessman who is interested in the future of their company should want to emulate.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Mr. Rosen, I do not know at what point of the hearings you arrived, but in the opening statement, and throughout the hearings, I have been trying to stress that the chairman has agreed to have these hearings as exploratory hearings, not only to hear what is happening out there, but to see how we can have them all come together, to hear what each other is doing, and what way, if

any, the Federal Government policymakers can be of more assistance to them.

And also to make certain that they have a forum to applaud what is working, and to share with us any of there own accomplishments.

This is really a beginning. We are going to have the opportunity to get together with educators, as well as producers in the private sector, and if I said it a million and one times, it is that I am convinced that it will be the voice of the private sector that will be far more effective than those of us who have to be concerned about 2-year terms, and whether this vote appears to be fair for all of our constituents, as opposed to, what does our Nation specifically need, and how can we provide that service.

Mr. ROSEN. Mr. Rangel, I would like to offer all of the resources of the Council to help you in your efforts, in the meetings that you want to hold in the fall.

We are certainly prepared, because this is exactly what we are all about.

Mr. RANGEL. Accepted.

Mr. ROSEN. And anything we can do to help you, we would be more than happy to.

Mr. RANGEL. Accepted.

Mr. ROSEN. But if you were to ask me what the government should do, I would say "be consistent." The problem has been that the government steps in and then steps out, in and then out. For example, we heard a big cry about a "Nation At Risk" in 1984. Nothing has really changed since that report was published, and yet the policy has gone back and forth since then.

Mr. RANGEL. Mr. Rosen, you are the only person here that is more excited than I am. I am not concerned about what we have tried to do and have failed, because you and I are agreeing that we are doing a political thing.

What I want is for businesspeople—I mean, it is just like with research and development—I want it to be that important that when you plan what you have got to be there for you.

But I would want—I am a politician, so I want all of the voices in business to be saying this, and not just you and not me.

Mr. ROSEN. Right.

Mr. RANGEL. And I am convinced that when they know it is not only good for their balance sheet, good for their company, good for the industry, but good for the country, that we will find what you are talking about—consistency—because their voices will not only be in the education community, and talking with administrators, it will be here, where tax and economic policy is set.

So, I welcome——

Mr. ROSEN. But my point is that they are not getting a consistent message. Right now we are being told that the economy is doing well, and we do not have any problems. So why would we need to do anything if we do not have any problems? The message keeps changing. The challenge of raising living standards is a continuous challenge. It is not something that will go away tomorrow, so we have to keep working at it, and always keep improving ourselves. That is the message we should be sending out.

Mr. RANGEL. Well, we are not sending any messages out today, we are just trying to find a solution to a very serious problem, and I hope you would at least recognize that those Members who are here do recognize there is a problem, and you will be hearing from us.

Mr. Bailey, in your research—Columbia is not only in an empowerment zone, but has contributed a great deal to make certain that our proposal was in shape in order to be designated—in your research in bringing the public school system closer in line with the needs of industry, have you been able to fold in the tax incentives that are involved in empowerment zones?

Mr. BAILEY. Well, the research that we have done has not so far, analytically, included that.

Mr. RANGEL. Well, whom can I get from Columbia who is a partner to include that, to see if it works in empowerment zones, whether or not it could work in other communities.

Mr. BAILEY. Sure. Some of the schools that we are looking at are involved in the empowerment zone, and that is an ongoing aspect of the research.

Mr. RANGEL. Would you know any of those schools that would be in my congressional district?

Mr. BAILEY. I am not sure which ones, exactly, are in your district.

Mr. RANGEL. Could you find out.

Mr. BAILEY. I could find out, absolutely. Yes.

Mr. RANGEL. Good.

Mr. BAILEY. That is no problem.

Mr. RANGEL. And I want Columbia to be working very closely with us, not just in studies, but in implementing what we are going to come out here with. I would like for Columbia to play a big role in this.

Mr. Samuel—and I will need your organization, because you transcend the whole thing. You have problems—I mean, you are dealing with policy, but you are also dealing with policymakers.

And we hope to have such an impact that we are going to be included as policy makers, because you are going to have the largest firms in the world, the largest bureaucracy in the world, and a Congress, at least this Subcommittee, we are going to have to work together, all of us.

So that is the good news. But if you have not done any work on it, would you consider how unions would be able to—we will be able to give assistance to unions, and union leaders, to get whatever training and support they need, when they know that their primary job is to protect the workers who have paid dues to them to protect those jobs.

Now, there comes a time when everyone will know that, not only have those jobs been exported through sound treaties, but that low-skill jobs are just not going to exist.

And of course, a lawyer has to know when to tell the client that he has done the best he can for the client. And we have to politically be able to tell the labor leaders that there is no turnaround with the direction in which the world and this country is going.

But that does not mean that you should just give up on your job, or your clients, or your members, because we are going to do something to make certain that you can continue to be productive.

Mr. Samuel, I do not know what that something is, but in the course of your work and study, has that question ever come up?

Mr. SAMUEL. Mr. Rangel, I spent 45 years in the labor movement before I retired in 1992, and I can tell you that even by that time, much less by this time, I do not believe there is a single responsible trade union leader in the country who is not fully aware that global competition and technological advances have changed the workplace forever.

My own union—it used to be called the Amalgamated Clothing Workers, and it is now called UNITE, Union of Needletraders, Industrial, and Textile Employees—in 1975 started a program with Professor John Dunlop of Harvard University, to improve the technologies in the apparel industry, which for years had been considered to be immune to technological change.

And the leadership of my union understood that if we did not bring technology into that industry, even though we knew it would cost jobs, that eventually there would be no jobs at all, there would be no industry.

That is true in every single major industry today, whether it is a service industry or a manufacturing industry. You will find in many of the major ones, like communications and auto and machinists and others, that there are joint training programs undertaken to ease the change of workers from an old fashioned system—the old Taylor, scientific management, assembly line system—to the system of today and tomorrow, which involves organization of work into teams, employee involvement, employee information.

That is happening throughout the labor movement, and incidentally, has been endorsed by the AFL/CIO itself—I think it was back in 1991.

Mr. RANGEL. I am going to staple you to some of these trade bills, because my mother was a member of International Ladies Garment Union, which united with your union, which became UNITE, and it was a door for all immigrants. It is a low-skill job, it provided to hope—you could send your kids to CCNY, and now those low-skill jobs are not there.

What would you tell Jay Mazur today?

Mr. SAMUEL. What could I tell whom?

Mr. RANGEL. The president of UNITE. The question is, that the jobs are going to go, and it is a question of time, in competing with the Caribbean and China and the rest of the countries, can we not offer a cushion, a transition or something, so that those who are working, and young, can be trained to do something else?

Mr. SAMUEL. Oh, by all means, and I think you will find——

Mr. RANGEL. What should we do?

Mr. SAMUEL. As you well know, the labor movement has been in these halls of Congress for many years, urging the strengthening of our unemployment insurance system, of our dislocated training programs, and trade adjustment assistance; urging the strengthening even of such laws as the minimum wage, which just took place here.

So, I think there are a number of ameliorating factors which can take place. And as a matter of fact, in looking at trade, although this meeting does not deal with trade, we have also made suggestions regarding allowing the industries to adjust to major changes in trade, a major loss of internal markets.

And we have also urged very strongly that we take stronger action to open up foreign markets, which are closed to our products, to improve exports.

Mr. RANGEL. My time has expired. Are you in New York or in Washington?

Mr. SAMUEL. Most of the time I was in New York; I came here 20 years ago.

Mr. RANGEL. I mean, where—you live in Washington?

Mr. SAMUEL. Yes, I live in Washington now.

Mr. RANGEL. OK. I would like to make an appointment with you, because I am going to need your advice. If I am going to be as aggressive in promoting world trade, I know that we are going to lose a lot of jobs in the transition, as the newly created jobs are there.

And you having thought it out from the union's point of view, and now from the Nation's point of view, I am going to need the benefit of your thinking as to how we can best do that.

Mr. SAMUEL. Well, I will not spend too much time at this point. I would suggest to you that the Congressman who is sitting next to you and I have been—we used to be associated for many years in an organization called LICIT, the Labor Industry Coalition for International Trade, and one of the things LICIT has looked at are various ways in which the effects of trade can be cushioned, so that average workers can ease in the transition.

I remember years ago, when they were calling it the Massachusetts miracle, forgetting about the fact that when the Massachusetts miracle took place, there had been about 25 years during which time there was no Massachusetts miracle, between the time the textile and the shoe companies had left Massachusetts, and the high tech companies came in. They were 25 years of misery.

We have been doing better recently, and I think we can do better in the future.

Mr. RANGEL. Great panel. Thank you for your contributions.

And thank you, Mr. Chairman.

Mr. HOUGHTON [presiding]. Thanks very much, Mr. Rangel.

Mr. Coyne.

Mr. COYNE. Nothing.

Mr. HOUGHTON. Nothing.

Look, I have got a lot of questions, but I will get them to you gentlemen later.

[The questions and answers were not available at the time of printing.]

Thank you so much for what you have done. I mean, I think this question that you brought up, Mr. Rosen, if training is so good why do we do so little? gets to the heart of this whole thing.

Who does it, how do we get it done, and how do we incite?

Thanks very much.

Mr. ROSEN. Thank you.

Mr. BAILEY. Thank you.

Mr. SAMUEL. Thank you, Congressman.

[Whereupon, at 3:04 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Center for the Study of Economics

2000 Center Plaza, #238
Columbia, MD 21044
Tel. (410) 740-1177
Fax (410) 740-3279

WRITTEN TESTIMONY OF **STEVEN CORD**
BEFORE THE
SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS & MEANS
7/25/96, 11 A.M., 1100 LONGWORTH BLDG.

STEVEN CORD has no clients and is appearing on his own behalf and that of the Center for the Study of Economics.

The global trade competitiveness of the U.S. work force will be much improved if the price of American exports is not increased by taxes. That is clear enough, but if taxes on producers are reduced, how then shall the federal government support itself? By taxing more something of value which is not humanly produced - i.e., the locational value of land.

In fact, if land values are taxed more, land owners will be encouraged to develop their land-sites more, thereby providing new jobs and economic growth. Here, then, is a revenue source which promotes not hinders economic growth! It is **tax-free** economic development (tax-free because only a tax shift from produced goods and services is shifted to something which is not produced).

Why would land owners be encouraged to develop their land-sites more efficiently? Because that is the only way they could get enough income to pay the higher land value tax (plus a profit for the enhanced improvement).

It is possible for the federal government to levy such a tax to replace taxes on producers, and it is also possible for state and local governments to levy a land value tax. But implementation problems are best handled by contacting this organization directly; we have closely studied the problems of the philosophy and implementation of land value taxation for many years.

If we truly want U.S. workers to be more productive and if we truly want to enhance U.S. trade competitiveness, then we shouldn't tax production. We should tax the locational value of land instead. So also say seven recent American Nobel Prize winners in economics (see attachment).

November 1991

Incentive Taxation

Seven Nobel Prize Winners Endorse Land Value Taxation

The headline is correct. If we had eight, would you be more impressed, and even more important, moved to action?

Milton Friedman: "I share your view that taxes would be best placed on the land, and not on improvements."

Herbert Simon: "Assuming that a tax increase is necessary, it is clearly preferable to impose the additional cost on land by increasing the land tax, rather than to increase the wage tax - the two alternatives open to the City (of Pittsburgh). It is the use and occupancy of property that creates the need for the municipal services that appear as the largest item in the budget - fire and police protection, waste removal, and public works. The average increase in tax bills of city residents will be about twice as great with wage tax increase than with a land tax increase."

Paul Samuelson: "Pure land rent is in the nature of a 'surplus' which can be taxed heavily without distorting production incentives or efficiency." A land value tax can be called "the useful tax on measured land surplus."

James Tobin: "I think in principle it's a good idea to tax unimproved land, and particularly capital gains (windfalls) on it. Theory says we should try to tax items with zero or low elasticity, and those include sites."

James Buchanan: "The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes."

Franco Modigliani: "It is important that the rent of land be retained as a source of government revenue. Some persons who could make excellent use of land would be unable to raise money for the purchase price. Collecting rent annually provides access to land for persons with limited access to credit."

Robert Solow: "Users of land should not be allowed to acquire rights of indefinite duration for single payments. For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government equal to the current rental value of the land that he or she prevents others from using."

The current president-elect of the American Economics Association, **William Vickrey**, also endorses land value taxation: "It guarantees that no one dispossesses fellow citizens by obtaining a disproportionate share of what nature provides for humanity."

The endorsements from the last three economists named above were taken from a letter dated November 7, 1990 to Mikhail Gorbachev signed by 30 prominent U.S. economists.

STATEMENT OF
DR. EMMETT C. MURPHY, Ph.D.
E.C. MURPHY, LTD.

Please accept the following written statement in support of the U.S. Trade Competitiveness and Workforce Education and Training hearing which was conducted on July 25, 1996.

This testimony is submitted on behalf of the proceedings of the Subcommittee on Trade of the Committee on Ways and Means for inclusion into the printed record of the above-mentioned hearing. Dr. Emmett C. Murphy, Ph.D. forwards this document as formal exhibit material on behalf of E.C. Murphy, Ltd., an international healthcare research, management consulting, and educational services firm specializing in the quality improvement and work-redesign of organizations.

* * * * *

During the course of E.C. Murphy, Ltd's (hereafter referred to as E.C. Murphy) 25-year history, the company has worked with more than 400 hospitals and healthcare organizations throughout Canada, the United States, and Europe. E.C. Murphy has established a prestigious reputation built on the scientific inquiry and investigation of the nature of leadership and organizational productivity, particularly in the healthcare field.

Perhaps the greatest challenge facing today's leaders -- regardless of what happens with the various budgetary reductions in the near future -- is the need to continuously improve and restructure business operations to keep their organizations competitive for the long-term.

To maintain or improve their organization's competitive position, today's leaders must improve the efficiency and cost effectiveness of their organization's operations by educating their employees. This requires preparing the organization for change, assessing the organization's current operations, diagnosing concrete opportunities for improvement, retooling their managers to implement change, taking action, evaluating the results and continuously improving the integrity of the work-redesign process.

Two major studies undertaken by E.C. Murphy and their findings are detailed in this report, as well as supporting commentary on how the results of those analyses are being benchmarked to identify further opportunities to improve the competitive nature of the American workforce. These studies have gained national attention and exposure in *USA Today*, *Modern Healthcare* and *Congressional Proceedings on Healthcare Reform*.

Dr. Murphy, an organizational psychologist by training, has spearheaded the development of an extensive database which contains input from more than 280,000 workers from a variety of U.S. and foreign organizations. Through data-driven research, E.C. Murphy has developed state-of-the-art management and technologies that provide leaders with concrete answers about work-redesign, operational restructuring and cost reduction.

Dr. Murphy has provided management development, executive selection, labor relations, crisis management, and operational reengineering advice to such Fortune 500 companies as IBM, General Motors, AT&T, Sears, Xerox, Johnson & Johnson, and McDonald's. He has also been retained by a number of financial institutions (e.g., Chase Manhattan Bank and Chemical Bank), and has consulted utilities (e.g., Bell Telephone, Illinois Bell), transportation companies (e.g., American Airlines, Amtrak), federal, state, and municipal government (e.g., Defense Intelligence Agency, U.S. Centers for Disease Control, City of New York), insurance agencies (e.g., Massachusetts General Life), professional organizations (e.g., The American Management Association), and institutions of higher learning (e.g., M.I.T., Syracuse University, and George Washington University).

* * * * *

To gain an understanding of how American businesses, and in particular the healthcare industry, can become more cost-efficient and competitive globally, while advancing levels of quality and productivity, E.C. Murphy first analyzed the inherent work inefficiencies of several hundred organizations through statistical analysis. It then developed tools to correct those work problems and finally, implemented a solution that involved a continuous improvement strategy.

The results of an October 1993 study conducted by E.C. Murphy indicate that hospital downsizing may increase patient mortality. Although these findings are not unusual, the subsequent analysis found that hospitals that downsized their staffs without redesigning the *work functions* of employees actually had the potential to increase patient mortality and morbidity (emphasis added).

The study compared the staffing structures of 281 general acute care hospitals nationwide with Medicare mortality and morbidity data from the Health Care Financing Administration for 1990. Staffing levels (using the standard industry measure of full-time equivalent employees per adjusted occupied bed {FTEs} and the methodology used in downsizing, if any) were identified through interviews with 502 financial and operational executives in these hospitals.

The study determined that hospitals that made across-the-board staff reductions of 7.75 percent or more in response to financial pressures - 9.5 percent of the sample size - were 400 percent more likely to experience an increase in patient mortality and morbidity than other hospitals.

A second part of the study examined the work practices of 72,250 healthcare workers to evaluate the relationship between the organization of work and the consequences of restructuring.

This research clearly demonstrated that healthcare work systems are extremely complex and wasteful. In comparison with a control group of more than 1,300 workers and managers from business and industry, virtually every healthcare work role - from the CEO to the floor nurse - was found to be 100 to 800 percent more complicated, either in terms of the scope of resources to be managed or the work activities to be performed.

The complexity of healthcare operations creates a great potential for waste and confusion, considering that the average healthcare worker reported that 31 percent of their time was wasted through paperwork, rework, duplicate work, or inappropriate work. This consumed more than $65 billion of the $384 billion spent for healthcare in hospitals alone, and this total today is much higher.

Taken together, these results suggest a strong relationship between the organization of work and increased mortality and morbidity. When staff size is reduced without redesigning the work, waste is merely compacted, not eliminated. Fewer people are left to grapple with the same inefficient procedures and complexity, which leaves even less time for patient-focused activities.

When E.C. Murphy completed its next study in March 1995, it clearly indicated that hospitals that used used "data-driven work-redesign" methods to reduce staff levels experienced sustained cost-savings, no increases in patient mortality and morbidity rates, improved perceptions of the quality of care by patients and physicians, and produced higher rates of leadership retention.

The study examined more than 300 organizations, including 117 general acute care hospitals, with total employment in excess of 170,000 healthcare workers. There were 23 hospitals in this group that reduced their annual operating costs by 4 percent to 10 percent in a single year. The question: is it possible to cut costs and preserve -- or actually improve -- the quality of patient care?

Across-the-board cuts eliminate a given number of positions to save money, leaving fewer people to do the same volume of work. On the other hand, work-redesign changes the skills mix in an organization or department, placing people with certain levels of training and pay to perform work at corresponding levels.

Organizations which make across-the-board staff cuts not only put their patients at risk, but their leaders as well. In fact, 48 percent of the CEOs in the March 1995 study who implemented an across-the-board downsizing strategy were no longer employed by their organization 18 to 24 months after cutbacks.

In contrast, the turnover rate for CEOs that initiated a process of work-redesign was 11 percent, and half of this turnover was the result of CEOs who were promoted or moved on to other favorable positions.

All of the organizations examined in the March 1995 study analyzed work processes across all lines and levels, and produced data that was benchmarked against nationwide best practices. This comparison identified specific role, cost center and organization-wide work-redesign, or staff reduction, opportunities.

A year after completing this second study, 90 percent of the hospitals kept the costs out, while 70 percent were able to remove additional costs in the range of 3 percent to 8 percent of annual operating costs. Perhaps equally important, 80 percent of all of the hospitals in the study reported an improvement in the assessment of quality by patients and physicians, and more than 70 percent said their employee's perceptions also improved.

While sustained cost savings are attainable using work-redesign methods, this research shows that across-the-board staff cutting actually prevents long-term cost savings and impedes worker productivity and efficiency.

Savings generated by across-the-board cuts seem to be lost within 12 to 18 months, because there is a "backfill effect" that occurs as managers and workers - including unions - fight back and challenge the judgment of senior managers, especially if leadership has employed heavy-handed outside consultants.

The research study in March 1995 has shown that leaders who followed a data-driven process to restructure their operations to become more efficient and cost-competitive were seen as more credible and obtained a much higher buy-in from their staff. These leaders were praised for insight, responsibility and toughness. By fostering a thorough analysis of their organizations, these leaders were seen as more courageous and more willing to face the challenge than those described as "cut and run types."

The findings of the October 1993 and March 1995 research studies suggest that business and healthcare organizations under fiscal pressure and budgetary constraints must be cautious of using any method of workforce downsizing that does not leave an organization with the right people, doing the right job, at the right time.

To build and maintain a cost-competitive and dedicated workforce requires a specific set of tools and a thorough understanding of the actual work performed by American workers.

Using the above strategy, American businesses can become more cost-efficient and competitive internationally. This approach is a collaborative one, designed to empower business with concrete tools and techniques to become in-house experts in work redesign and change management.

In addition to evaluating the organization's cost structure, service delivery, and worker productivity, training employees to become agents of change is the key to the success of any business becoming more competitive. The most effective means to accomplish this task is through the application of a moral compass and sound leadership ability.

As an outgrowth of the vast body of knowledge it has accumulated in helping hundreds of organizations successfully restructure to reduce costs and improve productivity, E.C. Murphy has also conducted the most comprehensive empirical study of leadership. Published in his third book, *Leadership IQ*, Dr. Murphy reports the results of a five-year research study to determine the common characteristics of the world's most accomplished leaders.

Analyzing the beliefs and practices of more than 18,000 managers at 562 large and small organizations in the United States and around the world, the study identified 1,029 individuals who demonstrated exceptional leadership abilities and then isolated the qualities that made those leaders great.

Those leaders that are considered superior in the eyes of their colleagues and that produce superior levels of customer satisfaction, productivity and financial performance are those that approach work very differently than average leaders. They master a core set of competencies including pragmatism, optimism, commitment, responsibility, humility, and an understanding of the importance of individual competence.

It was also found in this five-year substudy, that average leaders, by contrast, tend to believe their achievements lay beyond their control, rely on others to lead them to success, and have a difficult time breaking free from the bureaucracy of their organizational structures to focus on problem solving and instilling pride in their employees.

To maintain the competitive edge it has in many areas (e.g., technology, communication and transportation) and to gain it in others, American business must continue to retool and restructure to meet ever-increasing competition from abroad. Increasingly, they must also restructure their workers, especially their leaders. A key in each of these areas is a clear understanding of work at the individual, group and corporate levels. E.C. Murphy's work with hundreds of businesses of every size and stripe has given it some unique insights in this regard.

Statement by
Stephen E. Lamar*

Before the House Ways and Means Trade Subcommittee

in response to its request for comments on

US Trade Competitiveness and
Workforce and Education Training

Thank you for providing an opportunity to submit a statement on the relationship between US Trade Competitiveness and Workforce and Education Training.

Clearly, workforce training programs play an integral role in maintaining and enhancing US skills to meet international competitive pressures. Whether supported by the federal government, by individual states, or by private companies, education and training programs serve as a tangible investment in human capital that is often among the most important investments made. When properly administered, training programs serve as a catalyst for entrepreneurship and provide the flexibility necessary to help firms and individuals adapt to the marketplace.

Unfortunately, a lopsided provision of US trade law --- the Trade Adjustment Assistance (TAA) program, which provides training for workers displaced by trade -- actually undermines US competitiveness by distorting the public understanding of the benefits of free trade. If left unbalanced, this provision could upset the trade agenda for years to come.

To understand why, the TAA has this effect, one has to look at the character of the trade debate in recent years. Assessments on the North American Free Trade Agreement (NAFTA) and the renewed debate over China's most-favored nation (MFN) trading status have focused considerable attention on the relationship between trade liberalization and the creation of American jobs. Although this relationship has long been accepted as the basis of a bipartisan trade agenda, it has also been soundly criticized by those who disagree with the notion that free trade is in the US national interest.

During the past year, for example, NAFTA critics led by Pat Buchanan and Ross Perot, have angrily denounced that trade agreement by pointing to job losses, factory shut downs, and Mexico's growing trade surplus with the United States. NAFTA proponents have countered by making equally anecdotal claims of jobs that NAFTA has saved or created, factory openings, and Mexico's irreversible commitment to market-oriented economic reform.

Both sides have often backed up their claims with a well-used Reagan-era equation which holds that $1 billion in new exports generates roughly 20,000 US jobs. NAFTA proponents look at in increase of roughly $5 billion in exports to Mexico since NAFTA took effect and see 100,000 new American jobs. Applying the statistic in reverse, which is not entirely accurate since Mexico's exports to the United States can displace imports from other countries as well as domestic production, NAFTA opponents look at an increase of $22 billion worth of imports from Mexico during that same period and see 440,000 lost American jobs.

Fair enough. But NAFTA critics have been able to employ another statistic with surprising effect. The NAFTA implementing legislation contains a

---

* Mr. Lamar is Vice President at Jefferson Waterman International, a government relations consultancy firm that advises foreign and domestic clients on US and international trade policy.

mechanism -- known as NAFTA trade adjustment assistance (TAA) -- under which the Federal Government actually certifies the number of jobs lost or in danger of being lost because of increased imports from Mexico (but not necessarily as a result of NAFTA). The provision is based on a similar TAA program that applies to imports from all over the world.

To be balanced, these TAA provisions are intended to provide job retraining assistance and other benefits for individuals who lose their jobs when the economy reorients itself to the disciplines of trade liberalization. Some in Congress have proposed abolishing this assistance as a way to save money. Such programs may be necessary, however, both to soften the blow that trade liberalization may hold for some highly-protected industries and to gain some political support for a pro-free trade agenda from organized labor interests.

Unfortunately, a side effect is that these programs disproportionately highlight the job-destroying effects. Because US workers and employers have an obvious incentive in reporting such job disruption to the Federal Government -- the displaced worker receives federal aid from the Government, in addition to unemployment insurance, to help locate a new job -- the TAA programs are used as a barometer of the kind and number of jobs lost through the effects of free trade.

As a result, NAFTA critics can announce with stunning precision that imports from Mexico have resulted in 71,125 job losses from January 1994 to May 1996. While NAFTA proponents can downplay the relevance and size of this statistic, they cannot avoid the fact that, with each passing month, the Labor Department is busily certifying more and more US workers as being threatened by US imports from Mexico. To make matters worse, no similar mechanism exists to certify the job-creating effects of NAFTA's trade liberalization. This means that, according to official US Government certifications, NAFTA will always trigger a net loss of US jobs.

What's needed is a program to balance the TAA statistics and certify the job-creating effects of trade liberalization. By developing an incentive to report the creation of new export-related jobs, the government can more accurately record trade-related employment statistics -- both the losses and the gains -- nationwide. Without such a mechanism, free trade proponents will find themselves at a disadvantage as they seek to defend US trading relationships -- be they with Mexico, China, or other markets -- for many years to come.

One idea is to allow for US-based firms to receive a nominal tax credit for each export-related job it has created in the United States during the previous year. While it may be difficult to structure such a program to conform to our obligations under international trading regimes, which prevent most export-related subsidies, this kind of program would provide a clear incentive for US firms to report their export-related job growth.

Similarly, the Government could initiate a TAA-comparable program to provide training directly to employees who have recently been hired because of increased exports. In this way, we can help employees sharpen their skills to remain competitive and keep their jobs as they respond to inevitable changes in the world marketplace.

Another possibility might be to establish a block grant program that can be used to support the export promotional or job training efforts of states that can certify trade-related job growth. Under such a scheme, a state government would receive federal export or job training dollars based on the number of new export-related jobs that were created in the state during the previous 12 months. Such a program may make budgetary sense as well since it would channel export promotional and educational dollars to the states most able to use this assistance.

Whatever the program, it is clear we need to fundamentally alter the way we view trade agreements. Current Congressional budgeting rules already overstate the fiscal cost of trade legislation. It is truly a shame that job retraining laws understate the employment benefits of trade initiatives as well.

U.S. TRADE WITH SUB-SAHARAN AFRICA

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

AUGUST 1, 1996

Serial 104–90

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

43–830 CC WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055980-4

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, NEW YORK

PHILLIP D. MOSELEY, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON TRADE

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California
E. CLAY SHAW, JR., Florida
AMO HOUGHTON, New York
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JENNIFER DUNN, Washington

CHARLES B. RANGEL, New York
SAM M. GIBBONS, Florida
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts

CONTENTS

	Page
Advisories announcing the hearing	2

WITNESSES

Office of the U.S. Trade Representative, Hon. Jeffrey M. Lang, Deputy U.S. Trade Representative	30
U.S. Department of State, Hon. George E. Moose, Assistant Secretary of State for African Affairs	98

Bucknam, William E., MWI Corp., Deerfield Beach, FL	132
Constituency for Africa, Melvin P. Foote	139
Corporate Council on Africa, Mima Nedelcovych	123
Databank Financial Services, LTD., Accra, Ghana, Kenneth Ofori-Atta	56
Foote, Melvin P., Constituency for Africa	139
Harvard Institute for International Development, Cambridge, MA, Jeffrey Sachs	71
Jefferson, Hon. William J., a Representative in Congress from the State of Louisiana	22
Manchester Trade, LTD., Stephen Lande	115
McDermott, Hon. Jim, a Representative in Congress from the State of Washington	8
MWI Corp., Deerfield Beach, FL, William E. Bucknam	132
National Foreign Trade Council, Daniel A. O'Flaherty	87
Nedelcovych, Mima, Corporate Council on Africa	123
O'Flaherty, Daniel, U.S.-South Africa Business Council, and National Foreign Trade Council	87
Ofori-Atta, Kenneth, Databank Financial Services, LTD., Accra, Ghana	56
Sachs, Jeffrey, Harvard Institute for International Development, Cambridge, MA	71
Samuels International Associates, Inc., Michael A. Samuels	82
Tilton, Douglas, Washington Office on Africa	146
U.S.-South Africa Business Council, Daniel O'Flaherty	87
Washington Office on Africa, Imani Countess; as presented by Douglas Tilton	146

SUBMISSIONS FOR THE RECORD

U.S. Department of Commerce, Hon. Lauri J. Fitz-Pegado, Assistant Secretary and Director General, U.S. Commercial Service, statement and attachments	179

American Apparel Alliance, and National Knitwear and Sportswear Association, New York, NY, Seth M. Bodner; American Apparel Contractors Association, Atalanta, GA, Sue Strickland; Atlantic Apparel Contractors Association, Bethelehem, PA, Arnold Delin; and Korean Apparel Manufacturers Association of Greater New York, Chong E. Hwang, joint letter	196
Ghana, Government of, His Excellency Ekwow Spio-Garbrah, Ambassador, statement	198
Hwang, Chong E., Korean Apparel Manufacturers Association of Greater New York, joint letter	196
Hicks, John F., U.S. Agency for International Development, statement	227
Jefferson Waterman International, Stephen E. Lamar, letter	207

Page

Korean Apparel Manufacturers Association of Greater New York, Chang E. Hwang, joint letter (see listing under American Apparel Alliance) 196
Lamar, Stephen E., Jefferson Waterman International, letter 207
Madagascar, Government of, Economic Committee of the African Ambassadors' Group, His Excellency Pierrot J. Rajaonarivelo, Ambassador, statement 210
Mauritius Sugar Syndicate, and Mauritius-U.S. Business Association, Inc., joint statement 220
National Knitwear and Sportswear Association, and American Apparel Aliance, New York, NY, Seth M. Bodner, joint letter (see listing under American Apparel Alliance) 196
Rajaonarivelo, His Excellency Pierrot J., Ambassador, Economic Committee of the African Ambassadors' Group, Government of Madagascar, statement 210
Spio-Garbrah, His Excellency H.E. Ekwow, Ambassador, Government of Ghana, statement 198
Strickland, Sue, American Apparel Contractors Association, Atlanta, GA, joint letter (see listing under American Apparel Alliance) 196
U.S. Agency for International Development, John F. Hicks, statement 227

U.S. TRADE WITH SUB-SAHARAN AFRICA

THURSDAY, AUGUST 1, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:10 a.m., in room 1100, Longworth House Office Building, Hon. Phillip M. Crane (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
June 28, 1996
No. TR-26

CONTACT: (202) 225-1721

Crane Announces Hearing on U.S. Trade with Sub-Saharan Africa

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S. trade with the countries of Sub-Saharan Africa. The hearing will be the fourth in a series that the Subcommittee is holding throughout 1996 on the status and future direction of U.S. trade policy. **The hearing will take place on Tuesday, July 16, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

BACKGROUND:

At present, 29 of the 48 countries in Sub-Saharan Africa are members of the World Trade Organization. Last year, overall U.S. exports to the region were valued at $5.4 billion, while U.S. imports totalled $12.7 billion. Prior to the expiration of the Generalized System of Preferences (GSP) on July 31, 1995, virtually all countries in Sub-Saharan Africa qualified for duty-free entry on a wide range of products. In 1994, however, the last calendar year in which the program was in effect, GSP imports from Sub-Saharan Africa totalled only $329 million, a figure representing less than 2 percent of all U.S. imports under the GSP program.

In 1994, Congress passed the Uruguay Round Agreements Implementing Act, which contained a provision requiring the President to produce a comprehensive trade and development policy for the countries of Africa. The first of the five reports called for in this legislation was submitted to Congress on February 5, 1996. Among other things, the President's report proposed the creation of the Africa Trade and Development Coordinating Group, an interagency group to be co-chaired by the National Security Council and the National Economic Council.

In announcing the hearing, Chairman Crane stated: "With a combined population of nearly 600 million people, Sub-Saharan Africa has the potential to become a major export market for U.S. goods and services. Current foreign aid programs, however, have failed to establish the private sector foundation that is necessary to serve as the catalyst for Africa's development. I look forward to this opportunity to hear testimony on how we can initiate and pursue a mutually beneficial trade relationship with the countries of Sub-Saharan Africa."

FOCUS OF THE HEARING:

The focus of the hearing will be to review the status of trade relations between the United States and the countries of Sub-Saharan Africa, including the opportunities and obstacles that currently exist. In addition, the hearing will explore possible ways for the United States to expand and facilitate our trade relations, as well as develop new trade opportunities, with Sub-Saharan Africa.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Monday, July 8, 1996. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

(MORE)

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. *The full written statement of each witness will be included in the printed record.***

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 10:00 a.m. on Friday, July 12, 1996.** Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Tuesday, July 30, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

*****NOTICE -- HEARING POSTPONEMENT*****

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
July 15, 1996
No. TR-26-Revised

CONTACT: (202) 225-6649

Crane Announces Postponement for Hearing on U.S. Trade with Sub-Saharan Africa

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced a postponement of the hearing scheduled for Tuesday, July 16, 1996, on U.S. Trade with Sub-Saharan Africa. (See Subcommittee on Trade press release No. TR-26, dated June 28, 1996.)

A new date for the hearing will be announced in the near future.

*****

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
July 19, 1996
No. TR-29

CONTACT: (202) 225-6649

Crane Reschedules Hearing on U.S. Trade with Sub-Saharan Africa

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee has rescheduled the hearing on U.S. trade with the countries of Sub-Saharan Africa. The hearing will be the fourth in a series that the Subcommittee is holding throughout 1996 on the status and future direction of U.S. trade policy. **The hearing will take place on Thursday, August 1, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.** This hearing was previously annnounced in the Subcommittee on Trade press release No. TR-26, dated June 28, 1996.

FOCUS OF THE HEARING:

The focus of the hearing will be to review the status of trade relations between the United States and the countries of Sub-Saharan Africa, including the opportunities and obstacles that currently exist. In addition, the hearing will explore possible ways for the United States to expand and facilitate our trade relations, as well as develop new trade opportunities, with Sub-Saharan Africa.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

As indicated in press release No. TR-26, the final date for submitting requests to testify orally was Monday, July 8, 1996, and testimony will be received only from those public witnesses who have already requested to testify. Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Thursday, August 15, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

Chairman CRANE. Good morning. I want to welcome our witnesses and guests to this hearing of the Trade Subcommittee on trade expansion between the United States and the countries of sub-Saharan Africa.

For many years the United States has supported a variety of foreign assistance programs that have sought to aid the countries of sub-Saharan Africa. Unfortunately, traditional foreign aid has not led to the level of economic development that we would all like to see today on the African continent. In the long run, private sector investment and development must serve as the catalyst for the countries of sub-Saharan Africa to compete in the global marketplace and to improve the standard of living for their citizens.

With a combined population of nearly 600 million people, sub-Saharan Africa can and should become a major export market for U.S. goods and services. However, the region's immediate potential does not seem to be reflected either in the investment decisions of individual businesses or in the U.S. Government's export development priorities, including high-profile trade missions.

In this context, I believe it is time for us to re-examine the nature of our relationship with sub-Saharan Africa and to focus our attention on ways to facilitate private sector trade and investment in the region.

In 1994, Congress took an initial step in this direction by asking the President to develop a comprehensive trade and development policy for the countries of sub-Saharan Africa as part of the Uruguay Round Agreements Act. The first of the five annual reports required under this provision were submitted by President Clinton earlier this year. The President's report, in turn, has generated a broader discussion among many of my colleagues, the business community and the public, on the future direction of U.S. economic relations with sub-Saharan Africa.

In this context, I have been pleased to work with my colleague on the Ways and Means Committee, Congressman Jim McDermott, toward developing a bipartisan proposal to facilitate the economic development of sub-Saharan Africa by expanding our trade relations with the region. We hope to introduce a bill on this subject in September.

I look forward to our witnesses' testimony today and hope that it will help us to identify ways that we might elevate the priorities of business and government toward sub-Saharan Africa and pursue mutually beneficial trade expansion efforts.

We do have a full schedule today, however, and I would like to remind our witnesses to try and contain their oral testimony—with one exception, if Mr. Jefferson will indulge Mr. McDermott—to try and summarize in 5 minutes and then submit your complete written statements for the record.

We will break for a short recess after our first panel of private sector witnesses testify and reconvene at 2 to receive testimony from Assistant Secretary of State George Moose and our second panel of witnesses.

[The opening statements follow:]

OPENING STATEMENT OF HON. PHILIP M. CRANE

Good afternoon. I want to welcome our witnesses and guests to this hearing of the Trade Subcommittee on trade expansion between the United States and the countries of Sub-Saharan Africa.

For many years, the United States has supported a variety of foreign assistance programs that have sought to aid the countries of sub-Saharan Africa. Unfortunately, traditional foreign aid has not led to the level of economic development that we would all like to see today on the African continent. In the long run, private sector investment and development must serve as the catalyst for the countries of sub-Saharan Africa to compete in the global marketplace and to improve the standard of living for their citizens.

With a combined population of nearly 600 million people, sub-Saharan Africa can and should become a major export market for U.S. goods and services. However, the region's immediate potential does not seem to be reflected either in the investment decisions of individual businesses or in the U.S. Government's export development priorities, including high-profile trade missions.

In this context, I believe it is time for us to reexamine the nature of our relationship with sub-Saharan Africa and to focus our attention on ways to facilitate private sector trade and investment in the region. In 1994, Congress took an initial step in this direction by asking the President to develop "a comprehensive trade and development policy for the countries of sub-Saharan Africa" as part of the Uruguay round Agreements Act. The first of the five annual reports required under this provision was submitted by President Clinton earlier this year. the President's report, in turn, has generated a broader discussion among many of my colleagues, the business community, and the public on the future direction of U.S. economic relations with sub-Saharan Africa.

In this context, I have been pleased to work with my colleague on the Ways and Means Committee, Congressman Jim McDermott, toward developing a bipartisan proposal to facilitate the economic development of sub-Saharan Africa by expanding our trade relations with the region. We hope to introduce a bill on this subject in September. I look forward to our witnesses' testimony today and hope that it will help us to identify ways that we might elevate the priorities of business and government toward sub-Saharan Africa and pursue mutually beneficial trade expansion efforts.

We do have a full schedule today, however, and I would like to remind our witnesses to contain their oral testimony to five minutes and ask them to submit their complete written statement for the record. We will break for a short recess after our first panel of private sector witnesses testify and reconvene at 1:30 p.m. to receive testimony from Assistant Secretary of State George Moose and our second panel of witnesses.

OPENING STATEMENT OF HON. JIM RAMSTAD

Mr. Chairman, thank you for calling today's hearing to discuss U.S. trade with the 48 countries of Sub-Saharan Africa.

Since the end of the Cold War, we have witnessed great political and economic liberalizations by many countries throughout Eastern Europe and the former Soviet Union.

While the efforts of many African nations have not commanded as much attention as the former Soviet-controlled countries, they too have taken steps to adopt democratic political principles and market-based economic reforms.

as these Sub-Saharan Africa nations implement important economic reforms to encourage investment and trade development, we must review our relationship with them and ensure that our policies support their pro-growth initiatives, as well as promote American economic and security interests in the region.

I look forward to hearing from today's witnesses about the future of U.S. trade with Sub-Saharan Africa and ways in which we can facilitate increased trade between our nations.

Thanks again for calling this hearing, Mr. Chairman.

Mr. CRANE. I would now like to recognize Mr. Rangel for an opening statement.

Mr. RANGEL. Thank you, Mr. Chairman. I want to thank my colleagues for their interest in this subject and in calling attention to the potential market that we have in Africa and in sub-Saharan Africa.

I look forward to listening to the ideas that you have, and recognize that for so long they have been ignored in the United States. We also cannot forget the major thrust that Ron Brown had in not only recognizing the potential of African markets but, more importantly, the need to remove the impediments that the private sector and others have in order to tap this emerging and dynamic African market.

Ron Brown has done a lot and there is no question that Mickey Kantor and the dedicated staff that we have in Commerce would want us to move forward. With your leadership, Mr. Chairman, and that of Members of Congress who have focused on this area, it can only mean a more prosperous and productive United States, and a more meaningful partnership with a continent, especially in South Africa, that can be an engine to improve our trade relationships and improve the quality of life of all of the people in that region. It is going to take this sound economic basis in order to make certain that we can have the relative tranquility politically that is so important for all nations if we are going to move forward.

Mr. McDermott and his staff have worked constantly in trying to bring some balance to this issue, and Congressman Jefferson, as well as Don Payne and so many others who have worked hard to get us to focus attention on this.

Mr. Chairman, as in so many other areas, your leadership will mean a lot, not only for our Subcommittee but, of course, for the Full Committee and, therefore, the Congress. So, I am very anxious to hear your testimony, and just as anxious to find out where you think we should move from where we are now.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Rangel.

I welcome our colleagues to testify this morning, Mr. McDermott and Mr. Jefferson, a former Member of this Subcommittee. It is nice to have you back today.

Mr. McDermott, as indicated by Mr. Rangel, has been spearheading this effort, and I welcome all of the bipartisan cooperation he has given and look forward to advancing this legislation.

I would now like to yield to Mr. McDermott.

Mr. RANGEL. Mr. Chairman, is it safe to say that the new ratios we expect next year would bring Mr. Jefferson back to the Subcommittee? [Laughter.]

Chairman CRANE. No, but we welcome you anyway.

STATEMENT OF HON. JIM MCDERMOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. MCDERMOTT. Thank you, Mr. Chairman, and Members of the Subcommittee.

I want to begin by saying, were it not for Mr. Crane, this would not be happening. This is a rare example in this Congress, perhaps, of a bipartisan, a truly bipartisan effort, and I want to publicly acknowledge the fact that you have been very important in this whole process.

I want to compliment you for putting this whole issue on your review of trade policy, and I look forward to working both with you and with Mr. Rangel, in whatever relationship the future may

bring, because this issue will not go away, no matter where we are in the next Congress.

I think that my presentation today will focus on two issues: First, I want to give my view of the U.S. trade policy toward sub-Saharan Africa; and second, I would like to describe a new initiative to expand trade and investment between the United States and those economies in sub-Saharan Africa that are committed to economic reform and supporting private sector growth.

The first and most important thing that one must say about U.S. trade policy toward sub-Saharan Africa is that there is no U.S. trade policy toward sub-Saharan Africa.

I realized 2 years ago, during the process of adopting the Uruguay Round Agreements Act, that we had no policy and no real interest in expanding our trade with sub-Saharan Africa. It was very clear in 1994 that we did not have a comprehensive and focused approach, and I decided to offer an amendment that I hoped would begin a serious debate and reevaluation of our approach to sub-Saharan Africa.

The amendment that I offered in 1994 directed the President to develop a trade and development policy for the countries of sub-Saharan Africa. This amendment, section 134 of the Uruguay Round Agreements Act, was passed by a voice vote in the House and the Senate. Fourteen months later, on February 5, 1996, the President submitted his response. Unfortunately, the President's response fell short of our minimum expectations. There has been no debate or serious discussion within the administration, no reevaluation, no creative thinking about a new, more productive engagement as buyers and sellers as opposed to donor and recipient.

Unfortunately, masquerading as a trade and development policy are an assortment of programs and initiatives that do not work well together, have no central focus, policy or direction. It is a compilation of the programs and initiatives that are trapped in the cold war mentality and is almost a paternalistic approach to sub-Saharan Africa.

A very good example of this, in my opinion, is the disjointed approach of the Binational Commission with South Africa. While I support the intent and the goals of that commission, I cannot help but ask the question: Where is the policy that drives this commission and how does it relate to the other countries in sub-Saharan Africa who have struggled with structural adjustment programs and economic reforms without any substantive response from the Clinton administration? Does the Vice President's commission offer the same help to Ghana, Uganda, or Cote d'Ivoire, to just name a few, or is it simply an approach for South Africa?

I recommend to everybody on the Subcommittee that they read the President's trade development policy, which was submitted to the Congress last year, and the unbiased evaluation of that report by the Congressional Research Service.

Mr. Chairman, I believe that Africans are responsible for their future, but I think the United States, the world's largest market and most vibrant economy, lacks a creative and comprehensive trade policy toward sub-Saharan Africa. We have failed to provide the kind of constructive relationship that would make that future brighter.

In summary, I believe that the U.S. trade policy with sub-Saharan Africa must be based on building institutional ties with the economies and leaders who are committed to the necessary economic and political reforms that support private sector growth and vitality. I also believe that our trade policy must help to open U.S. markets, technology, management expertise, and capital to sub-Saharan Africa's vast potential.

We cannot simply rely on traditional development assistance. Traditional development assistance is only one part of what the United States needs to be doing in sub-Saharan Africa. Unfortunately, traditional development assistance has been our dominant response to Africa for over 30 years. I believe it is time for a major shift in attitude, policy and commitment.

The proposal which I will describe to you today is in response to the growing number of African governments and entrepreneurs who prefer to have America's trade and investment, not just our aid. Our proposal rejects the old donor/recipient model for every country in sub-Saharan Africa. Our proposal creates a transition path from development assistance to economic self-sufficiency for countries committed to political and economic reform and strong support for the private sector.

This proposal takes a very nontraditional approach to sub-Saharan Africa. Despite what you see in the papers about Liberia, Somalia, Rwanda or Burundi, I believe that a growing number of countries in sub-Saharan Africa are reasonably good investments. To use a Wall Street term on this, I would say I am "bullish" on Africa's potential.

Despite all the problems, expanded trade and investment with sub-Saharan Africa, if done right, can mean a reasonable return on investment, increased per capita incomes, and substantial job creation. It is time the United States changed its approach to sub-Saharan Africa. It is time the United States changed its attitude about doing business in sub-Saharan Africa. To do that, we must build institutionalized relationships and policies based on strong trade and investment ties with those countries that have taken on the difficult job of political and economic reform.

This is not to say that they have done everything right, that reforms have worked in every country, because in many cases they have not. But I am saying that if you are ready to make the necessary economic reforms, then the richest economy in the world should be willing to help the poorest economies make the transition from dependency to buyer/seller in the international marketplace.

Africa's efforts at self-sufficiency should not go unsupported. Now the question is, what is the best way to do this? Well, I believe that the United States can do more for those African economies committed to economic reform through our markets, our management expertise, our capital and our technology, than we can ever hope to do through our limited and shrinking aid programs.

In March of this year, we formed the bipartisan African Trade and Investment Caucus to develop a congressional policy on trade and investment with sub-Saharan Africa. As we all know, the Congress is not well suited for this kind of job. It has been difficult, and I do not profess to be putting forward all the answers.

But let me start by addressing the greatest misconception about this proposal. I do not—and I want to emphasize—I do not propose to cut health, education, population programs, democracy initiatives, conflict resolution support or child survival funding to fund this proposal. I believe there are a number of African countries who will continue to need traditional development assistance as they struggle to develop civil societies. Our aid dollars and programs are important to them, and I support funding for these efforts.

On the other hand, my proposal is designed to create a comprehensive trade and investment strategy for those economies in sub-Saharan Africa who have a record of commitment to market-based economics and to supporting their private sector. We want to tie those economies to the U.S. economy.

I have had discussions with African ambassadors in Washington, and they have communicated to their governments. But, this proposal lacks an important element, and that is substantive input from African business leaders and governments. I can only say that, in politics, one must take advantage of opportunities when they present themselves. It is rare to be able to do all that you should do. So, I view our effort as a good beginning, and I welcome the constructive input from all interested parties. I invite your input as we go through the legislative process, and I want to tell you that Africa has a new set of friends in Congress. There are many, both Republicans and Democrats, who want to see a different, more productive, and mutually beneficial relationship.

Now let me describe the proposal. It is composed of three primary cornerstones and several key initiatives.

The first cornerstone is the negotiation of a U.S.-Africa free trade area by 2020. A few African countries have begun the difficult job of integrating into the global economy. Many African countries have become signatories to the Uruguay round.

Now the difficult work begins of removing tariff and nontariff barriers to trade. The free trade area gives us the opportunity to begin the process of bilateral and multilateral discussion that, over a number of years, will lead to the type of economic and trade relations that are mutually beneficial to Africa and the United States.

Obviously, this will take some real creativity and commitment, but we think that a U.S.-Africa free trade area is fundamental to our overall trade and investment strategy. We expect these negotiations will begin with very small steps in the direction of a free trade area, and that the negotiations will explicitly recognize the huge differences in the various economies. But, it is our hope that we can jointly craft an institutional framework that is satisfactory to Africa and to the United States.

We are outcome oriented. We want to support the kinds of policies that expand trade and investment, that generate jobs in Africa and the United States, and that strengthen economic ties between the United States and Africa. By making a commitment to reach a free trade area in 25 years, we think that we have a chance to be successful.

This idea I credit to Mr. Crane, because it was his idea and it got incorporated because of his involvement in this initiative.

The second cornerstone is the creation of a U.S.-Africa economic cooperation forum. This idea is loosely modeled on APEC. Until

Secretary Brown visited Africa earlier this year, as mentioned by Mr. Rangel, no Secretary of Commerce had been there since 1982. Can anybody on this Subcommittee think of any Secretary of State or Treasury who has paid an official visit to Africa? It has been a long time since any cabinet member has thought of Africa other than as a recipient of donor aid, or as a humanitarian basket case.

This forum will begin to change that way of thinking about Africa. The forum will meet annually to lay out an agenda that will allow for bilateral and multilateral initiatives.

There will be opportunities for the private sector and NGO, nongovernmental organizations, participation. The forum will be a place where issues and concerns can be discussed at the highest levels. The forum will demonstrate to the international community that the United States takes Africa seriously, that we want to expand and enrich our economic ties with Africa, that we are in for the long haul and will compete with the Europeans and the Asians.

It is my hope that the forum will also send a signal to our business community that the U.S. Government is committed to making it easier to do business in Africa.

The third cornerstone is the U.S.-Africa Trade and Investment Partnership. We propose a $100 million partnership program to support privately—and I underline—privately managed equity and infrastructure funds that will leverage private financing for small and moderate sized African businesses. A growing number of equity and portfolio funds have been created for Africa over the last 3 years. We believe that Africa's needs require more sophisticated financial instruments and approaches.

Our funds will do three things. First, they will help mobilize private savings from developed economies for equity investment in Africa; second, they will stimulate the growth of securities markets in Africa; and third, they will improve access to third party equity and management advice for Africa's small and medium sized firms.

We want to attract American technical and managerial expertise to financially feasible projects in Africa. Doing business in Africa is difficult and expensive. We have to find ways of making it attractive and efficient to look at not only the great business deal, but also the financially feasible deal.

The demand for infrastructure in Africa is enormous, but the response from the international finance community has not been promising. Our infrastructure fund will be the first created for Africa. We are beginning to see a number of African governments increasingly opt for construction and management of infrastructure projects throughout the private sector. The size, complexity, and uncertain profitability of such projects have, in the past, discouraged many U.S. investors from participating. But, it is clear that Africa's future competitiveness depends on reliable telecommunications, roads, railways, and power plants.

By creating an infrastructure fund, we hope to be able to attract U.S. investors to potentially profitable projects. The Asian infrastructure fund is one example of the kind of impact we think this fund could have in Africa.

The principal goal of these three cornerstones—the free trade area, the forum, and the partnership program—is to attract the international project finance market to Africa and to make it finan-

cially feasible for U.S. investors to participate in profitable business opportunities in Africa. If we can do that, we will see substantial job growth, increases in per capita incomes, and expanded trade between the United States and Africa.

Now, some may think this is naive, overly optimistic, or just completely unrealistic. Well, it is time that someone was optimistic about Africa, that someone was willing to challenge the status quo. That is what we intend to do here.

Now, the three cornerstone programs will take time to implement, but there is one initiative that could have an immediate impact in at least three or four African countries.

African textile and apparel exports to the United States represent less than 1 percent, $350 million, of the total export market of $43 billion of exports into this country. We have drafted a policy that could immediately be implemented and would not threaten U.S. jobs or disrupt our domestic economy. Specifically, we are proposing that there be no adverse actions taken by the U.S. Government to restrict any textile or apparel from sub-Saharan Africa from entering the United States prior to the aggregate of such trade exceeding $3.5 billion annually.

This policy should be applicable to sub-Saharan Africa until the multifiber agreement expires in 2005. Over the life of the multifiber agreement, this represents about $32 billion in potential exports to the United States and generates jobs and tax revenue for Africa. To put this initiative in perspective, the United States has given $25 billion in foreign aid to Africa over the last 34 years. Of course, we support the application of international labor and human rights standards as this proposal is implemented.

Just about all emerging economies have historically used the textile and apparel sector as an entry point to manufacturing. Once workers buildup skill and dexterity in garment production, they are generally ready for the introduction of new manufacturing industries.

In addition to the equity and infrastructure funds, and the textile and apparel initiative, I am proposing two changes in how the board of directors of the Export-Import Bank operates. First, the composition of the board of directors will have to include one person who has extensive private sector experience in sub-Saharan Africa.

Second, the board of directors are required to establish a private sector advisory Committee to assist in developing and implementing policies, programs, and financial instruments designed to support the expansion of, and increase in the provision of loans, guarantees and insurance with respect to sub-Saharan Africa.

I believe that these two initiatives will help the Export-Import Bank to expand coverage beyond the nine countries currently eligible for financing without violating generally accepted credit standards. I want to emphasize that I am committed to coming up with financially responsible procedures that will allow the Export-Import Bank to do its job in sub-Saharan Africa.

In 1994, the cumulative value of export financing guarantees, insurance and loans for sub-Saharan Africa was $25.8 million. That represents 0.2 percent of total Export-Import Bank financing. I think there are ways to turn this around without ignoring our fidu-

ciary responsibility. This is an important priority and we hope to have some positive initiatives coming out of the Export-Import Bank in the next 12 months.

I have tried to lay out rather quickly for you—and it has taken a little longer than 5 minutes, Mr. Chairman—our proposal, and to give you an idea of the commitment that many of us have to a radical shift in emphasis toward a private sector and market incentives approach to stimulating economic growth and reducing poverty in Africa.

This trade and investment proposal is not for all of sub-Saharan Africa. To participate, a country will have to meet eligibility requirements based on a strong commitment to economic and trade liberalization. We are proposing to move away from "if you reform your economy, we will give you development assistance," to a more dynamic response that says, "if you liberalize your trade, political and economic policies, we will expand our trade and investment relation with you."

We want to create a transition path from development assistance to self-sufficiency for those economies committed to economic reform. At the end of a 5- or 10-year period, the countries participating in this initiative will be receiving substantially less development assistance because of their expanded trade and investment ties with the United States.

This will mean that, even with our domestic budget squeeze, we would be able to continue to help those sub-Saharan African countries that require traditional development assistance. In fact, there may be more money available, since the countries that we will focus on tend to be USAID's priority countries, the ones that tend to get the most money from the United States

I thank you for your extending my time, and I welcome the questions of the Subcommittee.

[The prepared statement follows:]

Statement by Representative Jim McDermott
before the Subcommittee on Trade
Committee on Ways and Means
U.S. Trade Policy with Africa
August 1, 1996

Thank you for allowing me to testify on a subject that has received far too little attention. I want to compliment Chairman Crane for including sub-Saharan Africa in his review of U.S. trade policy and for his strong and determined leadership as the Chairman of the Subcommittee on Trade. I look forward to working with you and Congressman Rangel to build a vibrant and economically rewarding relationship with sub-Saharan Africa.

My presentation today will focus on two issues; first, I will give you my view of U.S. trade policy toward sub-Saharan Africa; and second, I will describe a new initiative to expand trade and investment between the U.S. and those economies in sub-Saharan Africa that are committed to economic reform and supporting private sector growth.

The first and most important thing that one must say about U.S. trade policy towards sub-Saharan Africa is that there is no U.S. trade policy towards sub-Saharan Africa.

I realized two years ago, during the process of adopting the Uruguay Round Agreements Act, that we had no policy and no real interest in expanding our trade with sub-Saharan Africa. It was very clear in 1994, that we did not have a comprehensive and focussed approach there. I decided to offer an amendment that I hoped would begin a serious debate and reevaluation of our approach to sub-Saharan Africa. The amendment that I offered in 1994 directed the President to develop a trade and development policy for the countries of sub-Saharan Africa. That amendment -- section 134 of the Uruguay Round Agreements Act --- was passed by voice vote in the House and the Senate. Fourteen months later, on February 5th, 1996, President Clinton submitted his response. Unfortunately, the President's response fell short of our minimum expectations. There has been no debate or serious discussion with the administration, no reevaluation, no creative thinking about a new more productive engagement as buyers and sellers as opposed to donor and recipient.

Unfortunately, masquerading as a trade and development policy are an assortment of programs and initiatives that don't work well together, have no central focus, policy or direction. A compilation of programs and initiatives that are trapped in a cold war and almost paternalistic approach to sub-Saharan Africa. A very good example of this disjointed approach is the Vice President Gore's Bi-National Commission with South Africa. This commission is a prime example of the administration's disjointed approach to sub-Saharan Africa. While I support the intent and the goals of the commission, I can't help but ask the question: Where is the policy that drives this commission and

how does it relate to the other countries in sub-Saharan Africa who have struggled with structural adjustment programs and economic reform programs without any substantive response from the Clinton administration? Does the Vice President's plan offer the same help to Ghana, Uganda, and Cote d'Ivoire, to name a few, or is this approach just for south Africa?

I recommend that you read the President's trade and development policy for the countries of sub-Saharan Africa, submitted to Congress earlier this year, and the unbiased evaluation of that report by the Congressional Research Service.

Mr. Chairman, I believe that Africans are responsible for their future, but I think because the U.S.-- the world's largest market and most vibrant economy -- lacks a creative and comprehensive trade policy towards sub-Saharan Africa, we have failed to provide the kind of constructive relationship that would make that future brighter.

In summary, I believe that U.S. trade policy with sub-Saharan Africa must be based on building institutional ties with the economies and leaders who are committed to the necessary economic and political reforms that support private sector growth and vitality. I also believe that our trade policy must help to open U.S. markets, technology, management expertise, and capital to sub-Saharan Africa's vast potential. We cannot simply rely on traditional development assistance. Traditional development assistance is only one part of what the U.S. needs to be doing in sub-Saharan Africa. Unfortunately, traditional development assistance has been our dominant response to Africa for over thirty years. I believe that it is time for a major shift in attitude, policy and commitment.

The proposal that I will describe to you today is in response to the growing number of African governments and entrepreneurs who prefer to have America's trade and investment, not just our aid. Our proposal rejects the old donor/recipient model for every country in sub-Saharan Africa. Our proposal creates a transition path from development assistance to economic self-sufficiency for countries committed to political and economic reform and strong support for the private sector.

This proposal takes a very non traditional approach to sub-Saharan Africa; despite Liberia, Somalia, Rwanda, and Burundi, I believe that a growing number of countries in sub-Saharan Africa are reasonably good investments. To use a Wall Street term -- I am bullish on Africa's potential.

Despite all the problems, expanded trade and investment with sub-Saharan Africa, -- if done right, -- can mean a reasonable return on investment, increased per capita incomes, and substantial job creation. I think that it is time the U.S. changed its approach to sub-Saharan Africa; it is time the U.S. changed its attitude about doing business in sub-Saharan Africa.

To do that, we must build an institutionalized relationship and policy based on strong trade and investment ties with those sub-Saharan African countries that have taken on the difficult job of political and economic reform.

This is not to say that they have gotten everything right, that reforms have worked in every country, because in many cases they have not, but I am saying that if you're ready to make the necessary economic reforms, then the richest economy in the world should be willing to help the poorest economies make the transition from aid dependency to buyer and seller in the international marketplace.

Africa's efforts at self-sufficiency should not go unsupported. Now, the question is, what is the best way to do this?

Well, I believe that the U.S. can do more for those African economies committed to economic reform through our markets, our management expertise, our capital, and our technology, than we could ever do through our limited and shrinking aid programs.

In March of this year, we formed the bipartisan African Trade and Investment Caucus to develop a Congressional policy on trade and investment with sub-Saharan Africa. As you may know, Congress is not well suited for this type of job. It has been difficult, and I don't profess to have all the answers.

Let me start out by addressing the greatest misconception about this proposal.

I do not propose to cut health, education, population programs, democracy initiatives, conflict resolution support or child survival funding to fund this proposal.

I believe that there are a number of African countries who will continue to need traditional development assistance as they struggle to develop civil societies. Our aid dollars and programs are important to them and I support funding for these efforts.

On the other hand, my proposal is designed to create a comprehensive trade and investment strategy for those economies in sub-Saharan Africa who have a record of commitment to market based economics and to supporting their private sector -- we want to tie those economies to the U.S. economy.

While I have had discussions with African Ambassadors in Washington and they have communicated to their governments, this proposal lacks a very important element, and that is substantive input from African business leaders and governments. I can only say that in politics, one must take advantage of opportunities when they present themselves. It is rare to be able to do all that you should do. So I view our effort as a good beginning. I welcome the constructive input from all interested parties.

I invite your input as we go through the legislative process and I want to tell you that Africa has a new set of friends in the U.S. Congress. There are many, both Republican and Democrat, who want to see a different, more productive, and mutually beneficial relationship.

Now let me describe our proposal. It is composed of three primary cornerstones and several key initiatives.

The first cornerstone is the negotiation of a U.S.- Africa free trade area by 2020. A few African countries have begun the difficult job of integrating into the global economy. Many African countries have become signatories to the Uruguay Round Agreements Act.

Now the difficult work begins of removing tariff and non-tariff barriers to trade. The free trade area gives us the opportunity to begin the process of bilateral and multilateral discussion that, over a number of years, will lead to the type of economic and trade relations that are mutually beneficial to Africa and the U.S.

Obviously, this will take some real creativity and commitment, but we think a U.S. - Africa free trade area is fundamental to our overall trade and investment strategy. We expect that these negotiations will begin with very small steps in the direction of a free trade area and that the negotiations will explicitly recognize the huge differences in the various economies. But, it is our hope that we can jointly craft an institutional framework that is satisfactory to Africans and to the U.S.

We are outcome oriented, we want to support the kinds of policies that expand trade and investment, that generate jobs in Africa and the U.S., and that strengthen economic ties between the U.S. and Africa. By making a commitment to reach a free trade area in 25 years, we think that we have a chance to be successful.

The second cornerstone is the creation of a U.S. - Africa economic cooperation forum. This idea is loosely modeled on APEC. Until Secretary Brown visited Africa earlier this year no Secretary of Commerce had been there since 1982. Can any of you think of the last time a Secretary of State or Treasury paid an official visit to any country in Africa? It has been a long time since any cabinet member has had to think of Africa other than as a recipient of donor aid, or as a humanitarian basket case.

The Forum will begin to change that way of thinking about Africa. The Forum will meet annually to layout an agenda that will allow for bilateral and multilateral initiatives.

There will be opportunities for private sector and NGO participation. The Forum will be the place where issues and concerns can be discussed at the highest levels. The Forum will demonstrate to the international community that the United States takes

Africa seriously. That we want to expand and enrich our economic ties with Africa. That we are in for the long haul and will compete with the Europeans and the Asians.

It is my hope that the Forum will also send a signal to our business community that the U.S. government is committed to making it easier to do business in Africa.

The third cornerstone is the U.S.- Africa trade and investment partnership. We propose a $100 million partnership program to support privately managed equity, and infrastructure funds that will leverage private financing for small and moderate sized African businesses. A growing number of equity and portfolio funds have been created for Africa over the last three years. We believe that Africa's needs require more sophisticated financial instruments and approaches.

Our funds will do three things: first they will help mobilize private savings from developed economies for equity investment in Africa; second, they will stimulate the growth of securities markets in Africa; and third, they will improve access to third party equity and management advice for Africa's small and medium sized firms.

We want to attract American technical and managerial expertise to financially feasible projects in Africa. Doing business in Africa is difficult and expensive, we have to find ways of making it attractive and efficient to look at not only the great business deal, but the financially feasible deal.

The demand for infrastructure in Africa is enormous, but the response from the international finance community has not been promising. Our infrastructure fund will be the first created for Africa. We are beginning to see a number of African governments increasingly opt for construction and management of infrastructure projects through the private sector. The size, complexity, and uncertain profitability of such projects have, in the past, discouraged many U.S. investors from participating. But it is clear that Africa's future competitiveness depends on reliable telecommunications, roads, railways, and power plants.

By creating an infrastructure fund we hope to be able to attract U.S. investors to potentially profitable projects. The Asian infrastructure fund is one example of the kind of impact that we think this fund could have in Africa.

The principal goal of our three cornerstones -- the free trade area, the forum, and the partnership program -- is to attract the international project finance market to Africa, and to make it financially feasible for U.S. investors to participate in profitable business opportunities in Africa. If we can do that, we will see substantial job growth, increases in per capita incomes, and expanded trade between the U.S. and Africa.

Some may think that this is naive, overly optimistic, or just completely unrealistic. Well,

I think that it is time that someone was optimistic about Africa; that someone was willing to challenge the status quo. That's what we intend to do.

While the three cornerstone programs will take time to implement, there is one initiative that could have an immediate impact in at least three or four African countries.

African textile and apparel exports to the U.S. represent less than 1% (about $350 million) of the total import market of $43 billion. We have drafted a policy that could be implemented immediately and would not threaten U.S. jobs or disrupt our domestic industry.

Specifically, we are proposing that there be no adverse actions taken by the U.S. government to restrict any textile or apparel from sub-Saharan Africa from entering the U.S. prior to the aggregate of such trade exceeding $3.5 billion annually.

This policy shall be applicable to sub-Saharan Africa until the multi fiber agreement expires in 2005. Over the life of the multi fiber agreement, this represents about $32 billion in potential exports to the U.S. and generates jobs and tax revenue for Africa. To put this initiative in perspective, the U.S. has given $25 billion in foreign aid to Africa over the last 34 years. Of course we support the application of international labor and human rights standards as this proposal is implemented.

Just about all emerging economies have historically used the textile and apparel sector as an entry point to manufacturing. Once workers build up skill and dexterity in garment production, they are generally ready for the introduction of new manufacturing industries.

In addition to the equity and infrastructure funds and the textile and apparel initiative, I am proposing two changes in how the board of directors of the export-import bank operates. First, the composition of the board of directors will have to include one person who has extensive private sector experience in sub-Saharan Africa. Second, the board of directors are required to establish a private sector advisory committee to assist in developing and implementing policies, programs, and financial instruments designed to support the expansion of, and increase in, the provision of loans, guarantees, and insurance with respect to sub-Saharan Africa. I believe that these two initiatives will help the Export-Import Bank to expand coverage beyond the 9 countries currently eligible for financing without violating generally accepted credit standards. I want to emphasize that I am committed to coming up with financially responsible procedures that will allow the Export-Import Bank to do its job in sub-Saharan Africa. In 1994, the cumulative value of export financing guarantees, insurance, and loans for sub-Saharan Africa was $25.8 million, or 0.2 percent of total Export-Import Bank financing. I think there are ways to turn this around without ignoring our fiduciary responsibility.

This is an important priority and we hope to have some positive initiatives coming out of the Export-Import Bank in the next 12 months.

I've tried to lay out our proposal, and to give you an idea of the commitment that many of us have to a radical shift in emphasis towards a private sector and market incentives approach to stimulating economic growth and reducing poverty in Africa.

This trade and investment proposal is not for all of sub-Saharan Africa. To participate, a country will have to meet eligibility requirements based on a strong commitment to economic and trade liberalization. We propose to move away from " if you reform your economy we will give you development assistance" to a more dynamic response that says "if you liberalize your trade, political, and economic policies we will expand our trade and investment relation with you. We want to create a transition path from development assistance to self-sufficiency for those economies committed to economic reform. At the end of a five or ten year period the countries participating in this initiative will be receiving substantially less development assistance because of their expanded trade and investment ties with the United States.

This will mean that even with our domestic budget squeeze, we would be able to continue to help those sub-Saharan African countries that require traditional development assistance. In fact, there may be more money available since the countries that we will focus on tend to be USAID's priority countries, the ones that tend to get the most money from the U.S.

I look forward to working with the committee. Thank you.

Chairman CRANE. Thank you, Mr. McDermott.
Mr. Jefferson.

STATEMENT OF HON. WILLIAM J. JEFFERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. JEFFERSON. Thank you, Mr. Chairman.

I appreciate the opportunity to be before this Subcommittee and to be back in this Committee room. I want to thank my friend and my leader, Mr. Rangel of New York, for his valiant effort to again have me seated on the Subcommittee this morning. I am sorry that it fell short, sir, but I do appreciate your continued interest in my return to the Subcommittee. [Laughter.]

Chairman CRANE. Mr. Jefferson, I did not mean to be insulting with my response to Mr. Rangel's question, but I do not know of any of our colleagues on your side that are scheduled to lose their seats. [Laughter.]

Mr. JEFFERSON. Mr. Chairman, of course, I am at a disadvantage in debating you on this issue. I do not think the question, however, revolves around whether any Member on my side would lose his seat or not. I think it deals more with the will of the majority, as Mr. Rangel suggests, to revisit the reality of the ratio apportioning. But we will not discuss that this morning, inasmuch as that is not before this Subcommittee at this time.

I do thank Mr. Rangel and I thank you, Mr. Chairman, for thinking about the request.

This is an important discussion, and I appreciate the chance to appear here today. My comments will not be nearly as detailed as Mr. McDermott's, but they are meant to be general and to try and underscore what I think are the important issues involved with his proposal.

It is important for this Subcommittee and for the Congress to find ways to foster greater U.S. trade opportunities and to foster direct investment in sub-Saharan Africa. That this Subcommittee has agreed to hold hearings on these issues brings great credit upon you, Mr. Chairman, as Mr. McDermott has said, and upon every Member of this Subcommittee, for these issues long neglected by the Congress.

Many of us who are interested in Africa feel that greater economic development will occur in Africa and at a faster pace only when the United States government and the U.S. private sector pay more attention to increasing direct investment and trading opportunities with sub-Saharan Africa.

We watch, as Mr. McDermott has said, in dismay at the reluctance of U.S. business, and the U.S. Government in certain instances, from investing and encouraging investment in Africa, at the same time that other nations, in competition with us for global markets, have been more than eager to enter and to expand their presence in lucrative African markets and to invest and sell their goods and services there.

I am concerned, Mr. Chairman, about what we do about this problem and how we approach it. To talk about it in stark terms of a shift in direction, from developmental aid in Africa, or as Mr. McDermott talks about it, a paternalistic handout approach or a

donor/donee approach, to an approach that deals with trade and investment, I think contains within it some seeds of concern for me.

The point of developmental aid, which heretofore has not been adequate in and of itself, is to break down some of the illegal, regulatory and other constraints that do not permit an atmosphere for sustained private investment and for increased trade that will work well for both sides.

For instance, there are regulatory and legal problems, price controls, restrictive labor codes, slow and uneven investment licensing, problems with the financial systems, including crowding out of private investment. There are structural problems, such as the administration of tax issues. There are public enterprise sector dominance issues in sub-Saharan Africa, and there are restrictions on foreign investment. There are issues that relate to the national debt of so many of these countries.

These are things that have to be broken down and dealt with before one can expect a shift away from developmental aid to strictly support for private, direct investment and to support these countries through trading policy.

Now, I want to commend Mr. McDermott for the thoughtfulness that he has brought to this issue, and to say to him that I appreciate the amendment that he placed in the GATT bill last year. Without it, we would not be having, I do not believe, this discussion today and the discussion we have had around this issue. We would not have a trade caucus and investment caucus in this Congress dealing with Africa. So, his work is to be commended.

But, I should say to you that the idea of developmental assistance and of direct investment and trade policy go hand in hand. One supports the other. They must be supplementary to each other. They are not separate issues, particularly as they apply to sub-Saharan Africa, and we cannot accept the idea at this point that we can shift from one to the other as a matter of improving the outcome in Africa.

I hope that this Subcommittee, while it does not have the issue of foreign aid to Africa as its major province, will understand the connection between foreign aid or developmental assistance and a policy of direct investment and of greater trade liberalization in Africa. There is a connection that is definite and that is sure, and we ought not miss that as we discuss these issues.

I do believe, as Mr. McDermott has said, that there is a need to look at how we break down barriers to direct investment. The greatest reason why there has been an expansion of economic growth in Asia, particularly in China, has been the willingness of U.S. firms to directly invest in those countries. It is the fastest way to secure economic growth. It is the fastest way to improve the culture of work in the country. It is the fastest way to improve the quality of jobs in the country, the fastest way to increase per capita income, and the fastest way to change the whole business culture in the country—through direct investment by our country and other industrialized interests.

The issue of trade and direct investment are separate issues in one sense. Of course, with respect to trade, we are talking about how goods come from Africa to us, and how we send our goods to Africa. With respect to direct investment, we are talking about

something quite different— how we have our major capital interest and move capital from our country to Africa, to support the establishment of businesses there.

Both of these issues are very important issues. I believe this Subcommittee, as it deals with the issue of trade—except for the instance that Mr. McDermott has cited—gets to be a long-term set of issues, that the issue of direct investment and how this Subcommittee provides incentives and how it provides direct and support and influence to have U.S. businesses get involved in directly investing in Africa, is as important as anything we can do on the trade question. In fact, it may be a more rapid way that we can see increased economic prosperity in Africa.

In this regard, I believe the funds that Jim McDermott talked about this morning are very important. One of the major issues about U.S. investment has been the matter of putting capital at risk in Africa, so it has therefore been difficult to form capital pools for investment.

The imprimatur of the U.S. Government behind these funds encouraging investment at a starting point is going to be important, but I think what is most important is that they provide a way to leverage private sector funds, to put less at risk private sector dollars from this country and to therefore create an incentive for private sector development there. I believe, in that sense, there's a genius behind the proposals that Mr. McDermott talks about with respect to the equity investment fund, the private investment fund.

I also think the same holds for the infrastructure fund that he has talked about, because without the infrastructure fund providing the basis for the direct investment, it is going to be very difficult for direct investment to work just with the direct private capital formation fund. So both of these funds are important.

However, Mr. Chairman, I believe there is a great deal of interest growing in private funds that are being created almost every day—or being talked about anyway—by people in the private sector and private capital formation markets. This Subcommittee can do a great deal to encourage this by how it handles issues that are before it in the trading area, but more importantly, issues that are before it in the tax area. And, in the end we are going to have to talk about some proposals to spur direct investment that may be influenced by how we approach our Tax Code.

Also, Mr. Chairman, I believe the issue of moving this matter to a point of discussion through forums is important and is helpful, but what I want to have us do here are three things. I'll just say these three and let that be the issue.

I am concerned about a matter of shifting from developmental aid to a policy of greater trade and direct investment because the two go hand in hand and one supports the other. Without developmental assistance, there can be no realistic trade and direct investment policy in sub-Saharan Africa because of the issues I have already discussed, about the peculiar legal regimes that have to be changed, about the culture of public ownership that has to be broken down, about the issues of consumer rights and worker safety, labor codes that are restrictive. All those things are things which

developmental aid programs are working to break down, and they therefore must continue to work as we make a new approach.

We have never done enough on the developmental assistance side, and we cannot accept the idea that there is a declining level of assistance there, and that down the road this is going to continue as a matter of direction for our country. If we are really going to make this program work, it cannot be a matter of using rhetorical phrases like moving from dependency to independence, because that is not the point of developmental assistance. It is not to make the countries dependent; it is to help to develop the internal structures that permit private investment and that permit greater trade liberalization. So these issues ought to be tied in.

I am glad to see Mr. Johnson here this morning, because I think the work that his Subcommittee does and the work that we end up doing on trade expansion is going to be very important and closely coordinated, and I think his presence underscores that.

The issue that Mr. McDermott talks about with respect to sub-Saharan Africa and some countries which are ready for this kind of support and some which are not, this is an important question. Just as you cannot view all the countries in Asia as the same, you cannot view all the countries in sub-Saharan Africa as the same. They are all very different and each has a set of very different needs, and we have a starting off point with each which is very different. It means that our approach must be calibrated to meet the needs of each of these countries. It does not mean that some ought to be eligible for the trade and direct investment liberalization policies and others ought not be eligible based on certain thresholds that we are talking about.

If direct investment and if liberalization of trade are important as a way for our country to start doing new things in Africa, we have got to find a way, and properly linked with our developmental policy, to make sure we are working to bring along all those countries that have an interest in these expansions and in these investments. I believe in so many of these areas there are so many important resources in these countries that are underdeveloped, that there is so much potential for, if our country turns its attention to how it might support in each particular instance, perhaps with a different calibration, how each country moves toward developing its resources until it is an enormous opportunity in almost every place that we are talking about in sub-Saharan Africa.

I want to applaud Mr. McDermott for what he is starting to do here. I want to bring a warning, a word of caution, that we ought not, at the expense of developmental assistance, go into the trade and direct investment area. I do say, however, that the direct investment path is a very rapid path to development which we ought to support very strongly, and that the trade issues are going to be long-term issues that we have to work on, but there are some starting points, as you suggested, which I think this Subcommittee ought to get after as soon as it can.

I look forward next year, Mr. Chairman, to working with you on that side of your desk on these issues, and with Mr. Rangel and other Members of this Subcommittee. I have missed the opportunity to work with you and I look forward to it the next time.

Thank you very much.

Chairman CRANE. Thank you, Mr. Jefferson, and Mr. McDermott, for your testimony.

We have only about 6 minutes, gentlemen, left to go on the clock, and there are going to be two votes back to back, so the Subcommittee will stand in recess and ask Ambassador Lang to——

Mr. RANGEL. Mr. Chairman, because there is a vote, I would suggest that these witnesses put together a bipartisan task force that we could meet with, to see where we go from here. I think there are two votes on the floor and we may be moving on to the next panel.

Mr. PAYNE OF VIRGINIA. Mr. Chairman, I know these witnesses may not return after this, but I would like to make a comment about this proposal after we return, if I might, if that is in order.

Chairman CRANE. Sure thing. Absolutely.

Mr. PAYNE OF VIRGINIA. Thank you.

Chairman CRANE. Again, thank you both.

[Recess.]

Chairman CRANE. Before we invite Ambassador Lang up, I want to yield to our colleague on the Subcommittee for a statement.

Mr. PAYNE OF VIRGINIA. Thank you very much, Mr. Chairman. I appreciate it.

I would like to ask unanimous consent to enter into the record a letter from Mr. Spratt to you concerning this proposal.

Chairman CRANE. Without objection, so ordered.

[The information follows:]

JOHN M. SPRATT, JR.
5th DISTRICT, SOUTH CAROLINA

1536 LONGWORTH BUILDING
WASHINGTON, D.C. 20515
(202) 225-5501

COMMITTEES:
NATIONAL SECURITY
GOVERNMENT REFORM AND OVERSIGHT

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:
FEDERAL BUILDING
BOX 250
ROCK HILL, SOUTH CAROLINA 29731
(803) 327-1114

39 E. CALHOUN STREET
SUMTER, SOUTH CAROLINA 29150
(803) 775-0008

55 PUBLIC SQUARE
BOX 78
DARLINGTON, SOUTH CAROLINA 29532
(803) 395-2555

July 31, 1996

The Honorable Phillip Crane
Chairman
Subcommittee on Trade
House Ways and Means Committee
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to express my concerns about a hearing your subcommittee will be holding on August 1, 1996, to examine the Clinton Administration's African trade policy report. I understand that your subcommittee may also discuss a proposal that you and Congressman McDermott are preparing on African development.

I share your support for policies that encourage stability, self-sufficiency, and democracy in Africa. Stronger economic development in Africa can help not only African countries but also the United States. I agree with a number of your proposals to create a trade and investment strategy for countries in sub-Saharan Africa. But I am strongly opposed to those portions of your proposal that would do serious harm to the U.S. textile and apparel industry and its 1.8 million workers. A draft summary of your proposal states:

> We are proposing that there be no adverse actions taken by the U.S. government to restrict any textile or apparel from sub-Saharan Africa from entering the U.S. prior to the aggregate of such trade exceeding $3.5 billion annually. This agreement shall be applicable to sub-Saharan Africa until the Multi Fiber Agreement expires in 2005. <u>Over the life of the Multi Fiber Agreement, this represents about $32 billion in potential African exports to the U.S.</u> (Emphasis added.)

By permitting an additional $32 billion in textile/apparel imports, this proposal will permit thousands of textile and apparel jobs to be lost. Approximately one third of the textile and apparel workers in the United States are African-Americans or Hispanics and 65% are women. It makes no moral or economic sense to create new jobs in Africa by taking jobs away from America's most vulnerable workers.

Since 1970, America has lost 400,000 jobs to textile/apparel imports. In 1995 alone, 78,000 apparel workers lost their jobs. Last year, the United States incurred the second largest trade

deficit in our history and a record deficit in textiles and apparel. In 1995, the United States imported $43.9 billion in textile and apparel goods. Our textile trade deficit was $34 billion. Enacting this proposal can only make the trade deficit worse and the job loss greater.

Too often when the United States wishes to favor foreign countries, we increase their quotas for textile exports. For example, we increased Turkey's quotas to reward Turkey for participating in Desert Storm. We raised Egypt's quotas because Egypt supported the Middle East peace process. And we agreed to phase-out textile/apparel quotas altogether so that we could close the Uruguay Round. It is not fair to place so much of the burden of assisting foreign countries on the back of U.S. textile and apparel workers.

I understand that you are exploring ways to give African nations with new quota growth now assigned to Asian countries. Before the Multi-Fibre Arrangement was abandoned for the Agreement on Textiles and Clothing, we urged U.S.T.R. to recognize this advantage to the quota system; it allowed such allocations for the benefit of our friends and countries we wanted to help. Without the Multi-Fibre Arrangement, I doubt that you can find a way to work out such an allocation between Africa and Asia. If you can find a legal way to shift actual textile imports from Asia to Africa, I would be pleased to consider it. But I question whether it can be done without breaching the Agreement on Textiles and Clothing (ATC) and international law.

The 1.8 million men and women who work in the textile and apparel industries today face diminishing prospects for employment because of the phase-out of quotas and the Agreement on Textiles and Clothing. We should be looking for ways to protect their jobs, not undermine them, and I urge you not to make this proposal part of your bill.

Respectfully,

John M. Spratt, Jr.

JMSj:

cc: Congressman Jim McDermott

Mr. PAYNE OF VIRGINIA. Mr. Chairman, I want to commend Mr. McDermott and Mr. Jefferson for what they are proposing. In my own State of Virginia, our former Governor, Doug Wilder, had initiated trade relationships between our State and some of the sub-Saharan Africa nations on the basis that there were some mutually advantageous relationships that might be developed. I think that is certainly the case and I certainly applaud what Mr. McDermott is doing.

I must say, however, there is one provision that I would hope would receive some further consideration, and that is the provision that looks at the textile quotas and the fact that there would be an additional $3.5 million per year that might be added to the quota of these nations.

What that potentially does is to allow textile and apparel goods to be made in a country other than ours, and it then affects the jobs in districts like mine and other rural and, to some extent, distressed districts, where we are finding we are having a very difficult time maintaining these kinds of jobs with the quota system that we currently have.

We know that the multifiber agreement has been eliminated, and we understand that it is going to be totally eliminated over the next 9 years, and we are trying to make adjustments as we go forward under the existing rules of the WTO.

So, I would simply say that, as we think about ways that we can better establish our relations and better ways that we can work with sub-Saharan African nations, that we should be very circumspect about how we handle textile quotas because of the impact this likely will have on jobs that are very important, particularly in rural and inner-city areas.

I thank you for that and——

Mr. MCDERMOTT. If the gentleman will yield, may I respond just a little bit to that so that you understand what was implied. I did not get into all the details.

Let me say about the multifiber agreement, it expands every year somewhere around $3 billion or so, and it is the expansion that is anticipated in each year that we would not allocate in Asia but would simply be allocated to Africa.

It is not an expansion of the multifiber agreement on top of what is already agreed upon. It is simply a reallocation of that portion which would today go to the Asian holders of quotas. We would take that and move it to Africa. we are trying to be cognizant of the issue that you raise, but you are absolutely correct, that it is an issue that needs to be discussed.

I would like to submit, Mr. Chairman, with unanimous consent, a document produced by the World Bank about what happened in Kenya when they tried to develop their own textile industry and how our government responded to it.

I think Africans have had the experience, so far, of us being very anti the development of the textile trade there, so we wanted to give this a little bit of help so that there could be some initial development, not to expand the overall imports that come to the United States, but within the present agreement.

[The World Bank document was not available at the time of printing:]

Mr. PAYNE OF VIRGINIA. I thank you very much for that response. I think those are the kinds of things that we need to look at.

I would, however, urge some caution, because the expansion of these quotas generally are parts of the WTO Agreement among the ASEAN nations, which means that in Asia the only nation we could really go to and reduce the quota would be China—$3.5 billion is largely all, or 80 percent, of the legitimate business that China is now doing, so that would have a pretty substantial impact on our relationship, I think, with China and our bilateral agreements. So, I think that concept may be a good one, but I think a lot of work would need to be done in terms of its implementation.

Thank you very much.

Mr. MCDERMOTT. I would be glad to work with you.

Mr. RANGEL. I have a question.

There seems to be a great deal of disappointment that the momentum of the Ron Brown initiatives no longer are there. Your having done this work in a bipartisan way, and having the Chairman very interested in moving this forward, have you suggested—or did I miss it—where do we go from here? Are you working with someone on this in the administration?

Mr. MCDERMOTT. Yesterday I met with people from the Treasury Department. I have talked with people in State, I have talked with people in Commerce. So, we have been making contacts continually with them, and you will begin to hear proposals today from Mr. Lang and others, and I think the doors are open.

The reason we wanted to have this hearing—and I am grateful to Mr. Crane for having the hearing—is that it gets this issue on the agenda and begins to get people to believe it is real and that something is actually going to happen. If we do not have a hearing and the Chairman does not raise the issue, people began thinking, well, it is election year and it will go away. This is not going to go away and I think Mr. Crane's hearing is really setting that stage.

Mr. RANGEL. With all due respect to Chairman Crane, this is about the end of this legislative year. What I would hope is that you might bring some Members together, with members of the administration, to make certain that we are moving this forward. And then who knows who will be calling the next hearing around here.

Mr. MCDERMOTT. Good idea.

Chairman CRANE. Thank you very much, Mr. McDermott.

I would now like to invite Ambassador Jeff Lang, Deputy U.S. Trade Representative, at the Office of the U.S. Trade Representative, to come forward for his testimony.

Let me remind you, and other witnesses, to try and summarize in 5 minutes or thereabouts. All of your written testimonies, though, will be made a part of the permanent record.

STATEMENT OF JEFFREY M. LANG, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. LANG. I appreciate that, Mr. Chairman, and I will try to be as brief as possible.

It is a big subject, and we appreciate very much the chance to work on this with you, Mr. McDermott, and the other Members of the Subcommittee. We submitted the section 134 report earlier this year and we are working on implementing those recommendations.

I would also like to thank you in this context, and others, including Chairman Archer, for the legislation that moved forward GSP last night. That is very relevant I think to what we are talking about today.

Sub-Saharan Africa is 48 countries, and 32 of them have populations of less than 10 million. The total gross domestic product for sub-Saharan Africa is about $400 billion. That is less than $700 per person.

A recent study by Jeff Sachs, who is here this morning, and his colleagues at the Harvard Institute for International Development, suggests that about 40 percent of Africa's slow growth in the 1970–89 period was due to the fact that African markets are closed to trade. During this period the member states of the European Union supposedly opened their markets to these countries under special trade programs for their former colonies. This supposed openness by the European Union—and they do absorb about one-third of the region's exports—was obviously not enough to produce acceptable rates of growth in the region.

We believe that, ultimately, exchanges of market-opening concessions on a multilateral basis is the best way for developing countries to grow, because it gives the participants a legal right to foreign market access and it also compels them to open their markets for the capital goods they need to grow.

Now, just for the sake of efficiency, let me summarize some practical steps that I think we can take to address this situation.

First, we need to encourage more active participation in the WTO by sub-Saharan African countries, both individually and as a byproduct of efforts at regional trade liberalization. Just as an example, from my recent experience in negotiating on telecommunications services, I had one sub-Saharan African country to talk to—South Africa. We need more of them involved in that kind of program. This is a world in which 50 percent of the people have never made a telephone call. So there is a lot of participation in the WTO we need.

With the notable exception of the extensive tariff bindings established by South Africa and other members of the South African Customs Union, the rest of the region has undertaken only minimal and, in most cases, no commitments in the WTO to open markets for goods and services. Implementation of WTO obligations they do have, which apply to all members, regardless of the level of development, should be expanded in order to support economic reform, encourage trade, and create stable commercial conditions, all the things that I know you're looking for.

Second, we need to encourage freer trade within the region, or parts of it. Africa has a long history of attempts at integration, and the Southern African Development Community is actively considering complete liberalization of trade among its 12 members in the southern cone.

That is the reason the Vice President signed an MOU, memorandum of understanding, with the SADC, Southern African Develop-

ment Community. It will assist their members in their integration efforts by providing technical assistance, advisory services, and research support. As part of that agreement, we were pleased at USTR to work with SADC officials when they asked us to provide technical reviews of their trade protocol designed to forge their members into a single trading area. When this and other regional trade arrangements from sub-Saharan Africa are submitted to the WTO for review and approval, it will provide opportunities to ensure that these arrangements promote an increase in trade, not trade distortion.

Third, it is time to encourage greater communications between officials at all levels. We have a formally structured consultation with South Africa in the Binational Commission and occasional conferences with individual countries or regional groups, like our consultations with SADC on its trade protocol. We should be building a network of effective working relationships whereby it might be feasible to hold a U.S.-Africa trade and economic forum, along the lines suggested by Congressman McDermott and you.

Fourth, I agree that we need to look at the industrial country side of the equation. I must say that whatever barriers the United States has in the form of tariffs or other obstacles, are not major obstacles to increase trade between Africa and the United States. Moreover, no African country has asked that we negotiate a free trade agreement, although many are seeking greater access to our market for goods.

It is a hopeful sign of change in Africa that Africans themselves no longer regard the region as a European trading reserve. While Africans are obviously not prepared to endanger the trade they have with Europe, EU trade policies are not sufficient to provide acceptable rates of growth in Africa. Given the openness of the U.S. market generally, and assuming enactment of GSP extension, not just now but on a more permanent basis, marginal increases in U.S. opening are probably not the critical element in getting this development cycle going. Rather, the real question is how African states can best take advantage of their access to foreign markets under existing programs.

Take the GSP. Utilization of GSP by African countries has been increasing. It has risen from $332 million of exports in 1994 to $489 million in 1995. South Africa got about three-fourths of African GSP benefits, and five African countries capture 92 percent of all the sub-Saharan GSP benefits. With 48 countries in the region, that means a lot of them are not using the benefit effectively. The major products were jewelry and commodities like ferrochrome.

Almost all sub-Saharan countries—five countries are excluded—but all the rest qualify as beneficiaries under the program and, therefore, are eligible to export duty free in 4,600 of the 9,600 HTS categories. In addition, most of the African countries—this region has the greatest concentration of least developed beneficiary countries—are not subject to the competitive need limits in GSP, which takes that cap off of their GSP exports.

Despite these incentives, only 0.3 percent of total GSP benefits go the least developed countries. Sixty-one percent of GSP benefits go to Asia. The fact that total sub-Saharan GSP imports in 1995

were valued at only $489 million out of $18 billion of GSP imports from all countries clearly argues that there should be more done to increase Africa's participation in the GSP Program.

We have proposed that GSP eligibility be expanded to cover additional products—and this enactment done last night will do that—provided they are imported from least developed countries, which are countries in this region.

There are only two caveats on that. The excluded products, which are the standard GSP exclusions, textiles, apparel, shoes, handbags and a few others; and second, the extension to other products has to be reviewed to determine those that are import sensitive. But, I think that will open up something like 1,500 to 2,000 new product categories in addition to the 4,600 that are already in the program for consideration of inclusion in this expanded program.

We are also considering two new initiatives to apply to African countries eligible for GSP. First, to raise the utilization rates. I emphasize, that is a very important aspect of solving this problem. We intend to launch a public information effort to tell governments and private firms how the GSP program works and how to take advantage of its benefits.

Second, we would grant the benefit of cumulation to those groups of African countries that are determined to be making substantive and significant efforts to integrate. This right to cumulate their cumulative value of production under the program's rules of origin would allow the value of a product partially produced in several African countries to be added together in order to qualify for the 35 percent value added criteria that is part of the eligibility criteria under GSP. This would expand the region's export potential and also at the same time encourage the regional trade liberalization.

Let me just make a special comment about the textiles and apparel. There is currently one quota on one category in one country in continental sub-Saharan Africa, and that quota is at 75 percent above the call level for that product. Since 1971, sub-Saharan African textiles imports have grown at more than twice the rate of imports for the rest of the world in volume terms, and about three times the rate in value terms. Imports of apparel, which is where most of these countries want to concentrate, because that is the labor-intensive part of the production process, are growing even faster, 27 percent in value terms.

Now, admittedly, this is off a low base. But, I do not think that at this time textile and apparel policy is a significant barrier because the countries are not subject to the quotas—except for one country and one product.

Now, no amount of easing entry into the U.S. market can succeed unless the African countries develop a relatively competitive proficiency in producing goods, and that requires a substantial flow of investment, as Mr. McDermott has said. The World Bank has calculated that a country has to achieve an investment level equal to 25 percent of the country's GDP in order to achieve a GDP growth rate of 6 percent. Assuming that criterion, sub-Saharan Africa would need investment levels of about $100 billion annually. African countries' annual savings rates might generate about $40 billion. Foreign aid and multilateral bank funding just cannot

bridge the remaining $60 billion gap in any given year, let alone every year.

So, the only potential funding source is private investment. That is the reason we are pursuing bilateral investment treaties in the region. These negotiations are currently linked to intellectual property discipline, and if you get intellectual property discipline, you encourage investment because you're creating a level of security that countries find friendly to investment.

I am not in a position from USTR to talk about development projects. I understand one of my colleagues will be here this afternoon with the Subcommittee. But I would say that other agencies of the government are trying to help firms identify potential projects. Several initiatives are underway. I understand the aim is to evaluate the potential projects that are worthy of U.S. business interest and work for the development of Africa. These agencies are the Trade and Development Agency, the Department of Energy, the U.S. Export-Import Bank, and the Overseas Private Investment Corp. These studies and sponsorships of conferences and financing efforts will all help in the investment process, which will in turn feed favorably into the trade process.

So, that is a summary of the statement I have prepared for the record. I am open to your questions. I appreciate the opportunity, Mr. Chairman.

[The prepared statement follows:]

Testimony of Ambassador Jeffrey M. Lang

Deputy U.S. Trade Representative

House Ways and Means Committee
Trade Subcommittee

August 1, 1996

Good afternoon, Mr. Chairman. I am Ambassador Jeffrey Lang, Deputy U.S. Trade Representative. I am pleased to be here today to talk to you about the status of trade relations between the United States and the countries of Sub-Saharan Africa, particularly the obstacles and opportunities for trade and investment, which we seek to expand for their benefit and ours. For Africa, the past is not necessarily prologue. The changes that are under way in that vast continent point to a potential growth in the coming decades that is often underestimated, if not written off by many. Your efforts to spur action on African trade and development policies in the form of legislative initiatives as well as this hearing itself are like the sounds of a sentinel alerting us to the need for action on our part and on those of our African trading partners. What may seem to be minor obstacles to trade can obstruct major opportunities that could benefit both the United States and Africa. The Administration, therefore is seeking to expand U.S. exports to, and investment in, Africa primarily because they create U.S. business opportunities and simultaneously stimulate growth and increase the productivity of Sub-Saharan economies.

Admittedly, Sub-Saharan Africa, with the exception of South Africa, offers less evident market opportunities at this time, but the medium and long term horizon appears more promising. Sub-Saharan Africa comprises 48 countries, 32 of which have populations of less than 10 million. Although the region has a population and a land mass that is roughly three times the size of the United States, it is perceived as a collection of small, fragmented, low-income, relatively closed markets. Sub-Sahara's total gross domestic product of $400 billion amounts to about one-twentieth of ours, and its per capita income averages less than $700 per person.

Thirty years ago the "Asian tigers" were no better off than the African countries. Today, the disparity in Asian and African income levels compels us to ask, "Why?" Of course, disease,

drought, and civil strife have had a disastrous impact on individual countries at certain periods during the past decades, but why has this lack of growth been so widespread, so systemic? A recent study by Jeff Sachs and his colleagues at the Harvard Institute for International Development suggests that about 40 percent of Africa's slow growth in the 1970 - 1989 period was due to the fact that African markets are closed to trade. During this period of time, the Member States of the European Union opened their markets to these countries under their special trade program for their former colonies. This openness by the European Union -- and they do absorb about one-third of the region's exports -- was obviously not enough to produce acceptable rates of growth in the region. We believe an important reason is that multilateral exchanges of market-opening concessions are the best way for developing countries to grow, because this system gives them a legal right to foreign market access, but it also compels them to open their markets for the capital goods they need. The mutual exchange of benefits is good politics and good economics.

To date, Sub-Saharan Africa simply has not been heavily involved in trade, neither intra-regional nor international. Most of the 48 Sub-Saharan countries were members of the GATT 1947 and participants, at least nominally, in the Uruguay Round. Two thirds of those have become members of its successor institution, the World Trade Organization (WTO) as indicated in the attached table. Nevertheless, national trade barriers remain high, restraining international trade and keeping intra-regional trade between Sub-Sahara's fragmented markets at levels on average less than seven percent of their combined GDP. Sub-Saharan Africa, with 10 percent of the world's population, generated only 1.3 percent of the world's $4.2 trillion exports, or $56.3 billion in 1994, mainly commodities--gold, diamonds, oil, and agricultural products such as cocoa and coffee.

One way of addressing this situation, is to encourage more active participation in the WTO by Sub-Saharan African countries, both individually, and as a byproduct of efforts at regional trade liberalization. With the notable exception of the extensive tariff bindings established by South Africa and the other members of the South African Customs Union (SACU) in the Uruguay

Round, the rest of the region has undertaken only minimalist commitments in the WTO to open markets for goods and services. Implementation of WTO obligations, which apply to all Members regardless of level of development, should be expanded, in order to support economic reform, encourage trade, and create the stable commercial conditions favored by foreign investors. In the ongoing process of reviewing the implementation of WTO obligations in the Committees that administer WTO Agreements, and in the course of periodic reviews of Member's trade regimes required by the WTO, we will press for greater use of WTO provisions in operating their trade regimes, to further the objectives of reform and liberalization in Sub-Saharan trade.

At the same time, the WTO Agreements have provided for transitional periods to full implementation for the poorest countries, many of which are in this region. For a specified period of time, these countries enjoy the benefits of WTO membership, but have somewhat limited obligations. The WTO also provides additional assistance to the poorest countries to put the provisions of the WTO Agreements into action. The principal areas of focus have been technical assistance in the development of WTO-compatible practices affecting areas such as customs procedures, intellectual property protection, agriculture and the implications of the Uruguay Round Agreements for these countries' economies. The WTO Secretariat is also working with Members to review technical assistance requirements and to provide educational materials to help countries comply with WTO requirements

Another practical step to broad trade liberalization by countries of the region is to encourage freer trade within the region or parts of it. Africa has a long history of attempts at integration and liberalization, but their success has been limited. The Southern African Customs Union (SACU) was established in 1910. Consisting of South Africa, Botswana, Lesotho, Swaziland, and Namibia, it has been the most durable of these efforts, and is still operative, providing for essentially free trade behind a common tariff. The Southern African Development Community (SADC) began as an effort to counterbalance the effects of South Africa's apartheid policies in 1979. It has a broader membership than SACU, and is actively considering complete

liberalization of trade among its twelve members in the southern cone of Africa. We encourage this trend to regional trade liberalization in Sub-Saharan Africa, and welcome the expanded dialogue it is generating with individual countries as well as with groups that are engaged in regional integration efforts.

For that reason, the Vice President signed an MOU with SADC to assist them in their integration efforts by providing technical assistance in the form of advisory services and research support. As part of that agreement, we were pleased to work with SADC officials when they asked us to provide technical reviews of their trade protocol designed to forge their members into a single trading area. When this and other regional trade arrangements from Sub-Saharan Africa are submitted to the WTO Membership for review and approval under WTO provisions, it will provide opportunities to ensure that these arrangements promote an increase in trade, not trade distortion.

In other regions of Africa, integration agreements had been signed, canceled and reconfigured for the past three decades. The efforts at integration continue. Currently, the Western African Economic and Monetary Union or (WAEMU) was established to liberalize and integrate the western francophone region. In the eastern region, the Preferential Trading Area (PTA) seeks to revive and expand in its successor, the Community of East and Southern Africa (COMESA). Kenya, Uganda and Tanzania, as a subset within the PTA, once had a very closely integrated union that separated and now, once again, is tentatively moving closer together.

These continued efforts at liberalization and integration reflect a hopeful change in Sub-Saharan Africa. That promise is confirmed by the free elections held in more than twenty Sub-Saharan countries in this decade.

In an effort to encourage closer U.S./African trade relations and to foster this trend to greater political and economic liberalization beyond national and regional boundaries, we look for opportunities to expand the two-way flow of ideas with the individual countries of Africa or with

groups of them, particularly where regional trade liberalization is progressing. We have a formally structured consultation with South Africa in the Bi-National Commission and occasional conferences with individual countries or regional groups, like our consultations with SADC on its trade protocol. It is time to encourage greater communications between officials at all levels to identify problems and opportunities and to work out ways to resolve the former and to capitalize on the latter. These meetings would allow us to address issues of mutual concern such as increasing utilization of GSP; expanding access to markets for textile and apparel within the framework of international agreements; increasing trade in certain commodities; and improving customs administration to free up trade flows, reduce border delays, and deter illegal transhipments. The more systematically we address these working level problems, the better we will be prepared to address the more complex trade policy issues that require resolution at increasingly more senior levels. In short, we should be building a network of effective working relationships whereby a meeting might be feasible somewhat along the lines of the U.S.-Africa Trade and Economic Forum that has been proposed by Congressman McDermott.

This is a new Africa emerging and the United States should develop a comprehensive trade and development policy for Africa. We have begun this effort in accordance with a timely directive contained in Section 134 of the Uruguay Round implementing legislation. That section calls for a report each year on U.S. trade policy toward Africa, the first of which the President submitted to Congress in February. We are in the process of implementing the numerous initiatives contained in the report and examining new opportunities for increasing trade and investment with Africa. We hope, thereby, to turn obstacles into opportunities for the countries of Africa so that they can become more active participants in the world trade arena, and more active trading partners of the United States.

In my view, this objective of expanding our trading relationship with Africa will take on greater meaningfulness over time. Today our trade flows are small and undeveloped for many reasons. We hope that we can increase the trade flows by working to diminish those practices on both sides of the ocean that may inhibit trade. We must lay a firmer foundation in trade before we can

pursue free trade negotiations. Whatever barriers we have in the forms of tariffs, etc, are clearly not the major obstacle to increased trade between Africa and the United States. I think that we can make more progress by working on the pressing barriers that hinder trade between our countries. Our goal now is to seek freer trade on a larger scale. We think that the African countries share that goal. No African country has requested that we negotiate a free trade agreement, but many are seeking greater access for their goods. While we are considering ways to enhance their trade flows to our markets, we want to convince them that it is in their interest to liberalize their trade practices regionally and internationally.

The Trade Barriers Report that we prepare each year is a kind of radar scope of trade practices. It picks up changes in U.S. business attitudes toward trade obstacles. Increasingly, we find African trade practices coming across its screen reinforcing the idea that we need a new comprehensive trade and development policy for Africa. A cursory reading of the President's Trade Barriers report to Congress indicates there are a growing number and variety of unfair trade practices in Africa that U.S. firms have identified and which we are seeking to redress on their behalf.

A hopeful sign of change in Africa is that Africans no longer are willing to regard themselves as a European trading reserve. Nor are American businesspeople prepared to concede Africa to Europeans. While the Africans are obviously not prepared to endanger the trade they have with Europe, EU trade policies are not sufficient to provide for acceptable rates of growth in Africa. Given the openness of the U.S. market generally, and, assuming enactment of GSP extension, marginal increases in U.S. openness are not the critical elements.

Rather, the real question is how the African states can best take advantage of their access to foreign markets. This involves these countries opening their own markets to investment and trade in strategic ways.

Generalized System of Preferences

One approach to expanding trade with Africa is to prime the pump by facilitating the development of African countries as trading partners. Utilization of the Generalized System of Preferences (GSP) by African countries had been increasing, rising from $332 million in 1994 to $489 million in 1995. South Africa captured nearly three-fourths of the Sub-Saharan African GSP benefits, followed by Zimbabwe, Mozambique, Swaziland and Mauritius. Together, these five countries captured 92 percent of all Sub-Saharan GSP benefits. The major GSP products included jewelry and a number of commodities such as ferrochromium, ferrosilicon, manganese, cane sugar, parts for ore processing machinery, and animal skins.

Since the legislative authority for GSP expired in July 1995, the Administration has urged Congress to pass legislation renewing the GSP as a way of facilitating U.S./African trade flows. Almost all Sub-Saharan countries (five countries are excluded) qualify as beneficiaries of the GSP program and therefore are eligible to export duty-free 4600 of the 9600 product categories in the Harmonized Tariff Schedule of the United States. In addition, most of the African countries, which are the Least Developed Beneficiary Countries (LDBC's), are not subject to "competitive need limits," and thus are not cut off from duty-free eligibility for products when exports from a GSP-eligible country exceed specified thresholds.

Despite these incentives, only 0.3% of total GSP benefits go to the least developed countries while 61% goes to Asia. The fact that total Sub-Saharan GSP imports in 1995 were valued at only $489 million out of $18 billion GSP imports from all countries clearly argues that more should be done to increase Africa's participation in the GSP program.

Therefore, the Administration proposed that GSP eligibility be expanded to cover additional products provided they are imported from LDBC's which would include most Sub-Saharan African countries. Two caveats should be noted. First, statutorily excluded products such as most textiles and apparel, shoes, handbags and a few others would not be included. Second, any extension of GSP eligibility to any other products would be reviewed to exclude those determined to be import sensitive even if imported only from LDBC's on a duty-free basis.

We are considering two new initiatives that would apply to African countries eligible for GSP. First, to raise Sub-Saharan GSP utilization rates, the Administration intends to launch a public information effort to tell governments and private firms how the GSP program works and how to take advantage of its benefits.

Second, the Administration would grant the benefit of cumulation to those groups of African countries that are determined to be making substantive and significant efforts to integrate. This right to cumulate their collective value of production under the program's rules of origin would allow the value of a product partially produced in several African countries to be added together to qualify for the 35 percent value added criteria for eligible products. This would expand Africa's export potential and encourage regional trade liberalization.

Of course, no amount of easing entry to U.S. markets can succeed unless the African countries develop a relatively competitive proficiency in producing goods within the price/quality trade-off range that is in demand in world markets, and particularly in U.S. markets. Export growth, then is dependent on a substantial inflow of investment to provide the country's workforce with efficient plant and equipment. The World Bank has calculated that a country must achieve a level of investment equal to 25 percent of the country's GDP in order to achieve a GDP growth rate of 6 percent. By that criterion, Sub-Saharan Africa would need investment levels of $100 billion annually. African countries' annual savings rates vary widely, with some at negative rates, and most clustered around the 10 percent range, which would amount to $40 billion for Africa. Foreign aid and funding from the multilateral development banks (MDB) which are already owed $185 billion by African countries, are unable to bridge a $60 billion gap in any given year, much less every year.

The only potential funding source that could bridge that gap is private foreign investment. Direct investment brings with it a bonus, namely, an infusion of managerial, technical and marketing expertise from foreign corporations setting up facilities in the host country. Private capital flows to developing countries and the Newly Independent States (NIS) quadrupled during the 1990's

reaching $211 billion in 1995. Private foreign investment amounted to $126 billion; trade financing and other financial sources and official aid made up the rest. African countries, however, have attracted only $2.2 billion of those private foreign investment flows. Of that, $2.1 billion was for direct investment, most of which is believed to be tied to the petroleum sector in African oil-exporting countries. The fact that Asian countries attracted $72 billion suggests how more open investment policies and trade liberalization practices were in stimulating their rapid growth.

In a similar way, additional private foreign investment could be attracted to African ventures, given the right assurances about the treatment such foreign investment would receive in African countries. Africa might provide the right assurances by negotiating bilateral investment treaties (BIT's) whose terms provide for national treatment, unconditional repatriation of capital, the protection of intellectual property rights, and access to international forums of arbitration for U.S. investors. We have BIT's with four African countries (Cameroon, Congo, Senegal and Zaire) and we are in the process of negotiating a BIT with South Africa.

Investors' concern about their physical facilities is equaled by their concern that the intangible qualities that make their products and services unique are protected through the grant and enforcement of intellectual property rights. For that reason, it has been our policy to negotiate bilateral investment treaties in parallel with bilateral intellectual property agreements. Higher levels of intellectual property protection create a favorable climate for investment and the transfer of technology, both of which will help spur development in these countries. Strong intellectual property protection will also protect indigenous artistic, inventive and commercial activities and create incentives for the further development of those activities.

To help firms identify potential investment projects, several initiatives are under way. The aim is to evaluate potential projects that are worthy of U.S. business interests and work for the development of Africa. The Trade and Development Agency, for example, has identified fifty transportation projects in Africa with substantial U.S. export potential. The most promising of

these projects will be highlighted at a conference in September where U.S. firms will meet individually with the African project sponsors to discuss specific business opportunities. Following the conference, the African port, aviation, rail and road officials will travel to manufacturing sites and operational transportational facilities around the United States showcasing American-made goods.

The Department of Energy has conducted a study of electricity needs in South Africa which relies heavily on its coal thermal plants. The potential for trade between Southern Africa and its neighboring countries is significant. Some have substantial hydro electric production potential a method that is environmentally friendly compared to South Africa's coal fired thermal plants. South Africa is likely to seek such clean energy sources for the additional plants that it will need after the turn of the century.

It is obvious that where any of these projects is undertaken by a U.S. firm, substantial exports and investments can be generated. In some cases, U.S. firms' ability to win the projects depends on the availability of financing. The U.S. Export-Import Bank and the Overseas Private Investment Corporation stand ready to finance the export of capital goods involved or provide insurance or investment funds for such projects that meet the agencies' fiduciary criteria. Trade financing can make substantial sums available. Ex-Im Bank, for example, provides financing for over $15 billion of exports in a typical year. The financial condition of some African countries, however, can limit the attractiveness of undertaking financing or investment in those countries. Nonetheless, both of these U.S. government financing agencies will continue to support creditworthy infrastructure projects in Africa, and even in countries that may not be generally creditworthy, these agencies will consider financing projects, provided that the projects are able to generate hard currency earnings for escrow accounts.

Critical to increasing foreign investment in Africa in a sustainable way is making African economies more investor-friendly. As we noted above, evidence suggests that it has been restrictive African trade policies which have resulted in reduced economic growth. USAID has

been working with African governments and with the African private sector to liberalize trade policies, create a legal and regulatory environment that encourages private investment, and helps bring macroeconomic stability. USAID's Programs include providing critical technical assistance in such areas as SADC's development of trade protocols, working with the government of Mozambique on the blueprint for commercial and regulatory reform, and promoting non-traditional exports.

Shaping a new comprehensive trade and investment policy for Africa calls for examination of a great number of U.S. agencies which work together to provide new approaches to deal with the new challenges that arise as African countries themselves change and to work through existing institutions like the WTO and the International Financial Institutions to maximize the impact of multilateral resources towards that objective. In our subsequent four reports to Congress on our trade and development policy toward Africa, we will be examining a changing continent. We will refine our policy accordingly and assess the effectiveness of the initiatives we have already proposed.

African Contracting Parties to the

General Agreement on Tariffs and Trade (GATT) 1947

and the World Trade Organization (WTO)

Sub-Saharan Africa -- GATT 1947 Contracting Parties	Sub-Saharan Africa -- WTO Members

Angola (1994)		
Benin (1963)	Benin	22 February 1996
Botswana (1987)	Botswana	31 May 1995
Burkina Faso (1963)	Burkina Faso	3 June 1995
Burundi (1965)	Burundi	23 July 1995
Cameroon (1963)	Cameroon	13 December 1995
Central African Rep. (1963)	Central African Republic	31 May 1995
Chad (1963)		
Congo (1963)		
Cote d'Ivoire (1963)	Côte d'Ivoire	1 January 1995
Djibouti (1994)	Djibouti	31 May 1995
Gabon (1963)	Gabon	1 January 1995
Gambia (1965)		
Ghana (1957)	Ghana	1 January 1995
Guinea (1994)	Guinea	25 October 1995
Guinea-Bissau (1994)	Guinea Bissau	31 May 1995
Kenya (1964)	Kenya	1 January 1995
Lesotho (1988)	Lesotho	31 May 1995
Madagascar (1963)	Madagascar	17 November 1995
Malawi (1964)	Malawi	31 May 1995
Mali (1993)	Mali	31 May 1995
Mauritania (1963)	Mauritania	31 May 1995
Mauritius (1970)	Mauritius	1 January 1995
Mozambique (1992)	Mozambique	26 August 1995
Namibia (1992)	Namibia	1 January 1995
Niger (1963)		
Nigeria (1960)	Nigeria	1 January 1995
Rwanda (1966)	Rwanda	22 May 1996
Senegal (1963)	Senegal	1 January 1995
Sierra Leone (1961)	Sierra Leone	23 July 1995
South Africa (1948)	South Africa	1 January 1995
Swaziland (1993)	Swaziland	1 January 1995

Mediterranean/Saharan Africa -- GATT 1947 Contracting Parties	**Mediterranean/Saharan Africa -- WTO Members**
Egypt (1970) Morocco (1987) Tunisia (1990)	Egypt 30 June 1995 Morocco 1 January 1995 Tunisia 29 March 1995
African Countries not in GATT 1947	**African Countries not in WTO (as of May 22, 1996)**[1]

LDC Members of GATT 1947 who participated in the Uruguay Round and tabled Goods and Services Market Access Schedules at the Marrakesh Ministerial Meeting in April 1994 have two years from the date of WTO implementation (i.e., until January 1, 1997) to accept the WTO Agreement as original members. These countries are noted in **bold type.** After that date, such countries will be required to negotiate accession to the WTO under Article XII on the same basis as other non-Members.

Mediterranean/Saharan	
Algeria	Mediterranean/Saharan
Libya	Algeria
	Libya
Sub-Saharan	
	Sub-Saharan
Cape Verde	**Angola**
	Cape Verde
Comoros	Chad
	Comoros
Equatorial Guinea	**Congo**
Eritrea	Equatorial Guinea
Ethiopia	Eritrea
	Ethiopia
Liberia	Gambia
	Liberia
Sao Tomé and Principe	**Niger**
Seychelles	Sao Tomé and Principe
Somalia	Seychelles
Sudan	Somalia
	Sudan
	Zaire

Chairman CRANE. Thank you very much, Ambassador.

The sub-Saharan African countries, or the overwhelming majority at least, are members of WTO, but the President's recent report on sub-Saharan Africa urged acceleration of implementation of those commitments.

Do you have any feedback from what the African response may have been to that initiative?

Mr. LANG. No. I should say that, of the 48 countries, I think 38 were members of the GATT, and all of those except 6 have moved over into the WTO. My understanding from Geneva is that those six can complete their accession relatively rapidly. The other 10 will have to go through the normal accession process, and they are at various stages. Some of them will have some problems—Libya, for example. You are right. Most of the countries are in the system or getting in the system.

As far as their reaction, I am not familiar with any formal reaction. I do not know if we have heard anything yet from them. But, I would be glad to look into that and get back to you in writing.

Chairman CRANE. My understanding is that our exports to sub-Saharan Africa in 1995 increased 22.7 percent. Have you any feedback as to where most of that increase occurred? I mean, is it in portions of sub-Saharan Africa, one or two countries, or is it fairly evenly distributed?

Mr. LANG. You know, I have some statistics here. Let's see if I can put my hands on this.

This is 1995 data. The increase from 1994 to 1995 was about—this is in value terms—was $4.4 billion to $5.4 billion. The greatest increase was clearly in South Africa, which is also by far the largest export market, from about $2.2 billion to around $2.8 billion.

There was a significant increase in Nigeria, from $509 million to $602 million, so that is close to $100 million. Others are much smaller than that. The next closest is probably Cote d'Ivoire.

So, the concentration of the export increases is limited to a few countries, just as the utilization of our programs is limited to a relatively small number of countries.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you for being here, Ambassador, and we welcome your contribution.

I hope that as my friend, Congressman McDermott, said, we can anchor something in this Congress, through this Subcommittee, that would cause us to be a part of exploring the possibilities of expanding trade with Africa generally.

It has been my experience that the African countries do not have a constituency here to support their efforts. As a matter of fact, when we were having the newly found democracies, I was surprised to see that they used the same lobbying firms that were used by the colonial countries. But it was explained that, after all, resources have not changed and so trade would have to go on and that they knew better.

But as the years have gone on, it seems as though I do not have those firms lobbying me. In other words, it just seems to be a lack of interest in Africa. Then, of course, along comes Ron Brown and everything is exploding, everything is exciting, it is good for Amer-

ica, good for democracy, and good for both continents. Everything was upbeat.

Some would want to believe that it was the Ron Brown policy. Knowing my government better than that, I would want to know whether anything has been locked into place as a task force to make it easier for Americans and for Africans to trade with each other, and if so, who would be the person that is coordinating this effort.

Mr. LANG. Well, even Secretary Kantor said that he cannot replace Ron Brown. It was a devastating loss for all of us.

Mr. RANGEL. That is why I mentioned a task force.

Mr. LANG. There is an interagency group that was put together to prepare the 134 report. That is now moving forward under the aegis of the National Economic Council. There will be a meeting at my level, which is called the Deputy's level. We plan to continue meeting indefinitely on this project.

I have met once with Mr. McDermott. I need to meet with him and others more frequently. I would like to be in the country more frequently to meet with them. But we are devoting, increasing attention. It is going to be very difficult to replace Ron Brown, but we will try to——

Mr. RANGEL. No, no. I misspoke. I am only talking about not what we had but what do we have now.

I get the impression that we are trying to develop a policy that does not depend on a personality.

Mr. LANG. Yes.

Mr. RANGEL. Having said that, where do you get your input from in order to have a better feel for what that policy should be?

Mr. LANG. I see.

We have, by statute, a private sector advisory committee system that involves—it is probably on the order of 60 different committees, with a couple of thousand American participants, who provide us both policy level advice and sectoral level advice.

Mr. RANGEL. This group is American businessmen and women?

Mr. LANG. Right. And they——

Mr. RANGEL. And, that is a public list?

Mr. LANG. Yes, sir.

Mr. RANGEL. Are there any African Americans involved in that group?

Mr. LANG. Oh, yes, absolutely.

Mr. RANGEL. So, when you make that list public, it will allow other people to have input, at least through that group——

Mr. LANG. You know, USTR, we are ready to meet with anybody who is interested in a trade problem, whether they are in the formal process or not.

Mr. RANGEL. I know that. But meeting with you after a policy is established would be too late.

Mr. LANG. Now. I mean now.

Mr. RANGEL. Well, I would not know who has a positive contribution to make, but knowing who is involved and participating could assist me——

Mr. LANG. I see. We can get you that information.

Mr. RANGEL. So if we had the list, businesspeople, who sometimes are embarrassed by not knowing what to do, would feel more comfortable talking with them.

In the U.S. Congress, besides Mr. Jefferson and Mr. McDermott, where would you normally go to get a feel for the congressional concerns for Africa generally and the sub-Sahara more specifically? Who are the people that you rely on to help you resolve some of the legislative problems?

Mr. LANG. Well, we have two ways of consulting with you—and this issue demonstrates both of them. First, we have a series of statutory advisers to us who we are required by statute to consult with, and we consult on all kinds of problems with——

Mr. RANGEL. Are the Members listed on that statutory list by name?

Mr. LANG. Yes, sir.

Mr. RANGEL. Could you name just some of the outstanding contributors to that policy?

Mr. LANG. Well, they would be the Ranking Member and the Chairman of the Ways and Means Committee and the Finance Subcommittee, and the Ranking Member and Chairman of the Trade Subcommittees in both Houses and so on.

Mr. RANGEL. That necessarily wouldn't mean that the statutory titles are the people that you depend on in formulating a policy where Congress can be helpful, does it?

Or do you meet with these people on a regular basis, statutorily?

Mr. LANG. Yes, sir.

Mr. RANGEL. How often?

Mr. LANG. Frequently. I mean, we meet at the staff level very frequently.

Mr. RANGEL. What I am trying to do is help, without having a meeting with you or with a lot of people, that statutorily have their name listed. If we have got to get a policy, we all ought to get in and be supportive of what makes sense.

Mr. LANG. I agree.

Mr. RANGEL. And so our Subcommittee Chairman has reached out in a very positive way to bring people together, to better understand the obstacles that we have had in the past in increasing trade with Africa, and I would assume to encourage other people to participate, so that we can expand.

Mr. LANG. Right.

Mr. RANGEL. Statutory lists do not work. I mean, are you on the statutory list? Is Jefferson on the list?

Mr. LANG. Sir?

Mr. RANGEL. I mean, he is not on the list.

Mr. LANG. I believe not. But, I said there was a second way we consult.

Mr. RANGEL. Right. I am sorry.

Mr. LANG. That is, we informally consult with everybody who's interested. For example, I have met with Mr. McDermott because we know he is interested. We have met with the staff of——

Mr. RANGEL. I am only trying, Ambassador, to find out the names on your informal list, so that I can work with that informal group. Since I am not a part of the statutory group, I do not know who in Congress has enough interest in this subject matter that

they will be willing to work on a congressional task force so that other members would not ask for an appointment with you, but would be interested in supporting the efforts being made by the administration.

Mr. LANG. Let's put it this way. Any way you want to do it, we will do it.

Mr. RANGEL. Thank you. That does not help much, you know. [Applause.]

We will come up with some creative ideas to have us working more closely together.

Mr. LANG. I appreciate that.

Mr. RANGEL. I hope that you might be able to put together an informal task force between the Commerce and State Departments so that we can find out which departments and agencies have the problems and the impediments that can be removed so that we can better establish commerce and trade.

Mr. LANG. I would be glad to do that.

Mr. RANGEL. Whatever you come up with in the same spirit, I will be glad to try to work with you so that there would be a working task force, and then we would be able to report to our statutory leaders as to where we want to go.

Mr. LANG. I appreciate that.

Mr. RANGEL. Thank you, Ambassador.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Ambassador Lang, I appreciate your coming up here. Mr. Rangel raised an issue which I was going to raise, which is the whole question of where should we look for the focus. You're saying that Miss Tyson or Mr. Lake as the chairman of the advisory panel. Is it fair for us to look to them as the focus in the administration?

Mr. LANG. The National Economic Council is chaired by Laura Tyson. It meets on an interagency basis to discuss broad economic policies.

The USTR, Ambassador Barshefsky, chairs an interagency committee that considers the trade aspects of these problems in detail——

Mr. MCDERMOTT. With respect to Africa?

Mr. LANG. Yes, sir, with respect to every——

Mr. MCDERMOTT. Specifically Africa, or generally trade problems?

Mr. LANG. Specifically, generally, however you slice it. And so if you've got trade issues that need to be considered on an interagency basis, that is the way they would be considered. But they would also have to be rolled into broader economic policy considerations that go beyond trade, and the vehicle for that in this administration, which has been very successful, at least in my experience, compared to other administrations, is the National Economic Council.

Mr. MCDERMOTT. Let me ask you a question which puzzles me from looking at the data that we have been able to accumulate.

South Africa is obviously the centerpiece of Africa for the administration. Unfortunately, it seems like it is the only place, because if you look at Ghana or you look at Uganda, who have been good

performers economically, you do not see the same kind of high-level support and interest in fostering economic engagement. We have no bilateral commission going with Uganda or Ghana. I wonder what the explanation for that is.

I mean, if a country does well in Africa, why do we not extend the same kind of involvement to them that we have had with South Africa?

Mr. LANG. Well, I am not sure I can speak for the nontrade part of that equation, which is probably a lot of what you're talking about, international finance, development assistance, things like that. I am just not current in those areas.

In the trade area, our interchange so far with most of the countries has been through the WTO, because everybody is in Geneva and everybody has a common denominator of basic obligations. In that context—and it is also easy for countries to be represented there because the UN agencies are there, so typically they have a representative who does both the GATT and the UN agencies.

So far, there hasn't been that much response, whether the countries are doing well economically or not. In other words, we are not——

Mr. MCDERMOTT. Are you saying the problem is the Africans have not come forward to us rather, we have been reaching out to them?

Mr. LANG. Well, we have reached out to them. We need to do more. We are going to do more in the region with these educational conferences, and the WTO is going to do more in the region in terms of reaching out to them. We will support those efforts.

Mr. MCDERMOTT. I read in the papers that when the WTO president suggested that we ought to be doing more for developing countries, the headline said "U.S. Cool to Proposals by WTO", as though he was saying let's reach out to the developing countries but the United States said, "No, no, wait a minute. Let's slow down here." It is a very short article in the international papers, but it is pretty clear that we did not reach out and we were not encouraging him to reach out.

Now, are you saying that that is a change in policy that you are now enunciating here?

Mr. LANG. No. We are going to evaluate all these proposals on their individual merits. I do not know. I am not familiar with the article. But, we are working closely with Director General Ruggiero on this question. There are some things that we cannot do under our current law that I do not think he is suggesting, but others in Geneva are suggesting.

I just do not know what the reference to the article is, but in terms of reaching out——

Mr. MCDERMOTT. I will get it to you because I would like to have your response in writing as to what was suggested there.

Let me just ask one other question, with the indulgence of the chairman. You say that in textiles it is a minor issue, but I want to raise it and let's look at a specific, because this is a trade area where you do have responsibility.

Kenya started up a business; Mauritius started up a business. They began making textiles, and it is quota free, so they thought. They are going along and they get up to the enormous figure of

$100 million, by comparison to the $43 billion that we import, and suddenly a quota call is put on them. The World Bank in analyzing this, said Well, why is this? Well, the United States said we do not want you to make that particular item. We do not want you to make dress shirts. Make something else.

Now, we are into signals, and if you encourage a country to develop an industry, and then you come in and put your foot on them, and then say no, put your investment over here, I would think private sector investors would say to themselves, once is ignorance, and twice is stupidity. If I put my money into a business and I invest and I get squashed, why should I move it over here when I do not know what kind of signal was sent by that first quota. I want to understand why a $100 million business in Kenya or Mauritius was so threatening that it had to have a quota call put on it. That is the crux of my question.

Mr. LANG. First, the program is transparent. There is no reason for an investor to feel that the program cannot be understood and they cannot find their way through the program successfully. Many, many countries have succeeded in doing so over the years. And while they end up with quotas, they also end up with growth factors, and they are able to diversify their production into other products.

You are right. What happened was, whatever that product was—some kind of shirt—came in at a time when the factors that govern the statutory process in this country were all lined up in such a way that an affirmative determination had to be made, and we made a call. We still made what I think is a fairly generous agreement with Kenya on that category. My understanding is that the quota was set 75 percent above the call rate.

But the broader point is that developing countries—we have a multilateral obligation here, with respect to these growth factors and with respect to the rights of all the other countries that are in the system, to access in the U.S. market. If we do not follow that system, we are going to get in trouble with a lot of other countries.

Mr. MCDERMOTT. Who are the other countries we were going to get in trouble with?

Mr. LANG. All the beneficiaries of the WTO——

Mr. MCDERMOTT. Of the multifiber agreement?

Mr. LANG [continuing]. System. Yeah, this is a multilateral agreement we are dealing with here.

Mr. MCDERMOTT. And what was the specific thing that Kenya did wrong? I do not understand. I mean, I truly do not understand how that internally was derived, because the net effect was to lose 11,000 jobs in Kenya in the apparel industry, according to the World Bank.

So, I have a hard time understanding what it was that they did wrong, that necessitated this call being put on them.

Mr. LANG. Well, basically, if imports are increasing and domestic production is declining, the Committee that administers the U.S. quota has to instruct us to make a call. That is basically the way the system works; it is consistent with our multilateral obligation.

But the point is, there is one quota in all of sub-Saharan Africa, and everybody knows exactly how the system works. Kenya did not do anything wrong, but they need to adjust to the way the system

actually works in order to be able to take advantage of it. They can do that. They can learn to do that just like every other country in the world has learned to do that.

Mr. MCDERMOTT. I guess I still—This is sort of an arcane area to me.

Mr. LANG. It is to me, too.

Mr. MCDERMOTT. But the ultimate impact of this quota is to send a horrible signal to an investor who might want to go into an African country, where they believe they are quota free, and then suddenly, because domestic production drops some place in the United States, somehow that triggers some mechanism in the American Government that says we cannot take any more from this quota free country.

That seems to me a pretty hostile investment environment to put your money in if you can figure out some place else to put it.

Mr. LANG. All I am saying is that investors have worked in that climate in poor developing countries for many, many years, and have been very successful by knowing how the program works and taking advantage of it. We do not see any reason why, with a little training, Kenyan investors cannot do the same thing and not have the adverse effects on our market that we cannot tolerate, because we are increasing, and have been for years, imports of textiles and apparel in a very import-sensitive industry.

I do not think that situation ought to be hostile to investment, simply because it has not been hostile to investment in other developing countries. In other words, what I am trying to say is, this system has applied on a less liberal basis for many years, for 30 years before the Uruguay round put in the current liberalization system. All during that period, people were willing to invest in textile industries around the world.

Africa needs to learn how these systems work in order to take advantage of them. They should not be in the situation of having only 6 out of 48 countries taking any advantage of GSP. They should not be in the situation of only one country taking significant advantage of textile market access. But, while it is a transparent program, it is a difficult program to master. We can explain the program because it is all set out in the public record. It should not discourage investment, but they have to follow the rules, and then they will not have a problem.

Mr. MCDERMOTT. I think we agree that we want them to take more advantage of the system. I am worried about the signals we send. I think we'll have further discussions, obviously, as this proceeds.

But I think the reason for the APEC-like forum and for some of these initiatives at our level is to say the Federal Government wants to take an interest in Africa, and we are going to take a positive and aggressive interest in Africa rather than a kind of passive, "if you can figure out the rules on how to maneuver, good luck. If you cannot, well, whatever happens to you is your own problem." I would rather shift from that passive view to a more aggressive view that says here's how it works, folks. Do this, do this, do this, and you are in it.

I think you will then have a seeding in Africa, of some countries that will take advantage and begin to make things happen, and

others around them will see that that happens. So there is really great potential if we make it a little bit more—You say it is transparent, and yeah, everything is transparent. I have seen the Federal Code and I can read English. But I do not know that it is exactly transparent.

Mr. LANG. I am saying that in comparison with systems in other industrialized countries.

On your main point, I fully support the point about outreach. We need to find ways to work with you on that. I am open to that and any way you want to have that exchange is fine with me.

Mr. MCDERMOTT. Thank you very much.

Thank you, Mr. Chairman.

Chairman CRANE. Again, thank you, Ambassador Lang. We look forward to working with you in the future on this issue.

I would next like to call up our panel of Jeffrey Sachs, Hon. Michael A. Samuels, Kenneth Ofori-Atta, and Daniel O'Flaherty.

Gentlemen, before we commence, if you could try and summarize your remarks in 5 minutes, please do so. But all printed matter will be made a part of the permanent record.

With that, we will commence with Jeffrey Sachs.

Mr. SACHS. Mr. Chairman, thank you very much.

I understand that Mr. Ofori-Atta has to leave soon and he has asked whether he might go first.

Chairman CRANE. Absolutely then, please. Thank you.

STATEMENT OF KENNETH OFORI-ATTA, CHAIRMAN, DATABANK FINANCIAL SERVICES, LTD., ACCRA, GHANA

Mr. OFORI-ATTA. Thank you, Mr. Chairman.

I have been asked to testify to your Subcommittee on sub-Saharan trade issues because, first and foremost, I am an African entrepreneur and a member of the West Africa Enterprise Network, and I am a founder of a financial services company which does business with the United States.

In addition to those qualifications, I schooled in the States and had my university degree at Columbia, and a master's degree at Yale. I also worked on Wall Street for a few years, both with Morgan Stanley and Salomon Brothers.

I would like to describe briefly the context in which I believe U.S. trade relations in Africa should be viewed today, and to make three recommendations as to actions this Subcommittee might wish to make to launch a more dynamic U.S. trade and investment policy based on partnerships and private sector growth and not on dependency and aid, the U.S. relationship to Africa, is unfortunately, largely monopolized by your relationship with African governments as opposed to the private sector and the people. I will then comment briefly on Congressman McDermott's proposal.

Let me begin my testimony by affirming that African nations are currently experiencing an economic turnaround. Indeed, the improved economic outlook resulting from the trend toward liberalization and privatization in Africa makes this continent one of the newest emerging markets. With a 3-percent growth rate of the population, which is about 650 million, it makes it one of the largest potential markets for the United States.

In my view, the African machine, as I would call it, has yet to spin. Africa has a stranglehold on a lot of key resources, like gold, platinum and chromium. In addition, Africa has some of the largest producers of copper, coffee, cotton, and sisal.

How do we then put some "sap" into Africa? How do we grease this machine for it to run? Thanks in part to the World Bank and IMF policies, Africa has begun to make progress. The new prescription of structural adjustment has been well taken. governments are now having to take the private sector much more seriously.

I would also like to affirm that this new emerging market in Africa is one in which the United States is in a superior position to benefit from. The United States has tremendous comparative advantage in sectors where Africa must invest over the next 10 years if its countries are to compete in the global market; that is, telecommunications, energy, electricity, power plants, ports, to name only a few.

The rush and need to modernize businesses and government facilities in Africa through computerization represents such an untapped market. The push to liberalize and privatize in Africa offers U.S. businesses, both large and small, many highly profitable opportunities for investment, joint ventures, and trade with African firms.

Let us look at an example in Ghana on how U.S. markets can capitalize on Africa, in my country investment in the mining sector has amounted to over $6 billion over the last 5 years, much of which was spent on heavy equipment. The United States captured only a fraction of that market, despite its expertise and the recognized quality of its heavy equipment industry. Paradoxically, since the listing of our largest gold company, Ashanti, on the New York Stock Exchange, U.S. institutional holdings is now over 35 percent of this company. And yet, American companies have not benefited significantly from the capital equipment that Ashanti required during the period of its development.

The United States must also find ways of encouraging increased foreign direct and portfolio investment in Africa. While private flows are increasing worldwide, just eight developing countries receive two-thirds of foreign direct investment, and none of those countries is in Africa. U.S. strategy must, by necessity, evolve to encourage the establishment of private sector equity funds and guarantee mechanisms, as suggested by Congressman McDermott, to support and promote U.S. investments in Africa. Sub-region funds and infrastructure funds established with local African partners, will ensure a better record than I believe has occurred in Eastern Europe.

I would also like to, in addition, affirm that there is a new generation of African entrepreneur, who has a global market perspective and possesses the technical skills to team up with U.S. companies, such entrepreneurs include members of the West Africa Enterprise Network. I encourage U.S. businesses to look at this network as a means of forging sustainable business alliances into the West Africa subregion.

I will look at three recommendations which I believe will help toward this course. First, the issue of reversing the brain drain of talent of African professionals. The United States currently trains

some of the largest pools of Africans, and I think they could serve as a good link into joint ventures and entrepreneurial ventures between U.S. firms and African entrepreneurs.

A case in point was the first flow of portfolio funds into the Ghana stock market, which was negotiated between my firm, the government, and Salomon Brothers, a firm where I had personally worked in New York. The venture was profitable for the government and the firms listed on the stock market and Salomon Brothers. A $25 million investment was nearly doubled in value during that time.

Many of the emerging markets in Africa have also performed well and, therefore, there is real economic profitability in looking at U.S. trade relations with Africa.

I would also want to look at how to identify credible business partners for the U.S. business community to improve trade information flows and contacts. The U.S. business community, as has been illustrated, may not be fully aware of the potential in the region, and African countries may also not know their way around the GSP or other benefits that the U.S. market may have; therefore, the need to link up and provide the basis for such information so that trade can go on in the private sector.

I would like to stress that the West African Enterprise Network is fully supportive of the spirit and objectives of Congressman McDermott's proposed initiative; that is, removing tariff and nontariff barriers to trade between Africa and the United States; reinforcing regional economic integration in West Africa; promoting dialog among U.S. and African governments and private sector representatives; reducing risks for U.S. corporations entering the African market; and ending quota calls on textiles and apparel from Africa.

Measures to support regional economic integration will certainly allow our countries to access the same benefits as those accruing to members of trading blocks such as NAFTA and the EU.

As private businesspersons in the subregion, who have had to forge our own way to sustain our businesses under very difficult circumstances, with little security and our own capital fully at risk, we are firm advocates of an end to dependency in Africa. We are also firm advocates of free markets and the creation of a level playingfield and a stable environment in our countries, in order to enhance the African private sector's chances for growth and development.

However, Africa, as you know, is not a homogenous society. There are different levels of development which will require different programming emphasis. The graduating countries from USAID's programs and World Bank/IMF programs now require more direct intervention with the private sector, and we hope the Subcommittee will be innovative in finding new sources of support for this initiative.

The beauty of what I believe in Congressman McDermott's proposal is that it is simple, it is obvious, but it is revolutionary as a U.S. policy toward Africa. This is because U.S. policy to Africa will switch from aid and dependence to trade, which is more self-sustaining, more self-respecting, and should have universal appeal to your constituents.

On behalf of the West African Enterprise Network, and as a representative of the new generation of African entrepreneurs, and a product of your schools and corporations, I can assure you that we welcome the actions your Subcommittee and your strategic allies and agencies can take to assist the African private sector and to highlight to African governments that there is no choice but a true partnership between the public and private sector if we are to achieve economic growth. Inasmuch as this Subcommittee's initiative clearly demonstrates to African governments that their private sector is the most critical tool they have to encourage and induce the U.S. Government to support economic development in the region, we pledge our full cooperation to work with this Subcommittee on the initiatives, the design and its subsequent implementation.

Mr. Chairman and Members, I am, in a nutshell, saying that Africa's case is not one of endemic dependency but one of a primed pump, with resources and people requiring retooling for imminent industrialization. the United States has the comparative advantage and capital which Africa needs. The United States should use these resources to assist corporate America to come to Africa, by providing information, by helping to create funds and guarantee mechanisms, by linking up with a new generation of African entrepreneurs, and by giving most favored nation status to those African countries whose governments follow free trade and private sector dogma.

With this, I believe a true partnership and a mutually beneficial relationship will be established and sustained between the United States, and the over 650 million potential consumers of capital equipment and consumer goods which Africa now needs.

I thank you and I appreciate the time.

[The prepared statement and attachments follow:]

TESTIMONY TO THE
HOUSE WAYS AND MEANS COMMITTEE

Hearing on "Sub-Saharan African Trade Issues"
August 1, 1996

by

Kenneth Ofori-Atta

Chairman, Databank Financial Services, LTD.
National Coordinator, West African Enterprise Network

I have been asked to testify at this Ways and Means Committee hearing on Sub~Saharan African Trade Issues because I am an African entrepreneur and a member of the prestigious West African Enterprise Network whose formation was supported by the U.S. Government and because I am a founder of a financial services firm which does business with the United States.

In addition to those qualifications, I obtained my undergraduate degree in economics from Columbia College in New York and my graduate degree in management from Yale. I also worked for four years on Wall Street with Morgan Stanley and Salomon Brothers, before returning to Ghana in 1990, after ten years in the U.S., to create my firm, Databank Financial Services, Ltd. I am therefore a graduate of the best U.S colleges and very familiar with U.S. corporate culture after my experience on Wall Street.

I would like to describe briefly the context in which I believe in U.S./African relations should be viewed today, and to make three recommendations as to actions this committee might wish to take to launch a dynamic U.S. trade and investment policy based on partnerships and private sector growth, and not on dependency and aid, and a U.S. relationship to Africa largely monopolised by African governments. I will also comment briefly on Congressman McDermott's specific proposal, entitled "Growth and Opportunity in Africa: The End of Dependency "

I. THE CONTEXT

Let me begin my testimony by affirming that **African nations are currently experiencing an economic turnaround.** Indeed, the improved economic outlook resulting from the trend towards liberalization and privatization in Africa makes this continent the newest emerging market in the world. Its population and the 3% per annum growth rate of that population (Africa as a whole represents a market of over 650 million people; West Africa alone, where I live, represents a market of 200 million people) make it one of the largest potential markets in the world.

The 1996 World Bank publication, Global Economic Prospects, estimates that for the first time since 1989, incomes in Sub-Saharan Africa are growing. The region's GDP rose nearly 4% in 1995, to $417 billion, its highest growth rate of the 1990s. Economies are on the rise throughout the continent, with 30 of Africa's 48 countries showing GDP increases higher than 3%. Agriculture and industry have responded to improved macro-economics conditions. In West Africa, industrial growth increased 6.7% in Cote d'Ivoire in 1994. Regular increases have occurred in the last three years in Sahelian livestock, rice, canned fish and textiles production. Cotton production is up 50% in Burkina Faso and Togo and 25% in Mali. Senegalese groundnut production is 40% higher than last year. In Ghana, my country, government and the people have shown remarkable tenacity in implementing and sustaining a difficult structural adjustment program. Average GDP growth in Ghana over the last ten years has been over 4.5% per annum.

However, given Africa's high population growth, economic growth rates of 8-10 percent are required before African countries can significantly reduce poverty. Increased trade with the U.S. is therefore not only a stimulus for economic growth, but also a way out of Africa's persistent poverty and an end to reliance on foreign aid.

The African machine, in my view, has yet to spin. Africa has a stranglehold on certain key resources: five times the gold in the U.S., ten times the platinum in the NIS, with Zimbabwe and South Africa the world's largest producers of chromium. In addition, Africa is the second largest world producer of copper, coffee, cotton and sisal.

How do we put the sap back into Africa? How do we grease this African machine, for it to run? Thanks in part to the World Bank and the IMF and the fall of communism, Africa has begun to make progress. The new prescription of Structural Adjustment has been well taken--governments are now having to take the private sector seriously; prices and wages are being liberalized, along with exchange rates, and state enterprises are being privatized.

I would also like to affirm that **this new, emerging market in Africa is one which compared to the other industrial natios the United States is in a superior position to benefit from.** The United States has tremendous comparative advantage in sectors where Africa must invest over the next ten years if its countries are to compete in the global market telecommunications, energy, electricity, power plants, ports, to name only a few. The rush and need to modernize businesses and government facilities in Africa through computerization represents a huge untapped market (For example, there are more telephones in New York City than in the whole of Sub-Saharan Africa, just as there are more computers in the New England states than in the 48 countries of my continent). The push to liberalize and privatize in Africa offers U.S. businesses -- large and small--many highly profitable opportunities for investment, joint ventures and trade with African firms.

We know that exports to developing countries are the fastest growing segment of the U.S. export market. Total exports from the U.S. to developing countries in 1995 amounted to $60 billion, or 40% of total U.S. exports. However, U.S. exports to Africa in 1995 represented less than 1% of total U.S. exports, or $5.5 billion. U.S. exports to Africa in 1995 did rise, however, by 32%, compared to 1990, and by 22%, compared to 1994. (For details on U.S. Exports to Sub-Saharan Africa 1990-1995, refer to the chart on pages 9 and 10).

To further propel the mining industry, tourism and agriculture, which employs the most people in Africa, we need huge investments in packaging, financial services, transportation (rail, road, air, sea), etc.

To capitalize on this emerging market, the U.S. must marshall forces to track these opportunities, to keep its business community informed and to identify those credible African business partners with which U.S. firms can work. It will truly be unfortunate for the U.S. to lose these valuable and lucrative markets through lack of information and contacts.

To cite one example of a lost opportunity:

> In my country, Ghana, investment in the mining sector has amounted to over $6 billion over the last five years, much of which was spent on heavy equipment. The U.S. captured only a fraction of that market, despite its expertise and the recognized quality of its heavy equipment industry. Paradoxically, since the listing of Ashanti Goldfields on the New York Stock Exchange, U.S. institutional holdings is now over 35% of that $2 billion company.

The U.S. must also find ways of encouraging increased foreign direct and portfolio investment in Africa, While private capital flows are increasing worldwide, just eight developing countries receive two-thirds of foreign direct investment, and none of those countries is in Africa. U.S. strategy must by necessity evolve to encourage the establishment of private sector equity funds

and guarantee mechanisms to support and promote U.S. investments in Africa. (Sub-region funds, institutional funds, with local partners will ensure a better record than in Eastern Europe).

I would in addition like to affirm that there is a **new generation of African entrepreneur,** who has a global market perspective and possesses technical and managerial skills and business integrity. In West Africa, this new generation of African entrepreneur came together with the support of USAID and OECD/Club de Sahel in 1993 in an organization known as the **West African Enterprise Network.** At the request of our brothers and sisters in East and Southern Africa, the Enterprise Network will expand to those regions in 1997.

The West African Enterprise Network (WAEN) is made up of a select group of 300 second generation business persons from twelve countries in West Africa.[1] The WAEN pursues a dual mission: to improve the business environment in WAEN member countries, and to develop trade and investment linkages among members and with foreign business partners. To ensure its sustainability, the Enterprise Network covers all its operating expenses, on the national and regional levels, from direct member contributions. To support its members in expanding trade, the WAEN created a Regional Trade Information Center which provides reliable, up-to-date information on regional trade flows, suppliers, prices, volumes and transportation costs, as well as information on world market prices, quality standards for exports, packaging and labelling norms. All twelve Enterprise Networks are linked via e-mail, making the WAEN a ground breaker in establishing electronic trade communications capability in West Africa.[2]

In three short years, the WAEN has influenced policy in the twelve countries in which national networks are located and has developed on-going dialogue with national leaders and with the major multilateral donors in the region, including the World Bank and the European Union, and the principal bilateral donors, including the U.S., France, U.K. and Germany. The WAEN has also obtained official observer status with ECOWAS, the regional economic union for West Africa. WAEN members have created several joint ventures among their West African firms and have developed close trade ties to a number of U.S., U.K. and French firms in sectors such as agribusiness, services, manufacturing and portfolio investments.

WAEN members listened attentively when the late Ron Brown, at a luncheon sponsored by the West African Enterprise Network in Ghana, spoke of America's desire to aut-compete the Europeans' traditional trading partners in African markets. We look for signs of a renewed commitment from U.S government and corporations to doing business in Africa.

Given that many WAEN members were educated in the U.S., attending your top schools, most often on scholarship, they have developed true entrepreneurship, with fresh ideas and a firm understanding of U.S. corporate culture, why not look to them to help facilitate the trade eg. Databank/SCOA/IEA partnerships of the future between the U.S. and Africa?

To summarize my view of the context in which U.S./African trade relations should be viewed today, I believe that we are observing the beginning of an economic turnaround in Africa, flowing from the growing trend towards liberalization and privatization. Secondly, I believe that the U.S. is well positioned to gain a superior advantage in this new emerging market in Africa, due to its strong comparative advantage in infrastructure-related markets such as telecommunications, energy, electricity, power plants, etc. Thirdly, I can assure you that there is a new generation of African entrepreneur present on the continent today, with the necessary managerial and technical skills and entrepreneurial bent to forge the kinds of trade partnerships U.S. corporations are seeking.

[1]Countries where national Enterprise Networks have been created include Benin, Burkina Faso, Chad, Cote d'Ivoire, Gambia, Ghana, Guinea, Mali, Niger, Nigeria, Senegal and Togo.

2 For additional information on the West African Enterprise network and an overview of the Ghana Network's activities, please refer to the attached reprint on pages 11-12 from the Network's quarterly bilingual newsletter, The Networker.

I. RECOMMENDATIONS

I would like to propose three means for increasing U.S. trade with Sub-Saharan Africa. These are based on my personal experience with U.S /African transactions

1. Reverse the brain drain of talented African professionals

The United States attracts one of the world's largest pools of African talent. Given that current conditions in Africa make it difficult for them to envision returning to their home countries, the U.S. could assist in structuring programs which would encourage them to return and start their own businesses. Our experience indicates that those entrepreneurial Africans who have returned have consistently sought opportunities for joint ventures and investment partnerships with United States corporations and individuals. Such incentive programs would serve two purposes: first, they would serve to generate economic activity and to create jobs in countries where unemployment is a critical problem. And secondly, and more importantly for U.S. businesses, they would help to create a critical core of U.S.-educated and professionally-experienced Africans with whom U.S. investors are immediately comfortable.

I speak from experience when I state that in order to overcome a foreign investor's innate fear of investment in Africa, he or she must feel at ease with his or her African business partner. Africans who have been educated in the same culture and who speak the same business and management language are natural partners and confidence builders for Americans interested in investing in or exporting to Africa.

A case in point: the first flow of portfolio funds into the Ghana Stock Market was negotiated between my firm and Salomon Brothers, a firm where I had personally worked in New York. The venture was profitable for the Ghana government, the firms listed on the stock market and for Salomon Brothers, who literally doubled their $25 million investment.

It is important that we examine strategies to identify these US trained Africans to help US corporates enter our markets on a long-term sustainable basis .

2. Increase foreign direct and portfolio investment in Africa

Many of the emerging markets in Africa have performed very well, Returns on credible ventures in Ghana are 25% real and plus. Indeed, in 1994, UNCTAD calculated that the average return to American investors in Africa was about 25%, considerably higher than the returns on American investments in Europe. It is critical to continue this trend. We must seek means of attracting U.S. funds and companies into Africa. We strongly support the creation of private sector equity and guarantee mechanisms which would facilitate the willingness and ability of U.S. corporations and individuals to take advantage of trade and investment opportunities in Africa. Once a demonstration effect is created from a series of sucessful ventures, other investors will follow. However to avoid disappointing results from some of the Eastern European funds we propose that these sub-regional and infrastructure funds should be established with local partners.

I would encourage this committee to take action promptly, because the opportunities now coming to light under the liberalization and privatization programs throughout Africa should not be missed. In our view, the U.S. comparative advantage in the infrastructure investment projects outlined above give U.S. firms a strong edge over other competitors. Africa has not retooled for 30 years. The window of opportunity to compete to retool African infrastructure and industry that will exist over the next few years will probably not repeat itself during the following thirty years. For example, it is estimated that Ghana needs 1000 megawatts of power for the next phase of its industrialization. This translates into at least a billion dollars of immediate business and some $10-20 million a year for maintenance services. Companies like Kaiser and Mobil in Ghana will testify to the benefits of this early entry strategy, based on their own experience in the 1960s.

3. Identify credible business partners for the U.S. business community to improve trade information flows and contacts

The U.S. business community needs to be able to tap into a pool of credible business partners, to obtain accurate and timely information on markets and prices, to enter into joint ventures and to serve as local counterparts. U.S. government agencies and legislative committees such as your own also need credible African business persons to assist them in the design and implementation of any trade promotion programs or supportive legislation they might envision.

I would like to propose that the West African Enterprise Network, and in 1997, its sister organizations in East and Southern Africa, be tapped to work with this committee and any U.S. private or government agency charged with the implementation of this committee's recommendations, to ensure that the African private sector is a partner in the design of new initiatives or instruments to promote increased U.S./African trade and investment. We are also prepared to provide this committee and any U.S. private or government agency working with it with required trade information from our sub-region as well as business references. The Network should be used as liaison to ensure that you have the appropriate information, in your language and culture.

III. "Growth and Opportunity in Africa: The End of Dependency"

I would like to stress that the West African Enterprise Network is fully supportive of the spirit and objectives of Congressman McDermott's proposed initiative, i.e., removing tariff and non-tariff barriers to trade between Africa and the U.S.; reinforcing regional economic integration in West Africa; promoting dialogue among U.S. and African government AND private sector representatives on bilateral and multilateral trade initiatives, creating privately managed funds and expanded guarantee mechanisms in order to enhance trade between Africa and the U.S. and to reduce risks for U.S. corporations entering the African market; and ending quota calls on textiles and apparel from Africa.

Measures to support regional economic integration will allow our countries to access the same benefits as those accruing to members of trading blocks such as NAFTA and the E.U. The West African Enterprise Network will participate willingly in all initiatives to foster dialogue between government and the private sector. This is an integral part of our organizational mission. But we will also take the initiative to develop direct private-to-private relationships with the U.S. business community, through groups like the Corporate Council on Africa, and in the context of events such as our November 1996 WAEN General Assembly for Trade and Investment in West Africa. Measures to remove tariffs and end quota calls will allow us to compete openly on the free market, which will help us put an end to dependency.

As private business persons who have had to forge our own way to sustain our businesses, under very difficult circumstances, with little security and our own capital fully at risk, we are firm advocates of an end to dependency in Africa. We are also firm advocates of free markets and the creation of a level playing field and a stable environment in our countries, to enhance the African private sector's chances for growth and development.

However Africa is not a homogenous society; there are different levels of development which will require different programming emphasis, the graduating countries from USAID's programmes and World Bank/IMF programmes now require more direct intervention with the private sector...and we hope the comments will be innovative in finding new sources of support for this initiative. The beauty of Congressman McDermott's proposal is that it is simple and obvious but will be revolutionary. This is because US policy to Africa will switch from aid and dependency to trade which is self-sustaining, self-respecting and should have universal appeal to your constituents.

On behalf of the West African Enterprise Network and as a representative of the new generation of African entrepreneurs and a product of your outstanding schools and corporations, I can assure you that we welcome the actions your committee and your strategic allies and agencies can take to assist the African private sector to highlight to African governments that there is no choice but a true partnership between the public and the private sector, if we are to achieve economic growth. Inasmuch as this committee's initiative clearly demonstrates to African governments that their private sector is the most critical tool they have to encourage and induce the U.S. Government to support economic development in the region, we pledge our full cooperation to work with this committee on the initiative's design and subsequent implementation.

Honorable committee members, I am, in a nutshell, saying that Africa's case is not one of endemic dependency, but one of a primed pump, with resources and people requiring retooling for imminent industrialization. The U.S. has the comparative advantage and capital which Africa needs and should use these resources to assist corporate America to come to Africa: by providing information, by helping to create funds and guarantee schemes, by linking up with a new generation of African entrepreneurs, and by giving most favored nation status to those African countries whose governments follow free market and private sector dogma. With this, a true partnership and a mutually beneficial business relationship will be established and sustained between the US and the over 600 million potential consumer and equipment market which Africa represents.

KENNETH OFORI-ATTA

Chairman and Founder, Databank Financial Services Ltd
SSNIT Tower Block, 5th Floor
Private Mail Bag
Ministries Post Office
Tel (233) 21 66-91-10
Fax (233) 21 66-91-00
email: databank~ncs.com.gh

Kenneth Ofori-Atta is the Chairman and Founder of Databank Financial Services Ltd., a full service investment and financial research company incorporated in April 1990 by two graduates of Yale School of Organization and Management and a Ghanaian entrepreneur. The management team consists of professionals with extensive experience in investment banking, mergers and acquisitions, accounting, law, investment research and credit analysis in both the domestic (Ghana) and international markets.

Databank compiles full information on the companies listed on the Ghana Stock Exchange, publishes the Ghana Stock Market Review, maintains the Databank Stock Index for the Ghana Stock Market, conducts valuation analyses for companies being privatized, provides corporate financial and credit rating advice to financial institutions, provides corporate advisory services to firms engaged in aviation, telecommunications, food processing and general manufacturing, and trade finance advisory services for import transactions to Ghana, as well as advisory services to multilateral agencies regarding the establishment of financial institutions.

Mr. Ofori-Atta worked at Morgan Stanley and Co. and Salomon Brothers, Inc. in New York. During his tenure, he worked on over $4 billion in merchant banking transactions in the areas of corporate finance, leasing, real estate and debt and equity capital raising. Mr. Ofori-Atta holds a A.B. in Economics from Columbia University and a MPPM from the Yale School of Organization and Management.

Mr. Ofori-Atta is a founding member of the West African Enterprise Network, a group of 300 second generation business men and women from 12 countries in West Africa. He is the head of the Ghanaian National Enterprise Network and of the Financial Sector Subnetwork which is responsible for policy recommendations concerning the creation of new financial instruments for private sector investment and the diversification of the fmancial sector in West Africa.

Databank has also recently initiated a $10 million regional fund, known as the West African Enterprise Fund, intended to finance expansions and start-up ventures in West Africa, working with country advisors from the West African Enterprise Network for project identification and monitoring.

U.S. Exports to Sub-Saharan Africa 1990 to 1995

Listed by state, in US$

State	Exports in 1990	Exports in 1994	Exports in 1995	%Chg 90-95	%Chg 94-95	Value Chg 90-95	% of State 95 Total Exports
Texas	$886,395,113	$867,376,091	$1,322,262,086	49.17%	52.44%	$435,866,973	1.92%
Louisiana	$291,095,586	$400,156,162	$470,739,483	61.71%	17.64%	$179,643,897	2.24%
California	$284,667,565	$344,582,074	$404,147,983	41.97%	17.29%	$119,480,418	0.42%
New York	$243,871,780	$312,278,108	$373,749,803	53.26%	19.68%	$129,878,023	1.01%
Florida	$224,632,119	$252,259,936	$253,274,340	12.75%	0.40%	$28,642,221	1.07%
Georgia	$195,946,308	$168,305,328	$205,597,651	4.93%	22.16%	$9,651,343	1.66%
Illinois	$174,604,185	$210,100,856	$205,146,933	17.49%	-2.36%	$30,542,748	0.80%
Pennsylvania	$153,697,952	$149,528,198	$188,098,696	22.38%	25.79%	$34,400,744	1.24%
Virginia	$134,356,535	$150,797,168	$165,062,979	22.85%	9.46%	$30,706,444	1.28%
Ohio	$122,481,663	$126,076,658	$147,450,944	20.39%	16.95%	$24,969,281	0.62%
Wisconsin	$84,621,110	$106,618,526	$132,114,286	56.12%	23.91%	$47,493,176	1.30%
New Jersey	$122,414,912	$111,327,272	$131,114,273	7.11%	17.77%	$8,699,361	0.95%
Maryland	$67,803,361	$120,335,914	$128,176,170	89.04%	6.52%	$60,372,809	2.06%
North Carolina	$112,074,772	$88,116,849	$118,399,635	5.64%	34.37%	$6,324,863	0.70%
Massachusetts	$61,528,166	$78,533,210	$102,606,281	66.76%	30.65%	$41,078,115	0.68%
Washington	$230,779,785	$114,329,820	$90,737,495	-60.68%	-20.64%	($140,042,290)	0.37%
South Carolina	$26,813,283	$47,493,258	$81,032,599	202.21%	70.62%	$54,219,316	1.11%
Kansas	$134,160,818	$79,896,491	$77,402,035	-42.31%	-3.12%	($56,758,783)	2.01%
Connecticut	$43,500,078	$66,058,704	$75,125,604	72.70%	13.73%	$31,625,526	1.15%
Tennessee	$49,837,785	$72,859,634	$69,693,513	39.84%	-4.35%	$19,855,728	0.79%
Oregon	$25,854,476	$66,829,282	$64,572,790	149.75%	-3.38%	$38,718,314	0.68%
Minnesota	$66,802,690	$60,070,379	$57,160,696	-14.43%	-4.84%	($9,641,994)	0.65%
Michigan	$32,883,298	$45,140,583	$55,540,681	68.90%	23.04%	$22,657,383	0.20%
Alabama	$50,564,571	$38,566,487	$53,902,204	6.60%	39.76%	$3,337,633	1.00%
Arizona	$21,740,214	$17,306,829	$50,854,895	133.92%	193.84%	$29,114,681	0.50%
Indiana	$33,343,042	$39,723,643	$49,688,764	49.02%	25.09%	$16,345,722	0.43%
Colorado	$19,936,849	$33,789,669	$40,734,027	104.32%	20.55%	$20,797,178	0.78%
Missouri	$17,461,361	$31,312,501	$39,729,881	127.53%	26.88%	$22,268,520	0.91%
Iowa	$14,042,318	$40,632,824	$37,733,511	168.71%	-7.14%	$23,691,193	0.87%
Oklahoma	$26,242,722	$21,666,220	$30,067,639	14.58%	38.78%	$3,824,917	1.24%

State	Exports in 1990	Exports in 1994	Exports in 1995	%Chg 90-95	%Chg 94-95	Value Chg 90-95	% of State 95 Total Exports
West Virginia	$8,595,118	$23,511,923	$29,723,401	245.82%	26.42%	$21,128,283	1.35%
Kentucky	$14,945,165	$17,394,819	$18,829,828	25.99%	8.25%	$3,884,663	0.32%
Nebraska	$7,786,206	$15,113,061	$16,263,553	108.88%	7.61%	$8,477,347	0.80%
Arkansas	$14,631,945	$16,101,086	$14,546,815	-0.58%	-9.65%	($85,130)	0.65%
Delaware	$2,620,543	$8,278,893	$13,971,001	433.13%	68.75%	$11,350,458	0.82%
Mississippi	$19,448,031	$12,258,930	$11,369,992	-41.54%	-7.25%	($8,078,039)	0.41%
Wyoming	$17,686,230	$9,692,161	$10,906,392	-38.33%	12.53%	($6,779,838)	2.56%
Nevada	$3,821,629	$6,478,519	$10,222,768	167.50%	57.79%	$6,401,139	1.24%
Idaho	$3,078,976	$8,764,111	$8,916,438	189.59%	1.74%	$5,837,462	0.45%
Utah	$8,674,898	$4,879,863	$6,781,791	-21.82%	-38.98%	($1,893,107)	0.18%
North Dakota	$126,351	$3,637,159	$6,585,399	5111.99%	81.06%	$6,459,048	1.14%
Maine	$1,131,898	$5,112,098	$5,413,252	378.25%	5.89%	$4,281,354	0.36%
New Hampshire	$7,467,275	$3,351,258	$4,881,309	-34.63%	45.66%	($2,585,966)	0.34%
District of Columbia	$2,894,517	$8,933,022	$4,366,770	50.86%	-51.12%	$1,472,253	1.40%
Rhode Island	$2,774,389	$3,552,021	$3,356,746	20.99%	-5.50%	$582,357	0.33%
South Dakota	$550,385	$1,701,814	$2,483,485	351.23%	45.93%	$1,933,100	0.57%
Vermont	$1,320,699	$2,675,558	$2,203,373	66.83%	-17.65%	$882,674	0.06%
Montana	$242,559	$543,496	$1,367,591	463.82%	151.63%	$1,125,032	0.35%
Alaska	$1,323,643	$3,262,382	$641,746	-51.52%	-80.33%	($681,897)	0.02%
New Mexico	$5,382,033	$1,391,651	$380,507	-92.93%	-72.66%	($5,001,526)	0.08%
Hawaii	$5,400	$381,286	$59,444	1000.81%	-84.41%	$54,044	0.02%
U.S. Total	**$4,078,662,307**	**$4,419,083,785**	**$5,395,189,478**	**32.28%**	**22.09%**	**$1,316,527,171**	**0.93%**

Source: Massachusetts Institute of Social and Economic Research

EDITORIAL

THE SUCCESS OF THE GHANA ENTERPRISE NETWORK ORGANISATION: A SOLID ACTION ORIENTED MEMBERSHIP

By: Ken Ofori Atta and George Prah
National Co-Coordinators

The Ghana Enterprise Network is honoured to have been given this opportunity to sponsor the Networker. This will be the second edition fully funded by a Network member country, after the very successful premier sponsorship by the dynamic Mali Network.

We hope to use this issue to showcase the Ghana Network members, through articles and advertisements, snapshot of successes of selected members and the concerted efforts and individual commitments which have over the past three years transformed the Ghana Network into a dynamic and pragmatic force for business advocacy, cross border trade and investments and the private sector.

The Ghana Network was blessed with the foresight of its founding fathers, Messrs. Kwabena Darko and Afare Donkor who were driven by a number of factors:

- they saw the West African Enterprise Network as the missing link in the sub-region's drive for integration and the ascendancy of formal economic and business activities in each country in the sub-region;

- the evolution of a new generation of entrepreneurs as the driving force towards economic and social change;

- the Network as a natural collection of stakeholders who could form a powerful and progressive "think tank"; and as an advocacy group to push for a more business friendly environment; and

- to close the gap between anglophone and francophone West Africa and to showcase to the world the new African entrepreneur.

Our founders were quick to throw the leadership mantle over the new generation of entrepreneurs after stressing these shared principles and emphasising the fact that the Network's legitimacy and credibility will hinge on the Network's continual integrity, non-political stance and commitment to the ideals underpinning by the Network.

The initial plan for selection of membership included a careful list of entrepreneurs who shared these ideals such as Mr. Louis Casely-Hayford, Chairman of CAL Merchant Bank, Mr. Ben Addae, founder of KIKU Fisheries, Mr. P.V. Obeng the Presidential Adviser, and Ms. Adwoa Okyere, founder and CEO of African Bagg, to name a few. Later additions have included the owners of SEEL Ghana Limited, a communications and trading concern, Messrs, George Hayford and Reginald Hansen-Thompson, partners in the Auditing firm of James Quaigraine & Co., and Messrs. Nich Adi-Dako and Frank Gadzekpo, Managing Director and General Manager respectively of SCOA Ghana Limited.

The message from the onset has been to ensure that the life blood of the Network, that is, its membership is well selected, vibrant and self generating through a keen eye on recruitment of new and dynamic entrepreneurs, and to encourage the emergence of new entrepreneural class in Ghana. The goal has been to form a vision of a new role of business in the country's economic development, and to act as support base for each other. With this consensus and commitment to these objectives, the Network was set to achieve its goals.

Initially, the West African Enterprise Network was an informal association of entrepreneurs bound by a common cause. The realisation quite quickly dawned on the Ghana network that the Network had to be formalised if it was to be made sustainable. The strength of our membership paradoxically was also going to be its weakness if we stuck to an unstructured informal association. Members who were mostly founders and/or chief executives of their firms did not have the time to manage the operational affairs of the Network.

The Ghana Network was, therefore, the first to formalise the organisation. We initiated dues, formally registered the association, found an office and shared secretarial staff with one of the member firms. The result was that Ghana established an infrastructure for take off early and was subsequently elected by the Coordinators and members to manage the Regional Headquarters and Trade Information Center.

The Ghana Network has consequently been at the storm centre of the Regional Network's activities and chalked numerous success. In both 1993 and 1995, we hosted the bi-annual regional conference. In both conferences which hosted over 300 visitors, major policy issues on the micro, macro and regional level were debated, analysed and action plans initiated.

In the most landmark of events, three banks in the West Africa region, Ecobank, Bank of Africa and CAL Merchant signed a protocol of agreement to facilitate intraregional fund transfers from 30 days to 3 to 5 days, at the last conference in November 1995.

The Ghana Network from the beginning identified stakeholders to support its advocacy initiatives. Towards this the Government, the Private Enterprise Foundation and the donor community were informed of our activities and brought in to share in our vision. The Network and the Private Enterprise Foundation have worked closely on the strengthening of private sector initiatives in Ghana; the Network co-sponsored a seminar with the Ministry of Finance on the 20th anniversary of ECOWAS.

Earlier this year, the Network was the only non-US organisation to organise a major 200-plate luncheon for the late U.S. Secretary of Commerce, Ron Brown on his visit to Ghana. The Network in addition, organises monthly lunches and invites prominent personalities and our traditional donor allies USAID, CIDA, EU and CFD to participate.

In this editorial we would like to take the opportunity to salute a few of our members for the incredible successes achieved, and in their pushing the envelope to modernise their firms, having foresight to try the improbable, and all-in-all for exhibiting excellence in their areas of operation.

AKUABA FURNITURE

Chief Executive Mrs. Adusei-Herbstein remains a pioneer in the furniture manufacturing business and the only woman in this highly competitive field. The firm is poised for expansion and is looking to attract a joint-venture partner and to elevate itself into the big league of blue chip companies by potentially seeking a listing on the Ghana Stock Exchange.

Continued on page 4

 Contd from p3

BUSINESS IN GHANA

GEN member Sydney Casely-Hayford has in less than two years created the most authoritative business magazine in the country "Business in Ghana". This bi-monthly magazine's subscription has soared to 2000. It features the most analytical and thoroughly researched articles on all areas of the economy and policy issues which effect the business environment in Ghana.

DARKO FARMS

GEN founding member, Mr. Kwabena Darko, founder and Chief Executive of Darko Farms continues to lead by example, excelling as the leading producer of poultry in the country and probably West Africa. Mr. Darko has experimented with packaged cut parts and is still the only poultry producer pushing for exports of eggs and day old chicks to the sub-region.

DATABANK

GEN members Ken Ofori-Atta and Keli Gadzekpo's Databank Financial Services Limited remains the most pre-eminent investment banking firm in Ghana. The firm's services include corporate finance advisory, asset management, stockbrokerage services and research. The firm has listed a number of firms on the Ghana Stock Exchange and plays a dominant role in managing the accounts of all the leading emerging market funds with portfolios on the Ghana Stock Exchange. As an example, Databank recently hosted Dr. Mark Mobius, President of the $9 billion Templeton Emerging Market Fund for 4 days in Ghana. Databank is currently collaborating with the West African Enterprise Network to structure a $30 million West African Enterprise Fund to provide equity, quasi-equity and debt financing for WAEN members and the private sector in West Africa. The Fund is expected to be operational this year and will be the first indigeneously created fund in Sub-Sahara Africa.

INTEGRAL (GHANA) LIMITED

Gerald Guice is founder and Chief Executive of Integral, a 200 hectare pineapple plantation in the Eastern Region in Ghana. Following a contact made with a Cameroonian banana exporter in 1994, Ghana Enterprise Network (GEN) member, Gerald Guice successfully negotiated for the Cameroonian's Europe bound reefer vessels to make stops in Tema for Ghana pineapples, whose exports by air had become increasingly fraught with high costs, cargo space limitations and unreliability. Although Ghana's pineapple had began to make a name in the niche market for fresh air-freighted fruits, volumes were relatively small and supplies unreliable. According to Mr. Guice "Ghana's small volumes could not justify the use of reefer vessels as an alternative, and the more costly use of refrigerated containers had attained only marginal success".

The sea freighting of pineapples, by sharing reefer space with Cameroonian bananas has opened the door for Ghana pineapples to participate in the high volume export market from which Ghana was hitherto excluded. With the premium Ghana pineapples enjoy on the European market, some exporters are even able to obtain the same prices for sea-freight pineapples as they did on air-freight pineapples. Transit time is short 9-10 days and sea freight costs 1/3 that of air-freight. Volumes have grown from 3,000 pallets in 1995 to nearly 9,000 pallets for the half year of 1996. The surge in demand and profitability has impacted pineapple growing which was beginning to decline as difficulties with air freighting ensued. Exporters cannot meet the demand now and farmers are increasing acreage in response to the higher prices now offered. The future looks bright for Ghana's pineapple exports, thanks to the availability of reefer shipping organised by WAEN member, Chief Executive Gerald Guice. Gerald signals the new breed of entrepreneur educated farmer who in the Network's view is the missing link in the sub-region's drive for food sufficiency and the promotion of non-traditional exports.

MEDIA MAJIQUE

Gaddy Laryea's Media Majique & Research Systems Limited (MMRS) is one of the largest and most successful advertising agencies in Ghana. MMRS initially secured an affiliate relationship with South Africa's Ogilvy and Mather Rightford Searl-Tripp & Makin. Since 1995, however, the Agency has now become a part of Ogilvy and Mather Worldwide - one of the top advertising agencies worldwide. This new affiliation opens enormous opportunities for MMRS throughout the sub-region due especially to Ogilvy's profound commitment to building branches through the process of "Brand Stewardship". It allows Media Majique & Research Systems in Ghana to be "the most local of the internationals and the most international of the locals" says WAEN member, Chief Executive Reginald Laryea who in our view has made major strides in the industry.

SCOA MOTORS

The reputable sole distributors of Peugeot vehicles, Iveco trucks and Michelin tyres in Ghana has an enviable track record and has undergone a major restructuring and recapitalization in the past year. This has completely transformed this company to recapture its lead position in the motor vehicle industry in Ghana. The restructuring included the participation of some GEN member companies in the equity of the new SCOA and replacement of the management with a new breed of dynamic young professionals headed by GEN member Nich Adi-Dako as Managing Director, and GEN member Frank Gadzekpo as General Manager. They become the first Ghanaian Executives of SCOA since operations opened in Ghana in 1916 in the then Gold Coast. Nich Adi-Dako and Frank Gadzekpo were both educated in the US and worked in major US companies for over 10 years before returning to Ghana in 1995.

SOUTH AKIM MFG LIMITED

Following a successful restructuring and recapitalization that involved the participation of Ghana Venture Capital Fund Ltd., the company is now embarked on a major diversification to transform itself from the leading producer of Crown Corks into a major packaging company by the year 2000. To achieve its objective the company has plans to be listed on the Ghana Stock Exchange within two years says GEN member George Prah. George, on his return from the UK in 1988, had to take over the company from his father. He has increased profits and engineered the entry of venture capital into what had been a tight traditional family-held enterprise.

VALCO

GEN member Dr. Charles Mensa has recently been appointed the new Resident Director of Volta Aluminium Company (VALCO) following the acquisition of the principal owners, KAISER Aluminium, in 1990 by Charles Hurwitz. Charles' appointment is reflective of the growing trend in the Ghana corporate scene in which a new breed of young and dynamic and well educated entrepreneurs and professionals are taking over the mantle of leadership from the old guard. VALCO employs over 2,000 people, has sales of over $200 million a year and is the largest tax payer to the Government's treasury. Charles, as you know Chairs the first and leading Think Tank in Ghana, the Institute of Economic Affairs. He established the institute in 1990 on his return from Washington DC in 1992. Today, the institute publishes critical appraisals on all sectors of the economy and has been particularly effective in civil society strengthening and governance. His Institute's seminars have created the most effective fora for open dialogue on the most sensitive of political issues.

This is the spirit of the Ghana Network Vive Le Reseau !!

Chairman CRANE. Thank you, Mr. Ofori-Atta.

If you are on a constraint to catch a flight or something like that, you're free to excuse yourself whenever. Otherwise, we will proceed down the list of the other panelists here and then get to questions.

Mr. Sachs.

STATEMENT OF JEFFREY SACHS, DIRECTOR, HARVARD INSTITUTE FOR INTERNATIONAL DEVELOPMENT, CAMBRIDGE, MASSACHUSETTS

Mr. SACHS. Thank you very much, Mr. Chairman, for the opportunity to appear before the Subcommittee, and let me begin by congratulating you on holding these hearings, and also congratulating Congressman McDermott on the very important initiative that he has launched.

I am here as director of the Harvard Institute for International Development. We are deeply involved through research, training, teaching, and advising in more than 20 countries in Africa right now. It is my overwhelming sense, from that involvement in Africa, that the initiative that this Subcommittee is launching is extremely timely and extremely important.

It is timely because Africa is potentially at a turning point. This has been a disastrous period for Africa. I think we should not hide that fact nor neglect that fact in thinking about the urgency of the situation. Africa has gone through more than a decade of declining per capita income, with worsening social conditions in many countries. That is the downside and also the reason for urgency.

On the other hand, I say that it is a promising moment—indeed, an extremely important moment—because all around Africa governments and private sectors are recognizing the need for fundamental change, and fundamental change in the right direction.

I have had the opportunity in the past year to speak with many finance ministers, trade ministers and heads of government, throughout Africa, and Africa is changing and it is changing in the right direction, and an initiative from the United States could have a fundamental and important effect on this.

I would like to say right at the outset that while the IMF and the World Bank have a role to play, and are playing that role, they cannot begin to substitute for political leadership from the United States and from the Europeans. It is a huge mistake to leave these important issues to the international financial institutions, the bureaucracies down the street here, and believe that the bureaucratic treatment of this issue rather than a high-level and highly visible political treatment can substitute for what's really needed. That is the broad context in which, I think, that Congressman McDermott's initiative is so vitally important right now.

Let me stress that I believe the initiative should be an initiative to promote growth in Africa, because more than anything, more than any other objective that the African governments, USAID, and our U.S. Government should have is to promote economic growth. Economic growth is not only vital, obviously, for raising living standards on a broad base, but also for addressing the critical social and health problems that plague the continent right now.

Without economic growth, no social programs, no social expenditures, no aid, is going to work. So, we need to have the underpin-

ning of sustained and rapid economic growth on the continent in order to make every other objective feasible.

I should also say that Africa's slow growth is not a profound mystery. It is the result, overwhelmingly, of poor economic policy choices that have been made in Africa for a great many years. Those choices were understandable. After the depredations of colonialism, the world markets did not look very inviting to the newly independent countries and, by and large, they closed themselves off from those world markets and from foreign direct investment because of the understandable perception that the world was a hostile place.

This was understandable, but fatally flawed. The result was that Africa did not participate in the boom of worldwide economic growth; it did not participate in the boom of trade. While Asia was learning the GSP route and was gaining textile exports, and then a decade later electronics exports, Africa was stuck in declining commodity sectors with almost no manufacturing exports to speak of. This is the historical legacy, this is the tragedy, and this is the fundamental source of slow growth.

On top of this, African governments did not let private markets function properly, and they ran fiscal excesses to such an extent that the national saving rates were deeply depressed and, as a result, there was not adequate capital accumulation to fuel growth.

The result of all of this is that Africa's slow growth can be explained on an international comparative basis. The evidence that I have submitted for the record shows that the factors of closed markets, low national saving rates, and poorly functioning market systems can account for essentially the entire shortfall of Africa's growth relative to other developing countries.

Now, as I said, the good news is that Africa is changing in every one of these dimensions, and changing fundamentally. But they need our help. They need our attention. We need to help push this process in a dramatic way to really get things moving.

I believe there are at least five areas where help is needed, and in every area, every one of these five areas, there is an important role for the African governments and private sector, and a corresponding role for the outside.

The main role for the outside is not money. The main role for the outside is to help the reform process work, to help the markets take hold, to help the saving go up, to help the openness become consolidated through increased exports, and a constituency within Africa for increased exports.

That yellow light in front of me is frightening, so I am going to jump right to the conclusions so that we have time and that I live within your strict limits, because I am also preaching discipline within economic policy. So, let me try my best to not go too much over.

I have four specific proposals, in the spirit of Congressman McDermott's proposal, with some variation. First, my main proposal is the U.S. Government should launch an initiative for African economic growth. This would raise the political profile, help to put the fire under African governments to get things moving, as they are, but to speed it up and to get going. The U.S. leadership

is absolutely important here, and the international financial institutions are no substitute.

Second, we need a system, I believe, of framework agreements, country by country, or with regional groupings such as SADC, which would go through the gamut and be an important incentive, stimulus, and learning experience in the opening of our markets. That would include bilateral investment treaties, double taxation treaties, market access commitments on our side, OPIC and Ex-Im Bank cover, which is desperately needed and could be expanded, and very important, debt reduction, as a part of this.

In a nutshell, and with the red light on and my painful awareness of that, let me say that when it comes to money, if one has to choose wiping off the old slate of bad debt and the overhang which cripples the future, or giving new money through new funding, I would choose to clean the slate and to go for debt reduction and the appropriations that that would require under the Credit Control Act.

The reason is that, with a clean slate and dramatic policy change and reform, we will give the incentive to private markets to invest. There is funding in private markets available, but the policy environment and the debt has to be cleaned in order to really give the push for that private investment to take place.

As you know, the international initiatives on deep debt reduction for the poorest countries are stalled right now. This is deeply regrettable. It requires U.S. leadership on this, and it will require some funding on our part—not dollar for dollar; that is the good news—but subject to the credit control restrictions in our laws to get this done.

Very briefly, let me mention two other areas. This initiative requires coordination with Europe. Europe plays an unhelpful role in several areas, and as Africa's major trading partner, this has to be brought to the fore. We have an important role to play there as well. I cannot elaborate because of the time constraints, but would be happy to in discussion.

Finally, an area for our support that is not going to be easily covered in any other way is for scientific research on agribusiness and industry, energy sources, public health—which is vital right now and requires some of the leading scientific thinking in the world, to address public health issues which affect us but are even more dreadfully affecting Africa right now—and funding for increased educational exchanges, such as the Fulbright program.

Thank you again for the opportunity to testify.

[The prepared statement follows:]

Ways and Means Subcommittee on Trade
Sub-Saharan Trade Issues

GROWTH IN AFRICA
It can be done

by Jeffrey Sachs

About the author:
Jeffrey Sachs is the director of the Harvard Institute for International Development, which is currently pursuing research and advisory projects in 20 African countries. He advised the Bolivian, Polish, Russian and other governments on their economic policies, and his outspoken criticisms of the IMF made him a prominent figure in the debate on western aid to reforming countries. Jeffrey Sachs has long been one of the most persuasive advocates of economic reform in Latin America and Eastern Europe. In this article, he explains why he thinks reform could work wonders in Africa too.

In the old story, the peasant goes to the priest for advice on saving his dying chickens. The priest recommends prayer, but the chickens continue to die. The priest then recommends music for the chicken coop, but the deaths continue unabated. Pondering again, the priest recommends repainting the chicken coop bright colours. Finally, all the chickens die. "What a shame," the priest tells the peasant. "I had so many more good ideas."

Since independence, African countries have looked to donor nations - often their former colonial rulers - and to the international financial institutions for guidance on growth. Indeed, since the onset of the African debt crises of the 1980s, the guidance has become a kind of economic receivership, with the policies of many African nations deciding in a seemingly endless cycle of meetings with the IMF, the World Bank, donors and creditors.

What a shame. So many good ideas, so few results. Output per head fell 0.7% between 1978 and 1987, and 0.6% during 1987-94. Some growth is estimated for 1995 but only at 0.6%, far below the faster-growing developing countries. Asia, for example, recorded a whopping 7% per capita growth in 1995. It is little surprise, then that Africa is receiving about 3% of the foreign direct investment flows to developing countries, while developing countries in East Asia and the Pacific are attracting about 40% of the FDI flows.

Africa is constantly berated for its poor politics and bad economic ideas, though much of the mischief has come from the outside. In the 1960s, the fad at the World Bank and among many donors was "development planning." In the 1970s, this gave way to "basic needs," a doctrine which led the World Bank to back the socialist strategies of soon-to-be-bankrupt Tanzania and other non-market economies. In the 1980s, "basic needs" was supplanted by "structural adjustment" which rightly focused on markets but neglected to set priorities in reform. In the ensuing frustration, the focus in the 1990s has shifted to "good governance:" donors now berate African governments for their "lack of ownership" of reforms dictated by the IMF and World Bank.

Structural adjustment has produced some real gains. Per capita GDP is rising again after more than a decade of decline. Even so, very few cases of rapid growth are emerging from IMF-World Bank programmes. For every case of a success story like Uganda, there are others in which democratization and incipient market reforms have been reversed under the pressure of worsening economic conditions.

The structural-adjustment programmes remain deeply flawed. The IMF is so obsessed with price stability it doesn't think very hard about anything else. The World Bank, on the other hand, has hundreds of good ideas but no priorities. Standard bank programmes call on weak, debt-ridden governments to introduce value-added taxes, new customs administration, civil-service reform, privatization of infrastructure, decentralized public administration and many other wonderful things - often within months. It was, alas, par for the course when the bank set 111 conditions in its "policy-framework paper" on Kenya.

This overflow of conditionality may be a reflection of the Bank's own organizational weakness. In a period of tightening budgets, each department has drummed up business for itself by pushing for roles in as many loans as possible. Leadership by previous bank presidents was too weak to set sensible priorities - which in turn helps explain why structural adjustment-policies have failed to promote vigorous growth. The main challenge for the new president, James Wolfensohn, is not, as is sometimes suggested, mainly managerial. It is conceptual: to set priorities.

The best evidence of the failure of the IMF and World Bank in Africa lies in the programmes themselves. The institutions have actually been targeting low levels of growth per

head throughout Africa - often just 1-2% per year - even though worldwide evidence shows that market-oriented poor countries can grow faster than richer countries. Many low and middle-income nations are averaging per capita growth of more than 5% per year. Of the 53 countries in Africa, only Botswana, Mauritius, and Uganda (since 1989), have come close to that average, and all apparently grew at less than 5% per capita in 1995.

The IMF and World Bank would be absolved of shared responsibility for slow growth if Africa were structurally incapable of growth rates seen in other parts of the world or if the continents's low growth were an impenetrable mystery. But Africa's growth rates are not huge mysteries. The evidence on cross-country growth suggests that Africa's chronically low growth can be explained by standard economic variables linked to identifiable (and remediable) policies. Remedies that have worked in East Asia can also work, with suitable modification, in Africa. Where they have been tried in Mauritius, to some extent in Botswana and (very recently) Uganda, the result has been growth at East Asia rates.

Why has Africa failed?

Studies of cross-country growth show that per capita growth is related to:

- the initial income level of the country, with poorer countries tending to grow faster than richer countries;
- the extent of overall market orientation, including openness to trade, domestic market liberalization, private rather than state ownership, protection of private property rights, and low marginal tax rates;
- the national saving rate, which in turn is strongly affected by the government's own saving rate; and
- the geographic and resource structure of the economy, with landlocked and resource-abundant economies tending to lag behind coastal and resource-scarce ones. To their credit, structural-adjustment programmes have helped Africa to focus on the second and third of these problems.

These four factors can account broadly for Africa's long-term growth predicament. While it should have grown faster than other developing areas because of relatively low income per head (and hence larger opportunity for "catch-up" growth), Africa grew more slowly. This was mainly because of much higher trade barriers; excessive tax rates; lower saving rates; and adverse

structural conditions, including an unusually high incidence of inaccessibility to the sea (15 of 53 countries are landlocked) plus a high reliance on natural-resource exports.

Fortunately, the geographical and resource conditions play only a modest role in Africa's growth shortfall. The lion's share can be attributed to the lack of openness, lack of market incentives and lack of national saving. The table shows the result of a study into how much these factors contribute to Africa's growth shortfall. The study calculates that, because of its low initial income, Africa should have grown 1.4 percentage points faster than a sample of eight fast-growing developing countries in 1970-1989. In fact, growth was 3.1 percentage points slower - an overall shortfall of 4.5 points. Of this, the study attributes 1.8 points to lack of trade openness; 1.9 points to low savings rates; and 0.9 points to highly distorted domestic markets. Africa's innate structural conditions, including landlockedness and natural-resource dependence, explain another 0.5 points of slower growth, not the bulk of the shortfall. Once these factors are taken into account, there is only a small (0.5 point) residual, or unexplained puzzle, to Africa's growth.

If the policies are largely to blame, why, then, were they adopted? The historical origins of Africa's anti-market orientation are not hard to discern. After almost a century of colonial depredations, African nations understandably if erroneously viewed open trade and foreign capital as a threat to national sovereignty. As in Sukarno's Indonesia, Nehru's India, and Peron's Argentina, "self sufficiency" and "state leadership," including state ownership of much of industry, became the guideposts of the economy. As a result, most of Africa went to a largely self-imposed economic exile. Colonial institutions such as agricultural marketing boards became instruments for more government intervention, and the international community became a willing partner to the new development strategies.

The statist and closed-economy strategy was already in deep trouble by the early 1980's, but a decade or more of foreign aid postponed collapse in many countries, ate the cost of delaying reforms and adding to the mountain of foreign debt. Within African countries, vested interests (usually urban based, and against smallholder agriculture) kept the old strategies alive. In the donor countries, cold-war machinations, naivety, and narrow commercial interests linked to foreign aid, led donor governments and the international financial institutions to turn a blind eye to the growing policy failures. Now, however, as western aid money dries up and a new generation of leaders is elected in Africa, it is becoming harder and harder to ignore the policy

failings. The question now has become: what can be put in their place?

Adam Smith in 1755 famously remarked that "Little else is requisite to carry a state to the highest degrees of opulence from the lowest barbarism, but peace, easy taxes, and tolerable administration of justice." A growth agenda need not be long and complex. Take his points in turn.

Peace, of course, is not so easily guaranteed, but the conditions for peace on the continent are better than today's ghastly headlines would suggest. Several of the large-scale conflicts that have ravaged the continent are over or nearly so. The end of apartheid has ended confrontations throughout Southern Africa. Mozambique and Namibia are at peace, and in Angola, the fighting is subsiding. Relations between Uganda, Kenya and Tanzania are better than at any time in the past 25 years. Ethiopia's 30-year civil war has come to an end with Eritrean independence. The ongoing disasters, such as in Liberia, Rwanda and Somalia, would be better contained if the West were willing to provide modest support to African-based peacekeeping efforts.

"Easy taxes" are well within the ambit of the IMF and World Bank. But here, the IMF stands guilty of neglect, if not malfeasance. African nations need simple, low taxes, with modest revenue targets as a share of GDP. Easy taxes are most essential in international trade, since successful growth will depend, more than anything else, on economic integration with the rest of the world. Africa's largely self-imposed exile from world markets can end quickly by cutting import tariffs and ending export taxes on agricultural exports. Corporate tax rates should be cut from rates of 40% and higher now prevalent in Africa, to rates between 20% and 30%, as in the outward-oriented East Asian economies. As a rule of thumb, marginal tax rates of any kind higher than 20% will surely be evaded, and will open festering wounds of corruption. Simple tax schemes - such as low and uniform tariff rates of around 10% - vastly simplify administration, and are likely to raise government revenues in the process.

Remarkably, the IMF often stands against tariff reduction and simplification. Looking at spreadsheet calculations rather than reality, IMF missions frequently insist on packages of higher tax rates combined with "improved tax administration" to satisfy overly-ambitious revenue objectives. The Fund should know better than to urge Mozambique, whose income is $100 per head, to collect 23% of GDP in government revenues, especially when the current tax system is already hemorrhaging with evasion, corruption and maladministration. The Fund has since

backed down, slightly. But it might note that the American federal government has never aimed to collect as much as 23% of GDP in revenues.

Adam Smith spoke of a "tolerable" administration of justice, not perfect justice. Market liberalization is the primary key to strengthening the rule of law. Free trade, currency convertibility and automatic incorporation of business vastly reduce the scope for official corruption and allow the government to focus on the real public goods - internal public order, the judicial system, basic public health and education, and monetary stability. A vastly simplified reform agenda, then, is essential to improved government performance.

Governments should concentrate on setting ambitious growth targets founded upon openness to trade and should pursue them by making conditions comfortable for new exporters, domestic and foreign. That means keeping currencies convertible and depreciating them when necessary to protect the profitability of the emerging export sectors. Trade policies should guarantee, above all, that exporters have ready access to capital goods and intermediate inputs at world prices. Export-processing zones for labor-intensive manufacturing are especially helpful here. And tax policies should offer generous terms for all investors, whether domestic or foreign.

All of this is possible only if the government itself has held its own spending to the necessary minimum. The Asian economies show how to function with government spending of 20% of GDP or less (China gets by with just 13%). Education can usefully absorb around 5% of GDP; health, another 3%; public administration, 2%; the army and police, 3%. Government investment spending can be held to 5% of GDP but only if the private sector is invited to provide infrastructure in telecommunications, port facilities and power. Fortunately, foreign investors are lining up for such project financing, even in less dynamic Africa. To the extent that foreign investors can help, African governments themselves should typically focus on road-building, especially roads to connect rural areas to national markets and international ports. This is especially vital in Africa, where much export-led growth should come from smallholder agriculture - such as cotton in the Sahel, tea in Kenya, tobacco in Malawi - and often in rather remote areas.

This fiscal agenda excludes many popular areas for government spending. There is little room for transfers or social spending beyond education and health (though on my proposals, these would get a hefty 8% of GDP). Subsidies to publicly-owned companies or marketing boards

should be scrapped. Food and housing subsidies for urban workers cannot be financed. And, notably, interest payments on foreign debt are not budgeted for. This is because most bankrupt African states need a fresh start based on deep debt-reduction, which should be implemented in conjunction with far-reaching domestic reforms. The precedents for deep debt-relief are notable and growing, starting with Germany in 1953 and Indonesia in 1969, and now including Poland, Egypt and many others.

Can aid support growth?

Here we reach the last element needed to make Africa grow: aid. Foreign aid, notoriously, has not made much difference in Africa. It has sometimes delayed reform and has sometimes been irrelevant. Aid works only when it is limited in time (and thus is not a narcotic), and is part of an overall market-driven growth strategy. Both conditions have been lacking: aid has become a way of life for many countries, and IMF-World Bank programmes have rarely constituted a growth strategy.

Before public support for foreign assistance is undermined entirely by cynicism and fatigue, it must be recast along workable principles. First, aid should be much more selective. It should go only to those countries taking strong measures to promote market-based, export-led growth. Second, aid should be limited in duration. It can help reform-minded governments pay their bills during the initial period of reform; it cannot substitute for exports or growth in the longer term. It is hard to see why any balance-of-payments support should extend beyond another decade, and many aid programmes should be phased out sooner. A pre-announced sliding scale of aid - generous at the start, declining later - would concentrate the minds of African policy makers wonderfully.

Part of the assistance should come in the form of debt cancellation. No one can doubt the dreadful policy errors of the past, nor the mutual complicity of African and donor nations. A fresh start requires a thick line drawn under the past. As with other forms of assistance, debt cancellation should be deep, phased over time, and conditional on fundamental reforms.

The richer countries would do well to reorient a significant proportion of flows to regional assistance programmes, in support of public goods beyond the reach of individual African countries. For example, the World Bank and World Trade Organization should take a special

interest in landlocked countries - born with a strike against them - to help guarantee safe, secure and efficient access to ports. Donors would do well to bolster the more challenging public good of regional peace, by giving greater and more timely financial backing to regional peacemaking operations. Finally, science and technology (especially in public health and agro-industry) could usefully be supported at the regional level.

The biggest source of support from donor nations would also be the cheapest. America, Europe and Japan should launch a "New Compact for Africa," guaranteeing open markets for African exports and committing themselves to help reintegrate Africa into the world economy. The commitment would help prove to both sides that the long period of economic marginalisation is over, and would energize both African nations and the West to overcome the practical obstacles to a new dawn of rapid growth throughout Africa

Chairman CRANE. Thank you, Mr. Sachs.
Mr. Samuels.

STATEMENT OF MICHAEL A. SAMUELS, PRESIDENT, SAMUELS INTERNATIONAL ASSOCIATES, INC.

Mr. SAMUELS. Mr. Chairman, Mr. McDermott, thank you for holding this important hearing.

Your hearing comes at an exciting moment for U.S. policy toward Africa. The Clinton administration has raised the role of economics in U.S. policy toward Africa beyond that of previous administrations through a number of significant actions. Because of this, more was expected of the new trade and development policy toward Africa, which President Clinton submitted in February.

Unfortunately, the administration's document lacked imagination and was more a justification for traditional development programs than a policy advocating the expansion of African trade.

But much has been happening here in Congress. The bipartisan effort led, Mr. Chairman, by Mr. McDermott and you, contains substantially more imaginative ideas than are included in the administration's policy. Several of the countries of Africa are likely to be among the next generation of African "tigers" with high growth rates.

Mr. Sachs' suggestion of a U.S. policy that would promote growth is absolutely on target. The United States should both participate in that growth and, by our government trade and investment policies, contribute to it.

There are geopolitical and strategic reasons for U.S. involvement in Africa in the post cold war era, in spite of what some non-African foreign policy observers are alleging in articles that they are writing in places like Foreign Affairs Magazine. Economically, Africa possesses 20 percent of the world's population, yet accounts for only 2 percent of world trade, and this is sure to change. There are, therefore, opportunities.

I would like to offer 10 ideas for your consideration. First, U.S. trade policy should distinguish among African countries by their willingness to pursue economic liberalization and reward those countries that pursue serious trade policies.

Second, most African countries have an import regime that penalizes information technology modernization, through high tariffs and other market access barriers. The United States should propose an initiative to eliminate tariffs on personal computers and related components. Assistance under the Leland initiative on Internet access might even be tied to the elimination of barriers in this sector.

Third, current programs within the Agriculture Department, OPIC and Ex-Im, should be bundled to encourage collaboration with countries that make agricultural development and agribusiness opportunities a priority. This can be done in collaboration with the World Bank and other non-U.S. development institutions, if necessary.

Fourth, I agree with the call for an immediate significant increase in duty-free and quota-free textile and clothing imports from Africa. If, as Mr. Lang suggests, it is not a problem, why should he be worried about it? This would be both politically and economi-

cally helpful to Africa and, in spite of the questions from Mr. Payne, I do not believe that it would be harmful to U.S. interests and I think that can be displayed.

Fifth, there will be many infrastructure projects in Africa over the next few decades. In the future, wise African governments will take advantage of the private sector for infrastructure development, and this will lead to opportunities for exports. We should be part of that.

Sixth, the United States should insist that any preferences given to other industrialized countries be granted on the basis of most-favored-nation and national treatment principles, as required by the WTO. This requires vigilance, for example, in the preferential arrangement that South Africa is currently negotiating with the European Union.

Seventh, investment must play an important role in Africa's development. Investment from the United States often leads to trade with the United States. The new policy must include investment-related priorities, including bilateral investment and tax treaties.

Eighth, high tariffs and other market access problems exist in many African countries. There should be a major effort to catalogue African market access barriers to U.S. products and then to negotiate to reduce them.

Ninth, the World Bank and the IMF play significant roles in Africa. The Bank has often been relatively positive in its trade efforts. Often, however, the IMF's emphasis on tax revenues deters private sector industrial growth and encourages the maintenance of tariffs that are counterproductive to economic growth. The United States should exercise its influence with both those organizations to advocate sound trade policies.

Finally, I recommend a specific Assistant USTR for Africa, with enough of a budget to travel around the continent, to interact directly with those countries of growing economic importance to the United States, and with the intention to undertake reciprocal understandings and liberalization of trade regimes.

As a former Deputy USTR, Mr. Chairman, I can tell you that Africa over the years has gotten short shrift by USTR, and the fact that that entire bevy of people who came with Mr. Lang who testified, and then left not to hear the rest of this, is indicative of the real lack of interest that USTR has in Africa. I think that is a good part of the problem.

Mr. Chairman, Africa can be an important trading partner for the United States. Our trade policy should be crafted to allow that to happen.

Thank you for letting me testify this morning.

[The prepared statement follows:]

STATEMENT BY
MICHAEL A. SAMUELS
PRESIDENT, SAMUELS INTERNATIONAL ASSOCIATES, INC.
TO THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
JULY 16, 1996

Mr. Chairman, and Members of the Committee, thank you for holding this important hearing on U.S. trade with the countries of Sub-Saharan Africa. I am pleased to be able to testify, as the subjects you are addressing today have long been of interest to me -- African development, U.S. policy toward Africa, and U. S. trade policy in general. You are to be praised for uniting them at this hearing.

By way of introduction, I am a former U.S. ambassador to Sierra Leone and former Deputy U.S. Trade Representative and ambassador to the GATT. As an international trade consultant in Washington, several years ago I began to notice that there was little attention given to Africa by those interested in trade or to trade by those interested in Africa. That observation led my firm to create the monthly breakfast series, the **Africa Trade Forum**, which, I am pleased to say, is widely viewed as having raised the level and frequency of discussions on Africa trade policy.

Your hearing comes at an exciting moment for U.S. policy toward Africa. The Clinton Administration has raised the role that economic issues play in U.S. policy toward Africa beyond that of any previous administration. A number of significant efforts have been made the current administration including: the White House Conference on Africa early in the Administration, Ron Brown's unprecedented efforts to boost commercial engagement in Africa, the appointment of a high-quality, high-level commercial officer dedicated to U.S. interests in Southern Africa, the business-oriented U.S.-South Africa Binational Commission, the Business Development Committee, and focused efforts to encourage U.S. commercial success in francophone Africa.

It was in this upbeat context that many observers of African economies awaited the new trade and development policy toward Africa which President Clinton submitted in February.

Unfortunately, for the most part, the Administration's document reflected the heavy hand of a non-imaginative OMB and was more a justification for traditional development programs than a policy advocating the expansion of African trade as a vehicle for growth and subsequent development. Although the Administration later launched the Leland Initiative, a commendable effort to speed Internet technology to those African countries that are most interested in and capable of using it, it has been left to Congress and members of the public to promote a comprehensive vision of expanding Africa's ability to trade globally and, of particular interest for us, with the U.S.

Concerned members of Congress and staff who have been most interested in U.S. trade policy toward Africa have been frustrated by the Administration's approach. The bipartisan initiative led, Mr. Chairman, by Mr. McDermott and you, has sought more ideas and input from the knowledgeable public than the Administration did. Not surprisingly, the results of your effort contain substantially more imaginative ideas than is included in the Administration's policy.

What will hopefully emerge, after the Administration digests the Congressional product, will be a more comprehensive, more imaginative policy on trade and development toward Africa than any the U.S. has ever had.

In light of cuts in foreign assistance and IDA funding, it is crucial to spur private sector involvement in Africa if the U.S. is to remain a major player there. Several of the countries of Africa are likely to be among the next generation of economic "tigers" with high growth rates, and the U.S. should both participate in that growth and, by our government trade and investment policies, contribute to it.

Those who look at economic and trade policy and focus exclusively on Europe, Asia, and Latin America are myopic. It is possible to devise an African trade policy that will persuade an American people that is skeptical about new economic programs in general and about Africa in particular. Such a policy would also be wise for geopolitical and strategic reasons in the post-Cold War era. The bottom line, however, is that since Africa possesses 20 percent of the world's population, yet accounts for only 2 percent of world trade, such is a policy is long overdue.

Any policy these days must emphasize that, both in a practical sense in this era of declining budget support for international governmental aid budgets and in a policy sense as well, capturing the interest and investment of the private sector is the path to growth.

U.S. trade policy should distinguish among African countries by their willingness to pursue economic liberalization, and reward those countries that want to be part of international trade through imaginative and policies.

I would like to take this opportunity to emphasize a few areas where a mutuality of interests between the countries of Africa and the U.S. in the trade field exists and to suggest some ways by which your efforts and those of the Administration might be fashioned in the future. I am pleased to note that several of these ideas are included in the proposal being drafted by you and Mr. McDermott.

Following are a few ideas for your consideration.

- **An Information Technology Initiative.** Most African countries have an import regime that penalizes modernization and technological entry onto the global information highway, through high tariffs and other market access barriers. As a result, many of the tools of modernization that are easily available in industrialized countries are luxuries in Africa. Societies that lag behind technologically today are dooming future generations to become even further disadvantaged. The U.S. should propose an initiative to **eliminate** all tariffs on personal computers and related components. An elimination of tariffs would lead not just to an expansion of the ownership and use of these fundamental tools of the modern age, but would also attract investment in the production of both components and final products, so that far-sighted countries of Africa can be included in the global production and sales strategies of major international computer companies. Such an initiative could be devised to promote desired regional cooperation. Assistance under the Leland initiative might be tied to the elimination of barriers in this sector.

- **An Agribusiness Initiative.** Current U.S. programs within the Agriculture Department, OPIC, and the Export-Import Bank should be bundled to encourage collaboration with countries that make agricultural development and agribusiness opportunities a priority. This is an area where one can envision 1) a strengthening and broadening of the market economy; 2) addressing problems of unemployment; 3) a frontal attack on food shortages; and 4) collaboration with the World Bank and other non-U.S. institutions in the development field.

- **A Special Textile Initiative for Africa.** Trade in textiles and clothing is politically sensitive. This is also one of the easiest sectors for industrialization in developing countries. It would be both politically and economically helpful to Africa and not harmful to U.S. interests for there to be a significant increase in duty-free and quota-free textile and clothing imports from Africa -- particularly ahead of the natural ending of the Multifiber Agreement in 2004. I urge you to give the countries of Africa assistance in preparing for the time when there is free trade in textile products.

- **An Infrastructure Initiative.** An African trade policy needs to reflect the probability that there will be many infrastructure projects in Africa over the next few decades. While many of these projects (energy, water, transportation, etc.) in the past were the purview of public-sector entities and public sector financing, in the future, wise African governments will take advantage of the interest of the private sector and the investment such interest can bring. This is sure to lead to large opportunities for exports, and a U.S. policy should emerge that is poised to assist and take advantage of this development.

- **Precluding Preferences Against U.S. Interests.** An African trade policy needs to address how the U.S. should react to agreements African governments make with other industrialized countries. Typically, such agreements give preferential treatment to foreign companies, goods or services while discriminating against U.S. interests. The U.S. should insist that any preferences given to other industrialized countries be granted on the basis of Most Favored Nation and National Treatment principles, as required by WTO membership. This requires vigilance, for example, in the preferential arrangement South Africa is negotiating with the European Union.

- **Trade Follows Investment.** Given the vital role that investment must play in the development of African countries, and given the clear indication that, especially for developing countries, investment from the U.S. often leads to trade with the U.S., the new policy must contain several key investment-related priorities, including an emphasis on bilateral investment and tax treaties.

- **Removing Market Access Barriers.** Tariffs are relatively high in many African countries, but many other market access problems also exist. There should be a major effort to catalog African market access barriers to U.S. products. Such a list should include not only those that are WTO incompatible, but also those where WTO acceptable tariffs are so high as to discourage American exports -- extremely high tariffs on large vehicle engines for example.

- **Encouraging the International Financial Institutions to Advocate Sound Trade Policies.** The World Bank and the International Monetary Fund (IMF) play significant roles in the economic lives of African countries. In recent years, the Bank has increasingly shown an understanding of the importance of trade, especially exports, for African growth. This trend should be encouraged. The IMF, however, has not always advocated sound trade policies. Often, the IMF's emphasis on tax revenues deters private sector industrial growth and encourages the maintenance of tariffs that are counterproductive to economic growth. The U.S. should exercise its influence with both those organizations to advocate sound trade policies.

- **Need for an Assistant USTR for Africa.** As the agency most relevant to trade policy, USTR has, since its founding over 30 years ago, not taken Africa seriously. While I realize that USTR is (and should be) a very lean agency, there should be a specific Assistant USTR for Africa -- with enough of a budget to travel around the continent to interact directly with those countries of growing economic importance to the U.S. and with the intention to undertake reciprocal understandings and liberalization of trade regimes. Advocating such activities and leading the internal African trade efforts of the U.S. government should be an integral part of the responsibilities of this Assistant USTR.

Mr. Chairman, there is much more that might be said about a future U.S. trade policy for Africa, but I wanted to share with you some ideas that I fear may be omitted by others. Africa must be viewed as an important trading partner for the U.S. Our trade policy should be crafted to allow that to happen. I am prepared to answer any of your questions on my ideas. Thank you again for inviting me to testify this afternoon.

Chairman CRANE. Thank you, Mr. Samuels.

Since we have another vote in progress right now, before Mr. O'Flaherty testifies, we should probably go over and cast our votes and return. So, we will take a temporary break here in our testimony.

Thank you so much.

[Recess.]

Chairman CRANE. Will everyone please take seats.

Mr. O'Flaherty.

STATEMENT OF DANIEL O'FLAHERTY, EXECUTIVE DIRECTOR, U.S.-SOUTH AFRICA BUSINESS COUNCIL, AND VICE PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL

Mr. O'FLAHERTY. Thank you very much, Mr. Chairman.

My name is Daniel O'Flaherty, and I appear today as executive director of the United States-South Africa Business Council, which is an association of U.S. companies doing business in South Africa. I am also vice president of the National Foreign Trade Council, which is an association of American companies who trade and invest internationally, including in Africa.

Many of the companies that we work with as the National Foreign Trade Council have disinvested from South Africa, and a part of the interest that we have is attracting those companies to reinvest in South and Southern Africa and expand their operations on the continent.

We welcome the introduction of the legislation described by Congressman McDermott. I wanted to say that I believe there will be considerable support in the U.S. business community for that legislation, and that is because, as exporters, American companies understand the importance of jobs and incomes being generated in Africa so that they can be consumers of American exports, and as investors, American companies understand the importance of their being labor forces and contacts, frameworks, in Africa within which they can work.

Now, these hearings take place at a time of deep pessimism about Africa, about its economic growth, its political stability, and the development of civil societies. Events in Rwanda, Burundi, Somalia, Sudan, Liberia, Nigeria and elsewhere have fed a perception that Africa is fated to continue its decline into poverty and turmoil. In this view, it follows that Africa's economic importance to the United States and to the developed economies is limited to being a source of raw materials and that hopes for free market economies to take root in Africa are destined to be disappointed.

We strongly dissent from this view. We dissent because we do not believe that the fate of more than 600 million people on the African continent can be separated from our own. We are also convinced that increased commerce between the United States and Africa will benefit both.

The United States-South Africa Business Council and the National Foreign Trade Council do take the view that there are significant commercial opportunities in Africa, but that there is a very important role to be played by government and business working in tandem, and that by working in tandem we can foster pockets of liberalization—magnet economies, if you will—that are stable,

growing, and will create points of reference for the gradual expansion of free market democracies in Africa.

This is the greatest single contribution the United States can make to African development. It is true that official development assistance has an important role to play, but it is, in our view, a supporting role. We endorse measures to enhance the capacity of the U.S. Agency for International Development to support and cooperate with U.S. corporations operating in Africa. This has not been their focus, and we welcome indications that USAID is restructuring itself to take a greater interest and to increase its skills in helping U.S. business generate private sector activity.

Above all, there needs to be close coordination of U.S. Government initiatives with private business activity. The United States-South Africa Business Development Committee, which is part of the United States-South Africa Binational Commission that has been alluded here today, met in Washington last week. It is an example of such cooperation that could be replicated in other parts of Africa. It is itself a replication of a committee of the Gore Chernomyrdin Commission that functions with Russia. But apart from its limitations, and taking into account its limitations, it is a framework in which impediments to commerce can be identified and solutions can be recommended to the governments, and governments and business can cooperate in the removal of impediments.

Now, one such impediment is the small scale of most African economies, which Mr. Sachs has alluded to. In this connection, we endorse the view that the United States should work with our African colleagues to encourage closer regional cooperation centered on magnet economies, to create larger markets that will be more viable economic units and stronger trading partners.

A second impediment has been the prevalence of state-dominated economies. American business is finding opportunities in countries in Africa, where economic policies have been liberalized and which have created predictable frameworks for conducting business. These are economies such as Benin in the west, Uganda in the east, and Botswana, South Africa in the south.

In all these nations, two things have happened. Space has been created for private enterprise to flourish, and links have been created to the international economy. These can be magnet economies which, with appropriate public policies, can begin to reverse downward trends in neighboring states.

Now, there are four aspects of the U.S. commercial relationship with Africa that I urge the Subcommittee to take under serious consideration. These are elaborated in my written testimony that has been submitted for the record. Let me itemize them very briefly and expand on one.

The first is that, indeed, there are significant business opportunities in Africa, and I think that needs to be said. It is not to be taken for granted by a public, even a business public, that reads in the paper and sees on television devastation, illness and poverty as the main features of the African landscape. These opportunities are located at the moment very greatly in the infrastructure area that you intend to focus on, and you do not have to talk to too many capital goods exporters, to too many earthmoving equipment

exporters, or engineering firms, to find that they have an enormous interest in the kinds of infrastructure projects that are foreseeable in Africa.

Second, these opportunities will be expanded by a U.S. policy which gives priority to trade and investment in Africa, precisely as you are intending to do. But beyond that, a policy that provides a commercial, regulatory and policy framework, as bilateral investment treaties do. But bilateral investment treaties are only the beginning. There needs to be a body of business law, an accounting profession, a legal profession, a context where predictability is available to the businessman who wants to be able to calculate his return over time. It is in everyone's interest that we foster those sorts of environments.

Third, policy should maximize coordination with the private sector. This is a difficult matter which I think Congressman McDermott's proposal will need to take up in a serious way. We are not accustomed to dealing with each other in foreign environments, in fully cooperative fashion. There is suspicion on both sides—and this is especially true in some countries. There is suspicion on the part of the government that business has an agenda that is radically different than that of the State Department, and vice versa. And they are often correct. We need to face up to those different perceptions and resolve them so that we can cooperate.

Finally, I want to comment on the experience of the last 2 years in South Africa that is relevant to the rest of the continent. There's much that is not relevant because South Africa is a very unique place. Its history is uniquely bad. It has a uniquely good infrastructure and it has many of the things that are lacking in other African environments, such as an accounting profession and a body of business law and so forth.

There are a lot of American companies who are entering South Africa, but they are entering in a small way. There has not been a massive influx of investment capital into South Africa. In particular, there are equity funds looking for business opportunities in South Africa, and since equity funds have been raised here, I wanted to say that equity funds in South Africa are encountering a problem that they will not have, to a greater degree, elsewhere in the continent, and that is finding the right partners, the right borrowers, for those funds.

It takes a lot of knowledge of local capital markets. It takes the identification of on-lending institutions. It takes links to small, medium and micro enterprises to effectively carry out an equity fund that contributes to the development of small business, which in Africa, as in the United States, is where most jobs will be created.

Second, the United States private sector and the government, through collaborative mechanisms such as these Committees, needs to cooperate with South Africa in its business move into the rest of the continent. South African companies are exploding into Africa, and they are finding markets. It is their natural market. They are finding lending opportunities, and some of them are doing so with joint ventures with American companies. But it is a trend that needs to be encouraged.

Finally, I want to call to your attention the absence of a bilateral tax treaty with South Africa. If South Africa is, as the rhetoric

claims it to be, the springboard for development of the rest of the continent, we need a bilateral tax treaty. Negotiations have begun, but they have not been concluded. It is an important missing link in this chain, and I would like to take this opportunity to urge the conclusion of the negotiations of it and the speedy ratification of it by the Congress.

Mr. Chairman, thank you very much for the opportunity to appear.

[The prepared statement follows:]

TESTIMONY OF DANIEL O'FLAHERTY

EXECUTIVE DIRECTOR OF THE

U.S.-SOUTH AFRICA BUSINESS COUNCIL

AND

VICE PRESIDENT OF THE

NATIONAL FOREIGN TRADE COUNCIL

BEFORE THE

COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

AUGUST 1, 1996

Mr. Chairman, Members of the Subcommittee on Trade, I am Daniel O'Flaherty, Executive Director of the U.S.-South Africa Business Council, an association of 65 U.S. companies engaged in trade and investment in South Africa. I also serve as Vice President of the National Foreign Trade Council, which sponsors the Business Council, and which represents more than 500 U.S. companies which are active internationally. I am very pleased to testify this afternoon on the subject of U.S. trade with Sub-Saharan Africa.

These hearings take place at a time of deep pessimism in some quarters about the prospects for economic growth, political stability and the development of civil societies on the continent of Africa. Events in Rwanda, Burundi, Somalia, Sudan, Liberia, Nigeria and elsewhere have fed a perception that Africa is fated to continue its decline into poverty and turmoil. In this view it follows that Africa's economic importance to the U.S. and the developed economies is limited to being a source of raw materials and that hopes for free market economies to take root in Africa are destined to be disappointed.

I strongly dissent from this view. I dissent because I do not accept the notion that the fate of the more than 600 million people on the African continent can be separated from our own. I am further convinced that increased commerce between the U.S. and Africa will benefit both. Finally, I believe that the pessimistic view is simply factually wrong. The experience of the U.S.-South Africa Business Council and of the National Foreign Trade Council has been that there are significant commercial opportunities in Africa which will expand as the African markets grow.

We are convinced that the expansion of U.S. trade with and investment in Africa is the single greatest contribution this country can make to the continent's economic and political development. Official development assistance has an important supporting role to play. We would therefore endorse measures to increase the capacity of the U.S. Agency for International Development to support and cooperate with U.S. corporations operating in Africa. Above all, however, there needs to be close coordination of U.S. government initiatives with private sector activity. The U.S.-South Africa Business Development Committee, which met in Washington last week, is an example of governments and private sectors collaborating to overcome impediments to greater commerce. One such impediment is the small scale of many African economies. The U.S. should encourage closer regional cooperation centered on magnet economies to create larger markets which will be stronger trading partners and more attractive investment destinations.

American business is finding profitable opportunities in economies on the continent where economic policies have been liberalized and where predictable frameworks for conducting business have emerged. These are economies such as Benin in the West, Uganda in the East, and

Botswana and South Africa in the South. In all these nations, two things have happened: space has been created for private enterprise to flourish and links have been created to the international economy. These can be magnet economies which, with appropriate public policies, can begin to reverse downward trends in neighboring states.

There are four aspects of the U.S. commercial relationship which I urge the subcommittee to take under serious consideration:

(1) There are significant opportunities in Africa for U.S. business;

(2) Those opportunities will be expanded by a U.S. policy which gives priority to trade and investment with Africa;

(3) That policy should maximize coordination and cooperation with the U.S. private sector;

(4) There are important lessons to be learned from the experience of U.S. business in South Africa since the end of apartheid.

I would like to elaborate briefly on these four basic points.

1. There are significant opportunities in Africa for U.S. business.

Trade between the U.S. and Africa grew rapidly during the past year. Two-way trade with Africa grew 12% last year and U.S. exports to Africa increased by 22.7%. This level of exports is nearly as much as the U.S. sold to the former Soviet Union and Eastern Europe combined. At the same time the U.S. is Africa's leading foreign market, purchasing over 18% of the continent's exports. Indeed, the U.S. exports as much to South Africa alone as it does to Russia. U.S. direct investment in South Africa exceeds that in Russia and is roughly equivalent to that in India or Turkey.

There are several sectors where the prospects for expansion of U.S. markets are especially bright:

U.S. companies have much to offer in infrastructure development in countries which are rebuilding or expanding their transportation facilities and upgrading the adequacy of facilities, such as housing, which are available to their citizens. One example is the Maputo Corridor project linking the South African urban center of Gauteng (Johannesburg, Pretoria, Witwatersrand) to the Mozambique capital Maputo on the Indian Ocean 270 miles to the east. This is a $240 million project to upgrade the rail and road link, financed by only 10% government money, with the remainder being raised on private financial markets. The project is one of the most ambitious cross-border projects ever undertaken on the continent with important benefits both to South Africa and Mozambique. Significantly, as President Mandela has said, "private sector participation is essential to the success of the project."

The global revolution in telecommunications is having a major impact on Africa. This obviously facilitates business, but it also provides major opportunities for U.S. telecommunications companies to market equipment and services. In a continent, the vast majority of whose citizens have never made or received a telephone call, the arrival of digitalized telecommunications is having a revolutionary impact. This is especially true because countries can leapfrog older technologies and reap the immediate benefits of the latest advances. Clearly expansion electrification is a prerequisite to widespread use of many technologies. Public-private partnerships (and privatization of electrical utilities) can accelerate expanded access to electrical power.

2. These opportunities will be expanded by a U.S. policy which gives priority to trade with and investment in Africa.

The U.S.-South Africa Business Council supports the concept of legislation establishing trade and investment as a U.S. policy priority. This will send important signals about our relations with the continent. Perhaps the most important is to signal that the U.S. government understands that its relationship with Africa is based on mutual benefit and self-interest and not on foreign assistance, for which resources are in any case diminishing. This is not to denigrate the importance of official development and humanitarian assistance. It would, however, be a confirmation that the future of the relationship lies in being trading partners, operating under internationally recognized trade and investment regimes.

The weakened condition of many African economies argues strongly for reauthorization by this Congress of the Generalized System of Preferences and for an adequately funded Trade and Development Agency. It is also strongly in the U.S. national interest to help African countries which are not members of the World Trade Organization to adjust their laws and practices in anticipation of WTO accession. Likewise, efforts to strengthen the development of commercial law, the upgrading of customs services and a broadened understanding of accepted business practice are all areas in which public-private partnerships can strengthen and expand existing free market economies.

We believe that it would be especially useful to inaugurate regular ministerial level meetings between the U.S. and African nations. Similar fora have played a useful role in other regions of the world and have the potential of strengthening governments committed to free market democracy and exercising influence on others.

U.S. government support for regional trade agreements in Africa can help individual countries overcome the liabilities of small domestic markets, making them more attractive to foreign investors. The Southern African Development Community (SADC) has the potential to move in this direction, but official U.S. encouragement and support will help them to overcome the difficulties inherent in breaking down economic barriers.

(3) U.S. policy should maximize cooperation with the private sector.

Any legislation enacted by Congress on trade with Africa should mandate extensive collaboration with the business organizations whose commitment to Africa is needed for the policy to succeed. All too often U.S. government programs in Africa do not put a priority on coordinating or supporting a U.S. business presence. That is sometimes true despite a rhetorical acknowledgment that private investment and business activity are central to achieving explicit U.S. policy goals.

For the U.S. business community the advocacy by the U.S. government of policies which facilitate trade and investment is perhaps the most important official role in countries where there is a significant American business presence. A clearly defined policy that trade and investment are the main focus of U.S. engagement with Africa will make it clear to the governments of Africa that we do not seek their long-term dependence on foreign assistance. It will also signal that the success of their economic relationship with the U.S., as well as with the rest of the world, will depend on their adherence to internationally accepted practices in areas such as subsidies, protection of intellectual property, illicit payments and dispute settlement.

(4) There are important lessons to be learned from the experience of U.S. business in South Africa since the end of apartheid.

An important U.S. public-private partnership has been established to facilitate the re-engagement of the U.S. and South African economies following the repeal of sanctions legislation. In June of 1994 Commerce Secretary Brown established a U.S.-South Africa Business Development Committee which includes private sector participants from both countries. This committee held its third plenary session on July 22 and 23 in the context of the U.S.-South Africa Binational Commission which Vice President Gore and South African Deputy President Mbeki co-chair. This has provided a high-level forum in which obstacles to increased trade and investment are identified and brought to the attention of the highest level of

political leadership. It has also promoted contact between the business leadership of the two countries, thereby deepening relationships and understanding. Similar committees can be useful where an adequate private sector base exists to support them and where the private sectors in African countries can be energized by structured, regular contact.

U.S. exports to South Africa have grown far more rapidly than has direct investment in manufacturing. There are many reasons for this, but one of the most important is that most U.S. companies view South Africa as a relatively small market. They choose initially to export to the market to be able to assess the likely returns on a direct investment for local production. This is a pattern which may well recur elsewhere on the continent, resulting in U.S. merchandise trade deficits for the medium term. Resulting current account deficits may require access to borrowing facilities at the IMF on concessional terms until capital inflows adjust.

U.S. companies in South Africa are adapting well to operating in the less developed sector of the economy and innovating new mechanisms to support and involve small business and promote entrepreneurship. These are techniques which have broad application elsewhere and will enable U.S. companies to have a multiplier effect on employment.

The U.S-South Africa Business Council was established by American companies aware of the need for a private sector organization which would provide information about the country and its market and link them to the public and private institutions emerging in the new South Africa . Although our focus is exclusively on South Africa, many of our member companies specifically choose to locate in South Africa to conduct their business operations on the African continent from there. The linkages between South Africa's economy and those of its neighbors and the role of U.S. business in that process will grow very rapidly in the next several years. We are, therefore, especially pleased that the subcommittee has held hearings on this important subject and appreciate the opportunity to testify.

Chairman CRANE. Thank you, gentlemen, for your testimony.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

I just have one question I would like to direct at the panel, and I am sorry that Mr. Ofori-Atta is not here. He raised the issue of $6 billion worth of earthmoving equipment bought by a mining company in Ghana, and a company owned 35 percent by Americans invested through the stock market, but none of the equipment bought from us. You may not know the specifics of that particular situation, but I am sure there are other situations where you can give us a feeling in concrete terms about what happens when people try to get involved at that level.

I would like to have examples so that the Subcommittee will have in the record the kinds of things that we are really trying to deal with, what actually happens to American companies when they try to get involved in these kinds of deals. So, if you have some response to that particular Ghanaian example, or some other example you may be more familiar with.

Mr. SAMUELS. Mr. McDermott. I do not have the examples from that particular Ghanaian experience but let me give you some of the aspects of the marketplace that I think are relevant.

Number one, several of the other industrialized countries masquerade as development assistance or as aid financing programs for the provision or sale of heavy equipment, or vehicles, or other kinds of things that we would never consider part of our aid program. That often leads to the development of supplier networks and the development of repair facilities that create patterns that make it difficult for Africans to view U.S. products as their first choice.

Second, it is not unusual for even American companies to view Africa in a European context themselves. A number of U.S. companies have their African vice president located in Europe, so their African agents would look to Europe for any kind of activity. That just worsens the kind of postcolonial networks that naturally exist.

Third, the Lome Agreement is one that may or may not help Africa, but clearly has buttressed the European-African connection of suppliers.

Fourth, it is not unusual to find that for large-scale projects the feasibility studies or pre-feasibility studies are done by European firms, oftentimes with their own government's financing. That often leads to standards that do not match with U.S. capabilities. And that is not just World Bank activities, but it is a variety of even private sector ones, because it is more likely to find European engineering, construction firms, and the like.

These are all aspects of the picture that need to be looked at in order to come to grips with the problems you're talking about.

I guess the final point, one that has been touched on both by your own legislation and by some of the testimony, is that Ex-Im's coverage is sufficiently poor that people buying large-scale equipment that needs export financing are likely to go to countries where their governments do a better job than ours does.

Mr. MCDERMOTT. Mr. Sachs or Mr. O'Flaherty, do either of you have comments on that?

Mr. SACHS. That is a rather an exhaustive list.

There is one more item, and a delicate one, that ought to be mentioned, which is, as everybody is painfully aware in international trade, in the United States, quite properly, bribery of foreign officials is against the law, and in Europe it remains a tax deduction. This is an issue which has shown in recent research, actually carried out at the Kennedy School of Government at Harvard, to have affected the direction of trade and foreign investments adversely for the United States.

The solution clearly is not to liberalize bribery but, rather, to get the Europeans finally to behave according to some decency and legal standards that befit the modern world. we are working on that with the OECD, but it hasn't happened yet.

Mr. McDERMOTT. Is that actually an agenda item in the OECD?

Mr. SACHS. It is an agenda item. It has not progressed to a solution yet. In my view, it is a very important agenda item.

We preach a lot about governance in many forms these days, but it is our own practices that are often really the source of problems. In this case in Europe, it is no secret. You find it on the tax deduction lines as normal business expenses, these kinds of payments.

Mr. McDERMOTT. Mr. O'Flaherty.

Mr. O'FLAHERTY. I have nothing to add to that.

Mr. McDERMOTT. I guess my other question is, if each of you had one thing that you would change in the Congress—I mean, we are going to be working on this legislation—what is the thing that you see is the most central? I suspect from Mr. Sachs that you would say debt reduction, but I am not sure what the other two of you—or maybe I misperceived Mr. Sachs. But what would you say is the most important issue that the Congress can, in fact, deal with? I mean, there are a lot of things we would like to change in the world, but they are not subject to legislation.

Mr. O'FLAHERTY. I would like to agree with my colleagues' previous comments, that to establish as national policy a priority on growth in Africa and on pursuing a range of policies that reflect that priority. One of the most important things is the starting point for a positive approach, and then much flows from that.

Mr. SAMUELS. That is really a very difficult question, Mr. McDermott. But if I were to choose one thing, it would be to make sure that the traditional supporters of African matters in the Congress, who are, in my view, overly tied with viewing Africa in an AID context, grow in their understanding of the Africa of today and tomorrow to understand the kinds of issues that you and Mr. Crane and your staffs have been wrestling with in recent months, so that rather than through their "gut" opposing your efforts to come up with good initiatives, they learn to support and, in fact, supplement what you are doing.

Mr. SACHS. I, too, would like to reemphasize the growth agenda as the guidepost. Growth quickly transforms itself to the imperative of export growth. We could sell all the infrastructure in the world, but they will not be able to pay for it unless they have export growth on a sustained basis, for a long period of time. That also means not just primary commodities but manufacturers. That suggests several important features, which you have identified, market access being absolutely crucial. The involvement of a range of foreign investment, bilateral treaties, double taxation treaties,

OPIC, Ex-Im Bank, all fit into a framework of promoting their export growth, our market growth in Africa as well, and therefore their long-term growth.

Again, as you rightly characterize my view, my strong perception is that the debt reduction is not only imperative but extremely highly salient in the minds of senior policy makers throughout Africa, and therefore a lever for profound change, something where we could have a great impact on making it a deep change in the policy environment, in the business environment and so forth, by being very forthcoming, direct, and doing what's necessary on that agenda.

Finally, let me say a word about AID. I think there is an ironic aspect to USAID's involvement right now. It is a perception, that one of the things that is being cut back at AID is the very kind of economic advising on market liberalization, creation of export incentives and so forth, which is needed.

If the humanitarian agenda, so called, completely crowds out the business agenda, we are clearly going to be making a mistake. It is not that AID cannot do it; it is a question of what kinds of priorities USAID is going to put in its own programs right now.

My sense is that economic policy, at this macro-economic and trade level, is being squeezed right now, and that would be a very ironic truth, if it is a truth. It is a perception on my part, and it is what one hears and sees. It would be the wrong thing to do right now.

AID has a hugely important role to play, it seems to me, on helping with the development of this export and growth agenda and liberalization agenda. They know how to do it. They've given some of the best advice in the world over the past 30 years on how to liberalize an economy, how to get growth going.

USAID, it is important to remember, was the main advisers on getting the booms going in East Asia in the late fifties and early sixties. This is a historic accomplishment and a wonderful record, and they could do the same thing here. But, it is a question of where they put the priorities. We have to make sure that USAID puts the priorities also on economic growth. That is crucial.

Mr. McDERMOTT. What do you estimate the figure to be for debt reduction? You said there would have to be some contribution by the United States, not dollar for dollar but some contribution. What are you talking about in terms of numbers?

Mr. SACHS. It is probably not large, and I could give you for the record something better than a guess, so I would hazard to give you a number.

It is a few percent, of course, depending on how you score it. It may be 10 or 20 percent of the face value of debt, because we have rules under the credit control agreements of how we score debt write downs, and fortunately, it isn't dollar for dollar. But it does count in the budget. So, we have to make sure we have room for that. This is also part of the broader international agenda right now, of getting the multilateral debt down and so forth.

I know from my experience in advising many parts of the world that this item consumes the time and the passions of senior policymakers and heads of government, because what they are looking for, when they finally come to reform, which takes time—but right

now we are there—when they finally come to what they are looking for, it is not a handout but a fresh start. That is the key. They are looking for the opportunity to overcome the past, and that means a fresh start.

That is why it is so salient in their minds: How can we make the clean start, how can we show that we have an environment that is business friendly if we are carrying this enormous burden and being pulled through the muck of debt servicing for a generation? It is not enough to postpone because the overhang remains there. What they really feel passionately is the need to let us start growing, give us the chance. We made mistakes, everybody made mistakes. Let us have a fresh start.

It is an absolutely compelling instrument of policy and politics for these leaders. We have seen it from Poland to Bolivia, and many other countries.

Mr. MCDERMOTT. I would appreciate it if you would take the time to give the specifics of that so that we could put it in the record. I think it would be useful for us to look at what that element really is, in terms of what we are actually talking about.

Mr. SACHS. I would be delighted to get that to you.

[The information was not available at the time of printing.]

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Chairman CRANE. I want to thank all of you gentlemen for your testimony, and look forward to working with you and soliciting ongoing input in this connection.

With that, the Subcommittee will stand in recess until 2 p.m.

[Whereupon, at 1:20 p.m., the Subcommittee recessed, to reconvene at 2 p.m. the same day.]

Chairman CRANE. The Subcommittee will reconvene.

We are honored to have Secretary George Moose from the African Affairs Bureau at the State Department with us.

You may proceed.

Excuse me. Let me defer first to our distinguished Ranking Minority Member.

Mr. RANGEL. I had an opportunity to talk with the Ambassador yesterday about some of the problems that we are facing in trying to improve the trade relationship with Africa, and he is aware of it. So I am more than pleased, because of his rank, his experience, and his reputation, that he is with us today. I think he can help us and advise us as to what we can do to be helpful in removing some of these impediments.

Thank you, Mr. Chairman.

STATEMENT OF GEORGE E. MOOSE, ASSISTANT SECRETARY OF STATE FOR AFRICAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. MOOSE. Thank you very much, Mr. Chairman, and Members of the Subcommittee. I am, indeed, pleased to be here this afternoon to testify on the subject of the economic situation in Africa.

I have, Mr. Chairman, prepared a longer written testimony, which I would request be submitted as part of the record.

First let me say that I applaud and endorse the strong emphasis that you and Congressman McDermott and other Members of the Subcommittee have placed on the role of trade and investment, and

on the private sector as the engine of growth for Africa. You and the members of the African Trade and Investment Caucus have stimulated what I believe is an important debate, one which should now command the attention of all who are concerned about Africa's future economic growth and development, as well as about the opportunities that Africa's growth can create for American producers, exporters, and consumers.

While we may take exception to some specific aspects of the current proposals, we strongly support the central thesis that: More needs to be done to stimulate the role of the private sector in Africa, and to promote Africa's integration into the global marketplace.

One cannot deny that Africa continues to face many daunting challenges. Too many African countries still struggle with civil strife, with high population growth rates, with large debt burdens, and with minimal investment flows.

But, as I can attest from my many travels across the continent over the last 3 years, there are many positive signs. Africa is, in my judgment, undergoing a major transformation. The clearest indicator of that transformation is the expansion of democratic governments and democratic institutions across the continent. That expansion is paralleled by significant economic reforms and economic liberalization.

Apart from the handful of countries that are indeed experiencing civil unrest, most of the region is achieving measurable progress toward sustainable economic growth through more efficient use of resources. After 4 years of decline or stagnation, Africa last year experienced the first increase in per capita GDP since 1989, and that growth was also widespread, exceeding three percent in nearly 30 countries. These positive signs, indeed, offer hope for the future.

While this upswing is partly the result of higher commodity prices, it also reflects the positive impact of better economic policies, the political transition in South Africa, greater economic peace in many parts of the continent—all of which should contribute to economic growth that is more sustainable in the future. These gains would not have been possible without a continuing commitment on the part of African governments to economic and political reform.

This progress, however, remains fragile. The question I think we face is how can we strengthen and sustain it. One answer is clear. It is crucial for Africa to have a vibrant, growing private sector in order to improve economic growth and living standards. But, it is also critically important that we not lose sight of the lessons we have learned from our many years of deep involvement in Africa's economic, social, and political development.

During the past three decades, the international donor community has experimented with many approaches to development in Africa. These experiences, I believe, have taught us a lot about what does and does not work, and what we must continue to do in order to sustain the real progress that has already been achieved.

First, it is essential that we continue to support the process of economic reform and liberalization in Africa. Absent a clear commitment to market reform, all other efforts to stimulate production and growth will be doomed to failure. The statistics show clearly

that economic growth rates have improved most dramatically in those countries such as Ghana and Uganda, that have made the strongest commitment to economic reform. Our support for economic restructuring and reform through both our bilateral assistance programs and our contributions to the programs of the international financial institutions has been critical to that reform effort.

Second, we must continue our support for democracy and good governance. Ultimately, it is the strength of democratic institutions and processes that assures the fairness and the transparency that the private sector requires for its success. It is no mere coincidence that the improvement in Africa's economic performance is occurring at a time when Africans are working to create a better enabling environment by removing constraints to political and economic freedom, and encouraging greater accountability, transparency, and predictability. Here again, our bilateral programs to support democracy and good governance are contributory.

Third, we need to continue our efforts to help resolve conflicts on the African continent, and to strengthen the capacities of African organizations and institutions to anticipate, prevent, and manage crises, whether natural or manmade. It is clear that the promise of greater economic growth and prosperity cannot be realized if existing conflicts within the region are not peacefully resolved and future conflicts prevented. Liberia and Burundi are examples of conflicts that threaten to undermine the efforts and the investments that neighboring countries have been making in their development future.

Here again, American diplomacy has played an important role, as is reflected in the significant progress that is being achieved in resolving the conflict in Angola, one of Africa's longest standing conflicts and one of its most destructive. It is critically important, however, that we also support our diplomacy with the needed resources. The investment we have been making in building the peacemaking and peacekeeping capacities of the Organization of African Unity and other regional organizations will pay enormous dividends by helping to avert and contain human disasters and political instability in the future.

Fourth, we must, recognize the important contribution our assistance has made to the development of Africa's human potential. Improving the quality of Africa's human resources, the health, education and skills of its people, is critical to Africa's hopes for being more productive and more competitive in the international marketplace.

The programs implemented by AID, the Peace Corps and other agencies, in the areas of AIDS research, for example, and involving women more deeply in the development process, are a part of the essential effort to strengthen Africa's human capacities.

There is, however, Mr. Chairman, another critically important lesson that we have learned from our experience in development in Africa and elsewhere. Foreign assistance alone cannot be the basis of sustainable economic growth and development. Foreign aid from the United States and other donors cannot begin to finance the accelerated rates of economic growth that the continent needs and, indeed, is capable of achieving. That capital and that initiative

must come from the private sectors, both from within Africa and from abroad.

That is why we believe the ideas that have emerged from the deliberations of the African Trade and Investment Caucus are both important and timely. The political and economic reforms that have occurred over the past decade have laid the foundation for a more active and effective participation of Africa in the private sector. These reform efforts must now be rewarded by allowing African producers and entrepreneurs greater access to international markets and sources of finance.

This is an area where I believe the views of the administration and those of the Congress are already beginning to converge. I had the great pleasure and privilege of accompanying our late Secretary of Commerce, Ron Brown, on his historic visit to Africa in February. From that visit, a number of ideas emerged about how we could stimulate greater involvement of American businesses in Africa, to the mutual benefit of both Africa and America.

Upon his return from that trip, Secretary Brown convened a meeting of the Trade Policy Coordinating Committee, at which he laid out a number of proposals aimed at removing the barriers to more effective and productive trade relations between America and Africa. It has been gratifying to see how many of these ideas are also embodied in proposals that have emerged from this Subcommittee. But, I also want to acknowledge our debt to Congressman McDermott. His amendment to the 1994 trade bill provided a needed emphasis and focus to our efforts to develop a more comprehensive trade and investment strategy for Africa.

I believe President Clinton's first report to Congress last February on his trade and development policy for Africa is an important beginning. It contained over 60 specific initiatives being undertaken to increase trade and investment in Africa. We look forward to working with you, with members of the Caucus and other Members of the Subcommittee, in refining these initiatives and in developing new ones that will respond to the challenge and the opportunity that we face in encouraging Africa's continued economic growth and development.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Testimony of George E. Moose
Assistant Secretary of State For African Affairs

House Ways and Means Committee
Subcommittee on Trade
August 1, 1996

Dear Mr. Chairman and Members of the Committee,

I am pleased to have been invited to testify today on the economic situation in Sub-Saharan Africa.

We appreciate the emphasis that you and Congressman McDermott have placed on the role of trade and investment and on the private sector as the engine of growth. You and other members of the African Trade and Investment Caucus have stimulated an important debate which will command our attention for some time. While we may take exception to some aspects of your proposals, we support the central thesis: more needs to be done to promote greater private investment and economic integration in Africa.

Africa and Global Economic Integration

The President, in his February 1996 report "National Security Strategy of Engagement and Enlargement", stated that the strength of our diplomacy, our ability to maintain an unrivaled military, the attractiveness of our values abroad -- all depend in part on the strength of the American economy. Through its own initiatives, and building on those starting in earlier administrations, the Clinton Administration has had considerable success in engaging the United States economically abroad and opening foreign markets through enactment of legislation implementing both the North American Free Trade Agreement (NAFTA), the successful conclusion of the Uruguay Round and start-up of the World Trade Organization (WTO); active leadership in the Asian Pacific Economic Cooperation (APEC) forum; hosting a Western Hemisphere summit in Miami where 34 nations of this hemisphere committed themselves to negotiate a free trade agreement by 2005; and efforts to promote a US-EU Transatlantic Marketplace and advance an OECD Multilateral Investment Agreement (MIA). Bilaterally, the Administration concluded a Framework Agreement covering our economic relations with Japan, market access and intellectual property Memoranda of Understanding with China, and many other accords with major trading partners. Our trade agenda has been ambitious, proactive, and successful.

Yet, what about Africa?

Daunting Problems

Africa is undergoing a major transformation. The clearest indicators of this transformation are the growth and expansion of democratic governments paralleled by significant economic reforms and liberalization. Africa's problems, however, remain daunting. Africa is the only region of the world where poverty is expected to increase during coming years. Too many African countries still struggle with civil strife, high population growth rates, an impoverished human resource base, large debt burdens, and minimal investment flows. Thirty five of Sub-Saharan Africa's 48 countries are still classified as low income, with a per capita GNP of $700 or less in 1994. Twenty eight countries are classified by the World Bank as severely indebted. Much of Africa is not fully integrated into the global economy; about one-third of the region's countries are not yet members of the World Trade Organization.

Signs of Renewed Growth

There are, however, many positive signs. Apart from a handful of countries experiencing civil unrest, most countries in the region are achieving at least a degree of progress toward sustained economic growth through more efficient use of resources. These positive signs offer hope about the future of Africa.

After four years of decline or stagnation, average real GDP growth in the region increased to 3.8 percent last year, the highest rate so far in the 1990s. That was also the first increase on a per capita basis (1.1 percent) since 1989. Growth also appears to be more widespread, exceeding 3 percent in nearly 30 countries. A number of reforming countries have recorded growth rates exceeding four percent. Botswana, Ghana, and Mauritius among others have been good performers.

While this in part is the result of higher commodity prices, which may be transitory, it also reflects the positive impact of more effective development programs, better economic policies, political transition in South Africa and other emerging democracies, and greater civil peace in some areas, all of which should make economic growth more sustainable. These gains would not have been possible without a firm commitment to economic and political reforms. While recent results are heartening, the progress is fragile and economic reform must be continued and deepened if it is to be sustained.

Differences in Performance

There are significant differences in performance among the countries in the region, and, for most of them, higher rates of growth are needed to bring about significant poverty reduction. In South Africa, the region's largest economy, growth improved for the second consecutive year to 3.4 percent in 1995. Even faster growth is needed to reduce high levels of unemployment among the black majority and improve delivery of public services to them. This will require action to improve labor market flexibility and to reduce concentration of ownership in industry. Just last month South African Finance Minister Trevor Manuel presented an economic blueprint of strategies to promote export growth, create a stable environment for investment, encourage privatization, reduce government spending, develop human resources, encourage industrial development, and modulate wage demands.

The outlook in Nigeria, the second largest economy, is much more troubling. In 1996 per capita income there fell to approximately $260, the same level as 1972 before the oil boom or less than one fourth the 1981 level. The domestic political situation is volatile, with growing international pressure on the military regime. Within the last few months we have seen halting attempts at economic reform, such as the introduction of a market-based exchange rate for private sector transactions, reduction of import tariff rates, removal of restrictions on foreign direct and portfolio investment, and increasing budgetary transparency. Efforts to revive privatization have begun with focus on telecommunications, power, and the petroleum-related sector. However, Nigeria needs to build a credible track record to generate international support for its reform program. There is still much to be done, but Nigeria has recently reengaged a technical-level dialogue with the World Bank to discuss a plan to implement reform policies.

The CFA franc zone countries in West and Central Africa, which realigned their currencies in 1994, have contributed to the higher African growth rate. Exports generally responded well to the boost in competitiveness and there are signs of an increased intra-CFA trade, primarily through increased imports of coastal countries from inland. In East Africa, implementation of structural adjustment policies and high commodity prices boosted growth in Kenya, Tanzania, and Uganda. Some of these countries are in a position to make significant progress in exchange rate and trade policy reform.

Special Program of Assistance

Economic performance in some thirty African countries has been boosted by the World Bank-coordinated Special Program of Assistance (SPA), launched in December 1987. The SPA brought together the World Bank, the IMF, the African Development Bank, and bilateral donors in an effort to mobilize fast-disbursing assistance and provide debt relief for countries adopting programs of stabilization and structural reform.

The most notable progress has been in liberalizing trade and foreign exchange regimes, and in most countries there also has been solid progress in reforming domestic markets. Several countries have undertaken parastatal reform and privatization, albeit much less rapidly and less completely than needed. Domestic resource mobilization remains a problem in most countries. About half the SPA countries have made clear improvements in expenditure management, but stronger financial management remains important for all. More priority needs to be given to health, education, agriculture and basic infrastructure. Public sector resource problems are complicated by low savings rates in nearly all parts of the continent.

The UN Special Initiative on Africa has identified debt relief as crucial to sustainable economic growth for Africa. The recent meeting of G-7 leaders reaffirmed the importance of supporting economic reform by urging action on multilateral debt and by supporting continued financing of an Enhanced Structural Adjustment Facility (ESAF). The United States has already provided extensive debt relief for Africa's poorest countries. In the early 1990's, we forgave over $1.1 billion in concessional debt for 19 of the poorest African countries implementing reforms. In addition, beginning in 1994 the United States joined other Paris Club governments in offering to reduce non-concessional debt owed by the poorest, reforming countries. Finally, the United States has worked closely with the World Bank and the IMF to address the issue of multilateral debt.

A Significant Trading Partner

The United States has an important economic stake in Africa's success. As other panelists discuss in more detail, two-way trade between the United States and Africa last year reached a new high, $18 billion, 11 percent greater than in 1994. The United States exports to Africa increased 23 percent above the 1994 level, to $5.4 billion. Already, the African market is nearly as large as those of the Newly Independent States, including Russia, of the former Soviet Union. During 1995 the United States imported $12.6 billion from Africa, mainly oil, a 12 percent increase from 1994.

Disappointing Investment Response

A vibrant, growing private sector is crucial for improving economic growth and living standards. Unfortunately, the investment response -- both domestic and foreign -- to reform measures in Africa has been disappointing. During the early 1990's, investment flows into Africa stagnated while those to other developing regions, notably Asia and Latin America, increased. Africa's share of foreign investment flows declined from 8.9 percent in 1981 to only 2.9 percent by 1994, according to an International Finance Corporation study. Moreover, 70 percent of investment flows into Africa in the early 1990's were concentrated in oil-exporting countries, mainly Nigeria. Weak financial sectors, poor infrastructure, a relatively unskilled workforce, macroeconomic instability and unpredictable legal and regulatory systems have contributed to this result. Consequently, export growth in Africa has lagged the growth of world trade and African exports remain highly concentrated in primary commodities.

During his six trips to Africa, the late Secretary of Commerce Ron Brown worked tirelessly to promote trade and investment with Africa and the growth of the African private sector, an approach to which Congressmen McDermott and Crane have brought increased attention. Secretary Brown was a most effective spokesman, who brought Africa to the attention of U.S. business and increased the interest of potential African business partners in dealing with the United States. As Secretary Brown often pointed out, if the risks of doing business in Africa are higher than in many other places, the rewards, in the form of average rates of return on book value of 25 percent, are among the highest in the world.

U.S. Policy Actions

President Clinton's first report to Congress last February on his Trade and Development Policy for Africa contained over 60 specific initiatives being undertaken to increase trade and investment in Africa. We expect subsequent reports to refine existing initiatives and to develop new ones.

From 1990 to 1994 the United States provided $13.6 billion - an average of $2.7 billion per year - of assistance to Africa, directly though USAID (including the PL 480 food assistance program), and indirectly through the World Bank and other international institutions. These assistance programs have played an important role in promoting trade and development. And they must be continued. Ghana is an example of how U.S. support, including USAID's Trade and Investment Program has yielded impressive results. Non-traditional exports increased significantly, including manufactured Afrocentric items for the U.S. market. At the same time, our exports to Ghana have increased.

USIA also plays a role in developing trade with Africa through a variety of programs which encourage the political, social, and economic climates necessary for increased trade and investment. This year, 270 African entrepreneurs will visit the United States as part of USIA's exchange and visitor programs. Young African entrepreneurs and business people will intern in American companies in the United States while U.S. lecturers and researchers will teach and work in Africa, explaining the advantages of free-market economics. USIA programs in Ghana and Nigeria help develop business associations there.

During the past three decades there have been a number of approaches to development. The conclusion to be drawn from this experience is that development needs balance; the development stool has several legs. There are several things that donors are doing well. We need to retain support for macroeconomic reform -- that is the base for the rest. We also must continue capacity building and human resource development, with particular attention to the education of women. If we forget these basics, we are in trouble.

There are other things that have not been done as well, that need to be improved.

- There should be a stronger focus on the role of trade and investment and on strengthening of the African private sector as the engine of growth.

- We encourage increased regional economic integration in Africa in order to achieve economies of scale necessary to attract investment. There has been much talk of the importance of this, but progress has been more limited .

- We need better ways to coordinate and collaborate among donors. There have been improvements, but more must be done to use declining resources to the best effect.

To ensure continued progress, African governments and international donors must use all resources efficiently. In this era of declining donor resources, wise stewardship of available funds is a top priority. Realistically, we cannot expect an increase in overall donor resources, including from the United States. However, the United States is committed to working with African governments and other donors to direct our resources where they can make the most difference.

Nevertheless, foreign aid from the U.S. and other donors could not begin to finance rapid economic growth on the continent. Most of the capital needed to finance rapid growth must come from the private sectors, both from within Africa and from abroad, including flight capital. Continued program lending to support economic reforms remains important. However, where economic reform has produced the necessary stability in external accounts and fiscal balances, scarce development dollars can be directed to highest development priorities.

The United States and other western donors have been impressed with the resolve that African governments demonstrated in supporting reform of the African Development Bank. The strong support that the regional members have given to the new bank president's reform program is more recognition that shrinking assistance must be used wisely.

Enabling Environment

The UN Special Initiative states that "donor-led development is not a credible option". We concur. Increasing and sustaining the rate of growth enough to reduce poverty requires African ownership of the development program. This must be widespread. Governments must strive to muster support from groups benefitting from reforms.

African leaders now must shoulder the responsibility of furthering economic liberalization, developing enduring institutions, mobilizing domestic resources, forging dynamic partnerships with the private sector, protecting the environment, and promoting regional alliances. African leaders have largely abandoned the practice of blaming others for their troubles; instead, to a remarkable degree, they have become brutally honest in examining their policy shortcomings. In our bilateral assistance, we are talking more and more with the "stakeholders" and are pleased with their increasing focus on African ownership of the development process.

The task for African governments is to create an enabling environment for private sector growth by removing constraints to political and economic freedom and encouraging greater individual participation. Investors expect good governance. This means: 1) decentralized political activity, 2) accountable and responsible government, and, 3) respect for human rights, including a free press that permits a free and open exchange of ideas. Investors also expect access to a transparent, predictable legal system to enforce contracts and resolve disputes.

USIA's programming in support of free media, civic education and democratic institutions are helping establish the political and social underpinnings for economic reform and growth. This work includes programs in Burkina Faso, Malawi, Mali, Niger, Senegal, Tanzania, Zambia and Zimbabwe aimed at helping private radio and television stations there become financially viable, and journalism training programs which promote competitive, independent media and reduced ethnic tensions.

USAID is also working with many of these governments to help them in the process of creating an enabling environment more conducive to economic growth; however, its capacity to deepen and broaden these programs is limited by the fact that USAID's overall budget is constrained.

Greater Economic Integration Needed

Rapid globalization of trade and finance, reinforced by information technology and telecommunications advances is transforming the world economy. The danger is that Africa may end up on the outside looking in. While the marginalization of Africa in international markets is a real concern, this can be and must be reversed. African nations must acknowledge that their nations must aggressively compete, and not retreat, as integration into the international economy is a necessary condition for rapid economic development.

Regional integration can be a stepping stone to the global economy, but trade within the region has been limited, by historic trade and production patterns, restrictive trade practices, and inadequate transportation links. Enhanced regional cooperation can be an important step to better integration into the global economy. There are some nascent and encouraging moves in this direction. The United States is working closely with Southern African Development Community (SADC) countries as they move toward a closer economic partnership. The revival of the East African Community and the reformation of the West African Monetary Union into an economic and monetary union are other encouraging regional developments.

The Way Forward

Our development assistance cannot solve every problem. It is no substitute for good government and cannot make up for failed economic policies, but it can make a decisive difference in promoting opportunities for prosperity, democracy, and stability around the world. We have learned many lessons about what works and what does not, and we are generally applying them well.

Our assistance to Africa must be maintained, especially when so many African countries, from Mozambique to Sierra Leone, are making quiet progress in stabilizing their economies and building democracies. Further cuts to our aid programs would not just sacrifice ideals Americans support, they would hinder American efforts to strengthen governments which share our views.

The US is leading efforts of the G-7 to reform the multilateral development banks. But we cannot reap the benefits of those reforms for American interests if we do not shoulder our responsibilities and meet our obligations.

There are many positive signs of economic growth and increasing economic and political freedom on the continent. We believe that through increased cooperation and more efficient use of available resources we can help further Africa's positive transformation.

Chairman CRANE. Thank you, Mr. Secretary.

Mr. Secretary, some European countries, notably France, say that they have a special relationship with their former colonies. Does that serve as an impediment to the advancement of trade between the United States and sub-Saharan Africa?

Mr. MOOSE. I think that for too long some have accepted the notion that there should be or is some sort of special relationship between Africa's former colonizers and that continent.

We, have been very clear in our view, that the United States has something to offer Africa, that we are as competitive as anyother nation when it comes to providing goods and services in Africa, and that we intend to seek a larger share of the African market.

My own view is that it is going to be good not only for the United States but for Africa, that competition inevitably means that Africans will have greater access to better technology, at more affordable prices, and that trade can make a significant contribution to Africa's own development efforts.

I think we have seen that time and time again, where we have American businesses competing in the African marketplace, bringing the advantages of their knowhow, their technology. It very much serves the interests of Africa.

Chairman CRANE. Very good.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Ambassador.

Right now we are on the floor debating a bill for English only. I do not know what that has got to do with us in trade, but obviously there is some strong feeling about people speaking a foreign language in this country. I thought we were supposed to expand foreign markets in order to improve the quality of life in our country.

Having said that, do you think that the State Department properly reflects the presence of professional African Americans as we attempt to send out foreign service officers to these countries, as well as Latin countries? Because it appears that witness after witness keeps reminding us of this colonial tie, as though culturally they have understood better the needs of these new emerging countries, and that their presence is there and that they work a lot closer, which might allow someone as uninformed as I to believe that we are not only not doing all that we can, but we may not be structured in such a way in the State Department to truly reach out to many countries. But, of course, my concern is with Africa.

Do you think we adequately have selected professionals that could do the best job in relating America's concern?

Mr. MOOSE. Congressman Rangel, what you say is, indeed, important. It is important as we do business around the world, that the people we do business with see some affinity between our country and the diversity that we represent and their own cultures and societies.

Second, as a veteran of 29 years now in the Foreign Service, and as someone who has participated in repeated efforts over the last 29 years to improve our recruitment practices, to ensure that our Service is more representative and reflective of American society, I still believe there is a lot more that we need to do in order to en-

sure that all of our foreign services—the State Department, USIA, AID and others—are, indeed, reflective of that diversity.

There is, I am convinced, at the senior levels of our Department and of our administration, a commitment to doing that, and there is, indeed, a current effort underway to try to improve upon our performance, our ability to recruit more broadly in our society.

It is important to understand Africa, as in any part of the world, which is not to say that Africa should be an exclusive purview for those of African origin. But it is clear, as I travel around the continent, that there are many African Americans who, because they feel a cultural affinity and historic tie, undertake business in Africa. So, to the extent that we want to encourage them, I think it is important that we take into account that reality.

Mr. RANGEL. It has been my experience with Africa and the Caribbean that the person that normally comes to express their interest in the African or Caribbean country is the American investor rather than finding a natural constituency. In other words, this being basically a European country, there seems to be more of a relationship with many groups here that know, even though they are generations apart, as to what would be in the best interests of a country in the Middle East or in Europe, or the ability of the Asians to really find Americans to present their case in the way that Congresspeople understand. I have not really found that type of advocators as to what would be in the best interests of African countries.

You being in a different branch of government, do you find any differences in terms of those people that would make some appeal to you on behalf of, say, the African countries? I mean, would you normally find those people who are African American, which I do not find, or do you find the business sector concerned with their investment?

Mr. MOOSE. Two things. Number one, as I indicated before, I do think there is a kind of attraction, affinity, that exists between African Americans and Africa, and that is reflected in the fact that there are a good many African American entrepreneurs, seeking to do business across the African continent.

But I would say, more broadly, we have interacted in my Bureau, in our Department, with a range of interested entrepreneurs, American and African. We have done our best to—and I think this is exactly what we ought to be doing—to support all of those initiatives, where we have felt that these, indeed, were people who were genuinely trying to pursue legitimate business interests.

There is a growing recognition in the broader American business community, that Africa represents a new opportunity, a new frontier, and opportunity for American business. That is reflected in such things as the recent creation of the Corporate Council in Africa, which has now got a membership I think well over——

Mr. RANGEL. I did not really focus my question correctly. But I must say something pretty dramatic.

In my 25 years here, I do not remember ever an African American in my district wanting to sit down with me to discuss a trade issue in any African country. I thought, in view of the fact that we have to move so swiftly in trying to bring our relationships to a more successful conclusion, that perhaps we could work dif-

ferently on this, with a task force, where we have knowledgeable Americans, black and white, working together, better informed, so that when an issue comes before the Congress, there is a constituency that is not there to complain about a failure but was involved in trying to build up more awareness of how important it is to the United States of America, as well as to these African countries.

I have just not seen it, notwithstanding the fact that the State Department has to swiftly integrate its department, in terms of influencing this Congress. That is why I think Mr. McDermott, Mr. Payne, and Mr. Jefferson, once I get past them, I have a problem in terms of making a concrete contribution.

You could help us in identifying those people in the administration, with Members of Congress, that could meet and keep each other informed, so that some of our African friends might feel more comfortable with us, since we would be at least sensitive enough at least to try to find out what their problems were. I know you have gone a long, long way in doing that, and maybe you can help us in how we can be supportive so that it does not appear to be a State Department of a trade issue but means that it is an American issue as well and more Americans should be aware.

Let me thank you for your contributions, and thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Ambassador Moose, I must apologize for not being here during most of your testimony. As you know, in the Congress we are always doing three things at once and I was out talking about health care. I have met with you in my office, so I have already talked to you a little bit about this.

I am pleased to read in your testimony about the whole question of debt overhang and what needs to be done in that whole areas, and I look forward to working with you and Secretary Christopher on this whole issue.

There is one thing that we heard in testimony before you came which I want to raise and at least bring to your attention, and that is the impression by some of the other witnesses that, in the budgetary squeeze at USAID, those areas that are being squeezed are actually the private sector encouragement parts of the structure, and that, in fact, while protecting the humanitarian things, which are very important, what has been done is to squeeze the private sector side so that, in fact, it further delays the actual promotion of the kind of private sector involvement that I think you and I are both working for. I hope that we can work together on that in the future. I thank you for coming. Thank you, Mr. Chairman.

You're certainly welcome to comment.

Mr. MOOSE. Thank you very much, Congressman.

I do not profess to be the expert on this, or to be able to speak authoritatively for my colleagues in AID, but it is true, frankly, that as the overall levels of our foreign assistance budget have been reduced, that what has tended to get squeezed in that reduction is, indeed, those parts of the budget that in the past we have tried to devote to stimulate growth in Africa.

I recall when I was in Senegal, for example, one of the most ambitious programs we had there was a program to help reform the banking sector funding from AID. Again, the money that is available for those kinds of activities have become scarcer and scarcer as we have faced the overall reductions in the budget, and the protection, for reasons I understand, of certain parts of that budget in order to address what people regard as some priority needs.

I would hope that somehow we can find a way to restore to the AID budget and to other parts of the budget those kinds of activities which I think would be supportive of the private sector and, indeed, stimulate and, indeed, leverage greater contributions from the private sector. We have done some of that in South Africa, and I think we can do more of it elsewhere across the continent.

Mr. MCDERMOTT. Thank you.

Chairman CRANE. Mr. Payne.

Mr. PAYNE OF NEW JERSEY. Thank you very much.

Let me first of all thank you, Mr. Crane, and Mr. Rangel and Mr. McDermott, for inviting me to participate on this very important issue. We have brought it up—As you may know, I am a Member of the Subcommittee on Africa and this issue of trade has been discussed this year, and even previous to that at some workshops we have had with the Congressional Black Caucus. As a matter of fact, the whole question of trade several years ago was heavily discussed. So, I think this is very appropriate.

Let me just ask the Secretary, when we talk about the debt, it would appear to me that, one, we have a reduction in the numbers, the percentage of trade that Africa has compared to a few years ago. It says it has declined from 3.6 to 1.5 percent in 1994. Actually, the debt in Africa, if you computed it, actually accounts for 234 percent of the external trade that Africa has annually.

So, my question is, many times you look at the reduction of debt through external trade, cash coming in. How will Africa be able to rid itself of the debt, and is it realistic to feel that with structural changes we can really increase trade unless we deal with the debt problem first? Finally, then, what is your suggestion as it relates to the $313 billion of external debt that the 48 sub-Saharan African countries have totally?

Mr. MOOSE. Thank you, Congressman Payne. Indeed, this is an issue which we regard as being one of our highest priorities.

I am not an expert on the debt issue, simply to say this, that currently the 48 sub-Saharan African states owe about $223 billion in debt. Now, that gross figure is significant, but it is not all that large, except in proportion to the capacity of those economies to sustain and repay that level of debt.

Now, over the last several years we have made, considerable progress in the relief of bilateral debt, and particularly through the Paris Club and our agreement with our G–7 partners and others on the so-called Naples terms, which allow us to forgive up to 67 percent of the debt of least developed countries, at least those who are performing and meet certain criteria. That has already begun to have a significant impact on bilateral, official debt of many African countries.

We now, however, are confronted with how do we go beyond the 67 percent. There are many, administration officials in Treasury

included, who would like to see us do that. But, part of that is contingent upon being able to fund that out of our own resources, because it does require a budget outlay in order to do it.

The other critically important debt, which has gotten increased attention over the last 2 years, is multilateral debt. Roughly a quarter of the $223 billion which Africa still owes is owed to multilateral institutions. So, there is a growing recognition that if we want to do something serious about relieving that debt overhang, improving the ability of Africans to repay their debt, and also freeing up money that can be invested in development, then we need to address that issue as well.

As you know, at the recently concluded G–7 summit in Lyon, there was a reaffirmation of a commitment by the G–7 partners to do something about this critically important element of multilateral debt. I had the privilege of meeting with Mr. Camdessus just a few days ago and I know that he is determined to honor the charge he has been given to work out a solution to multilateral debt.

If we can do that, I think we will make a significant contribution to improving the economic opportunity for those African countries which are performing. It will remove a tremendous burden on them and thereby free up their ability to invest in productive investments in their own countries.

Mr. PAYNE OF NEW JERSEY. Thank you.

Before the red light comes on in about a half a second, let me ask a quick question.

There is information about the Lome Conference of 1976, where there was a special relationship between African countries and European countries. You know, with Lome II, currently in the Caribbean, we are engaged in a section 301 dispute with the banana products in the Caribbean and the Chiquita banana situation in Latin America, where the Caribbean nations are being squeezed because GATT supersedes Lome II and they just simply cannot compete. But with the special relationship with the Lome Convention, they were able to export their products, the banana products, to Europe.

What will preclude the lesser developed African countries, once the Lome situation is eliminated by virtue of GATT and other treaties, the same 301-type dispute, and what will happen to the least developed of the sub-Saharan countries who will be simply unable to compete?

Mr. MOOSE. I will have to, Congressman, say that I do not know the answer to your question. Hopefully I can get back to you.

[The following was subsequently received:]

The administration recognizes the importance of the banana industry to both Caribbean and African producers and it supports the continuance of the tariff preferences and assistance which the European Union (EU) provides. In fact, the United States supported a waiver in the World Trade Organization (WTO) for the Lome Convention which contains these preferences. However, we continue to oppose the discrimination against U.S. firms which exists in the EU's import licensing scheme. Access to the EU market can be assured by other means which would not injure U.S. companies.

In September 1995, the United States decided to pursue this matter in the WTO because the EU refused to negotiate with us. The United States has been joined by Guatemala, Honduras, Ecuador and Mexico in the WTO case. It is important to emphasize that our case is against the European Union, and not against Caribbean or African banana producers. The United States wishes to eliminate the discriminatory aspects of the EU regime which favor European banana marketing firms over other

multinationals. This case is not intended to adversely affect the competitiveness of African or other producing nations.

As overall tariff barriers and tariff levels have declined, it has resulted, at least in theory, in greater access for African products and the products of other developing countries to other markets—European, United States, and others. That gap, therefore, between a trade preference as offered through Lome and the standard tariff has shrunk.

In my view, over the long term lesser tariff create significant opportunities for Africans to expand their production and their exports to the world markets. I think we are all agreed, however, that for them to take advantage of that, they are going to need some help in the short term. they are going to need help in seizing the opportunities that have been created by this reduction of tariff barriers.

The Uruguay round, in my view, offers a unique opportunity for Africans to begin to expand their global markets and also to be more competitive in their own markets. But we need to find ways to help stimulate and enable them to take advantage of that.

We have offered, as part of our initiative through the WTO and through UNCTAD, ways of providing technical assistance to African countries so that they can, in fact, take advantage of those agreements.

I would add that one of the most unfortunate aspects from our perspective is the nonrenewal of our GSP Program; that would benefit many African countries. I would hope that Congress could renew GSP soon so that, in turn, we would be able to offer an incentive for improved access of African products to the American market.

Mr. PAYNE OF NEW JERSEY. Thank you very much.

Chairman CRANE. Mr. Secretary, I want to express appreciation to you for coming to testify, and also to give you a word of encouragement, that in our conference report on the tax bill and the minimum wage hike, GSP will be renewed, mercifully. We look forward to working with you in the future, too, on this issue.

With that, I will let you take leave, but I would like to give Mr. Rangel, however, a chance to say goodbye.

Mr. RANGEL. Thank you. I think it is saying we look forward to working more closely together, with the congressional group that my colleagues will have, and you can identify from the administration where we can get that task force, so that our exchanges would not have to be over mikes but, rather, having a better understanding. Then we can close it out over the hearings.

Mr. MOOSE. Mr. Chairman, I thank you and the Members of the Subcommittee for the opportunity to appear, and for that good news that you just provided. Thank you very much.

Chairman CRANE. Very good.

Next our final panel. Stephen Lande, Mima Nedelcovych, William Bucknam, Melvin Foote, and Doug Tilton.

Gentlemen, your printed statements will all be made a permanent part of the record, and if you could try and condense your remarks to 5 minutes in your presentations, in the interest of time, because we are going to be faced with some more votes.

I apologize to you, Mr. Lande, for mispronouncing your name. But we will start with you, Mr. Lande, and then work down the order that I indicated from the schedule.

STATEMENT OF STEPHEN LANDE, PRESIDENT, MANCHESTER TRADE, LTD

Mr. LANDE. My name has always been a challenge. When I was in the Foreign Service, they very nicely changed to the French pronunciation, "Landé," but when my father did not know whom they were talking about, I went back to "Lan Dee," which is the New York pronunciation. So, I thank you.

There are always advantages to testifying on the last panel. Although you may have a smaller audience, we do have more Congressional attendance, other advantages are being able to plagiarize the best of the other testimony, and you can dispense with background since others have already covered it. I would like to try to anticipate Congressman McDermott's question by seven steps to be looked at that perhaps by the Subcommittee.

First, I would suggest that the U.S. Trade Representative be instructed to work with the European Union, Japan, and selected newly industrialized countries, for example, Korea and Taiwan, to negotiate free trade with Africa. Even though I fully support the McDermott proposal, I think it would be more effective for such negotiations to be conducted collectively by these countries.

The only change I might make in the proposal is in the proposed timeframe. I would leave the year 2020 deadline for Africa to open its markets to the United States. I would also borrow from APEC, the Asian Pacific Economic Community, forum, the developed country members, including the United States, open their markets by the year 2010. This would provide a little special treatment a longer timeframe for them to assume full responsibility.

My second principal recommendation is that the United States should fully support economic integration within Africa. In fact, I picture, within a shorter timeframe, one should urge the existing regional groupings—there are three or four major ones in Africa—to achieve free trade between themselves by the year 2005. The United States, Europe, and other developed and rapidly developing countries would allow free trade from Africa by 2010, and Africa would allow free trade by 2020.

The United States should continue to encourage subregional integration. When Vice President Gore visited Botswana, he successfully urged SADC, the Southern African Development Community, to achieve free trade. We offered to provide technical assistance. I was pleased to be the consultant selected for this work. Assistance in terms of financial support, could also be provided whether it comes from the European Union, the United States, or the World Bank. It helps African countries to cope with the short-term shortfall, in tariff revenues which they will experience as they move toward freer trade. We all know the problems we have even here in the United States in terms of offsetting reductions in revenues from eleminating duties. Also, there could be some balance of payment shortfalls as imports increase in response to market liberalizations. Covering these shortfalls is a legitimate role for economic assistance and would facilitate movement towards freer trade.

It is extremely important that South Africa realize its responsibility in the area of attaining free trade in the subregion. In the same way that South Africa benefits from the liberal trade policies of some of its larger trading partners, it must maintain liberal trade policies first for Southern Africa, and then eventually for the rest of Africa as well. South Africa has both a responsibility and an opportunity in the pursuit of trade liberalization.

The other items are more technical, so I will run through them quickly.

Consideration should be given to putting Africa on the agenda at the Singapore Ministerial of the WTO, World Trade Organization. This will be the first meeting of this new organization and certainly Africa deserves to be on the agenda as a special problem, or maybe I should say a special opportunity.

Some of Africa's complaints we should not even try to respond to. These are complaints about a reduction of GSP and Lome preferential margins and MFN duties are reduced. These are part of trade liberalization which benefit all countries.

There are some very strict criteria for forming free trade agreements under article XXIV of the GATT. Perhaps there could be some dispensation for Africa as we move in this direction.

I see the yellow light going on, so I will just give a couple of sentences on each of the other recommendations.

If GSP is to be renewed beyond the expected May 1997 extension, there should be a special provision for Africa within GSP. The extension currently under consideration includes special provisions for the least developed. Specific recommendations should not be limited to only least developed countries. It does not reward those countries that are successfully meeting the challenge, whether it be Botswana, Ghana, or Uganda. More favorable treatment under GSP should be extended to all African countries.

Four, although normal trade conditionality is important—what I mean are our requirements for eligibility under GSP, IPR, intellectual property rights, settlement of expropriation cases, labor rights etc.—one should bear in mind that when we talk about encouraging African development, we are talking about more general conditionalities. We are talking about responsible macro-economic policies, which lead to market openings, budget discipline, privatization etc. Narrow conditionalities which apply to day-to-day work in U.S. trade policy implementation should not be the highest priority in our policy towards Africa.

The last item is the apparel question, which was very perceptively roused by Congressman McDermott today. Based on my experience with CBI, I have two suggestions:

First, you should focus on the three different types of apparel imports because each of them have a different effect, politically, in the United States. Apparel produced from American fabric, apparel produced from local fabric, and, of course, apparel produced from third country fabric. It is the third category, especially when produced from Far Eastern material which; first, is politically difficult to provide duty-free access. Most of the value of the product is added outside of Africa and the United States, which gives little benefit to African producers and potentially harms American pro-

ducers. Of particular importance is the implementation of adequate origin rules.

Second, I would suggest strongly, that the way to approach the apparel question is through either a Congressional group, or the USTR, or a combination thereof, meeting with the different players who influence textile policy, whether they be mills, apparel manufacturers, importers, retailers, labor unions, and so forth, one should include African experts as well. Among there interests, you can try to work out some type of textile provisions which would be acceptable and have a chance of passing Congress.

Thank you very much for the time you provided me to present my views. I hope they have been helpful.

[The prepared statement follows:]

Manchester Trade, LTD.

International Business Advisers

1155 FIFTEENTH ST., NW
SUITE 302
WASHINGTON, DC 20005

STEPHEN LANDE, *President*
NELLIS CRIGLER, *Vice President*
MICHAEL LANDE, *Research Director*

Telephone: 202-331-9464
Facsimile: 202-785-0376
E-Mail: **slande@dcez.com**

TESTIMONY OF STEPHEN LANDE
PRESIDENT OF MANCHESTER TRADE
U.S. TRADE WITH SUB-SAHARA AFRICA
before the
SUBCOMMITTEE ON TRADE OF
THE COMMITTEE ON WAYS AND MEANS
August 1, 1996
Room 1100, Longworth House Office Building

I am very pleased to have been invited to address the hearings of the Trade Subcommittee of the Ways and Means Committee. I applaud the efforts of the subcommittee to develop an African trade policy to mirror similar American approaches toward the Western Hemisphere in the Free Trade Agreement of the Americas (FTAA), towards East Asia and some key Western Hemisphere trading partners in the Asian Pacific Economic Community (APEC) forum and towards the European Union in the TransAtlantic Dialogue (TAD) and the TransAtlantic Business Dialogue (TABD).

I strongly endorse proposals for an American policy which would encourage the full integration of Africa into the world economy. Coincidental, while preparing for this hearing, I read an article in The Economist of June 29th, "Growth in Africa" by Jeffrey Sachs. He suggested that the best way to overcome the practical obstacles to a new dawn of rapid growth throughout Africa would be for the major African donors (America, members of the European Union and Japan) to launch a **"New Compact for Africa"** guaranteeing open markets for African exports and committing themselves to help reintegrate Africa into the world economy. I would add some of the Newly Industrialized countries such as Korea and Taiwan to this initiative. I foresee that the new compact would include elements of the Crane-McDermott proposal for a free trade agreement but it would involve not only the United States but Europe, Japan and Far East NICs (Newly Industrialized Countries) as well. It would also involve support of constructing subregional free trade areas in Africa.

The latest World Bank report on *Global Economic Prospects and the Developing Countries*, argues that differences in growth performance by developing countries owe less to internal factors than the degree to which countries are integrated with the world economy--namely to what extent they participate in international markets for goods, services, capital and labor. The quarter of developing countries that integrated most quickly in the past decade grew nearly 3 percentage points a year faster than the slowest integrating quarter.

According to the report, increased participation in international trade facilitates growth through improving resource allocation, enhancing efficiency by increasing competition among firms and inducing learning and technology transfer.

The list of slow integrators over the past ten years include most countries to Sub-Sahara Africa. The countries with disappointing performance generally have relatively high duties which have not fallen significantly. These countries have also experienced weak inflows of foreign direct investment. The ratio of both trade and foreign direct investment to national income fell in many of these countries in contradiction to the tendency in most other developing countries to increase.

Output per head in Sub-Sahara Africa fell 0.7 percent between 1978 and 1987 and 0.6 percent during the 1987-94 period. Some growth is estimated for 1995 but only 0.6 percent. Asia recorded a whopping 7 percent per capita growth in 1995. Africa received about 3 percent of the foreign direct investment flows to developing countries while developing countries in East Asia and the Pacific attracted about 40 percent of the FDI flow.

This is not to say that there have not been significant success stories in Sub-Sahara Africa. Mauritius, Botswana and most recently Ghana and Uganda are notable successes this decade. The 1995 growth of these countries was, however, slightly below the 5 percent growth rate averaged by developing countries that year. Many believe that with the curse of apartheid now eradicated, South Africa could become the newest NIC once its current adjustment is concluded. Zambia has taken the lead in trade liberalization in southern Africa.

In fact, although it is necessary to talk of Sub-Sahara Africa for purposes of any initiative for the Continent, one should realize that there are significant differences in performance within a grouping of 48 countries within the sub-continent. In fact, any strategy for the region must be built around successful African countries which can become poles of developments for their subregional neighbors.

I, thus, enthusiastically endorse the proposed legislation to develop free trade between Africa and the United States. Congressman McDermott has already described this proposal in some detail. The agreement with sub-Sahara Africa would represent an accord with a potential growth pole of the next century. The economic potential for American companies being on the ground floor for this growth is also a compelling reason to consider such a proposal. Also, the current level of development of African economies, in almost all cases make them incapable of causing damage to U.S. producers which is not true of more advanced developing countries.

There has been some concern that the low levels of trade would not justify a free trade agreement with the region. I would like to remind the committee that the United States entered into a free trade agreement with Israel, despite its low quantitative ranking among American trading partners. The agreement reflected the economic, political and cultural linkages by a number of Americans in the same way as such an agreement with Africa would be particularly important to a number of Americans.

I would also point out that the United States has an opportunity for export growth since it has less than ten percent of the market in Sub Sahara Africa compared to the 41 percent market share held by the European Union.

Despite the above and to be realistic, however, one must realize that until the American public is satisfied that NAFTA has been a successful job creator, there will not be much enthusiasm for free trade with other countries. The CBI parity bill, a less ambitious initiative for a region that has significant trade with the United States to provide equity for the Caribbean Basin apparel shipments compared to imports from NAFTA failed to pass Congress in 1995 and 1996 because of this disillusionment.

Fortunately, the prognosis for a sustained Mexican recovery is positive which should increase the acceptability of African free trade next year. Mexico is already growing on a monthly basis. In fact, most trade experts argue that the Mexican peso devaluation was not caused by NAFTA and in fact, the existence of the agreement is actually speeding recovery. NAFTA has contributed to a much less prolonged crisis this year than the previous crisis in 1982.

Also, the American public must become better educated about the current economic and political situation in Africa. Although such African hot spots as Burundi, Liberia, Nigeria, Rwanda, Somalia and Zaire, most of the 48 countries in Sub-Sahara Africa are adopting democratic political principles and market-based economic reforms.

The compact must include other elements as well to be effective. In the non-trade area, the United States must lead efforts for debt relief, privatization of inefficiently run state enterprises or government sanctioned monopolies, a continental war on corruption and regional infrastructure assistance program for basic transportation, energy and telecommunications programs. Assistance should be provided to reform government budgets to see a reduction in deficits, introduction of a more effective tax collections allowing a reduction in private sector initiative numbing exorbitant tax rates, a smaller role for governments and a shift in priorities from non-productive subsidies such as for publically owned companies, urban workers and agricultural producers to increased expenditures for education and health.

To assure that there is a coordination of the different policy initiatives, the Administration has established an interagency Africa Trade and Development Coordinating Group. The group should receive a Congressional mandate with specific responsibilities for suggesting legislative and administrative initiatives to the President and to Congress.

The initial report on "Comprehensive Trade and Development Policy for the Countries of Africa" submitted by former USTR, Ambassador Mickey Kantor under Section 134 of the Uruguay Round Agreements Act was a good beginning for this coordination. It laid out five objectives for the focus of American policy. They are trade liberalization and promotion, investment liberalization and promotion, development of the private sector, infrastructure enhancement and economic and regulatory reform.

I suggest, however, that the new group keep in mind that many of the problems in Africa are unique to the continent. Given this uniqueness. one should not automatically assume that policies which work in some developing country settings would necessarily be effective in all African countries or for that matter, solutions for one country in Africa may not work in the other countries. African uniqueness reflects the longer period of colonial rule, the continuing poverty in many areas, the number of national and tribal subdivisions within the continent (Sub-Sahara Africa has 48 countries compared to only 12 countries in South America), the geographical isolation of many population centers, the pervasive role of government and the low level of infrastructure development.

I will focus the remainder of this statement on this aspect of U.S. relationship with Africa. This emphasis on trade conforms to Sachs' prescription for economic growth in Africa. Sachs estimates that the African growth rate each year is about 5 percent lower than it should be based on normal economic expectation for developing countries. Most of this lagging growth can be ascribed to two factors--extent of market orienta- tion including openness to trade and the national savings rate.

The lack of trade openness contributes to about 40 percent of this shortfall. Thus by opening African economies through the new Compact, a significant portion of the problem can be addressed. In trade, we should go beyond consideration of a free trade area simply between the United States and Africa. The Administration should be instructed to use its negotiating leverage to gain support for a multilateral free trade approach with Africa. The United States should promote free trade in Africa's relationship with other countries. This would be both within Africa and in African relations with the developed world.

There is already very close consultations concerning debt relief and other financial matters among donor countries which include the United States, the European Union and Japan. These consultations should be extended to the trade area as well.

The timing may be appropriate for negotiating such an initiative.

1. The US GSP program is currently not in effect and the extension currently under consideration will only last through May, 1997. An African free trade initiative may be more appropriate and even more politically acceptable than a further extension of non-reciprocal GSP.

2. The European Union agreement with its former colonies--Lome--is expiring at the year 2000 and preliminary discussions on renegotiations are already under way.

   In addition, the European Union is in the process of negotiating an agreement with South Africa providing for the establishment of free trade between them within twelve years.

3. Japan and some of the NICs have not been that actively involved in Africa waiting for more political stability. (Taiwan and for that matter, Israel have been an exception having been active for political reasons tied to its need for diplomatic recognition and its position as a success model for a number of African countries.) The time has come for the Far East to make a contribution.

Unilateral free trade such as that under Lome or GSP may no longer be the best route for promoting development. The disciplines of reciprocity is in the interest of developing countries. Excessive protectionism does not assist a country in integrating into the world economy. The Crane McDermott proposal would provide this discipline; a second renewal of GSP would not.

Such agreements must recognize the domestic constraints on African countries and thus allow more time and flexibility for obligations to be implemented. Thus any such free trade agreement would probably have to allow many of the African concessions to be phased in over a period lasting longer than the 10 to 12 years customary for FTAs. Technical assistance is required to assist many African countries to establish the administrative structure necessary to implement many of the Uruguay Round agreements.

Also, origin rules will be particularly difficult to design. On the one-hand, they cannot be too demanding since African countries, with one or two exceptions, lack the industrial base to produce components for modern manufacturing and assembling. However, in import sensitive areas, they cannot be so liberal as to allow excessive amounts of third country materials to undergo minor transformation in Africa for reexport to developed countries. This would lead to a lack of political support in the United States for such arrangements plus there would be only be a minimal value-added content in Africa. This is a particular conundrum for apparel produced from Far East materials.

A second and perhaps even more immediate possibility is offered by agreements within Africa for subregional and regional integration. I strongly support the United States asserting the lead in the development of these agreements. These agreements could form the building blocs for eventually forming a free trade agreement encompassing the whole continent. This model is similar to the model being followed in the Western Hemisphere with the formation and deepening of subregional agreements. (Unfortunately due to the absence of fast track, the is not participating in the process today.) There are now five such subregional groupings in the Western Hemisphere (Andean Pact, CACM, CARICOM, MERCOSUR and NAFTA).

In Africa, there are similar agreements. Two of the larger agreements already provide for a free trade customs unions-SACU (the Southern African Customs Union consisting of Botswana, Lesotho, Namibia, Southern Africa and Swaziland) and UDEAC (the Customs and Economic Union of Central Africa consisting of a number of former French colonies.) Other agreements making progress towards the goal of free trade include COMESA (the Common Market for Eastern and Southern Africa) and ECOWAS (the Economic Community of West African States) include most countries in South and East Africa and West Africa respectively.

The most active African negotiations today is taking place under the umbrella of SADC (the Southern African Development Community consists of SACU members plus Angola, Malawi, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe). Eventually Kenya and Uganda should join this effort. As part of an attempt negotiate protocols covering all aspects of trade relations, SADC is considering a trade protocol which would establish a second generation type of FTA. This means that it goes beyond simple tariff elimination to include eliminating as many market access restrictions as possible and addresses such other issues as competition policy, corruption, government procurement, investment, services and standards. South African support for this effort is crucial since it provides the largest market in the region.

The United States along with other developed countries and the MDBs should actively promote such free trade agreements. Below, I have listed four ways where these countries can assist.

First, any liberalization effort requires temporary balance of payments assistance. Developed countries should concentrate this type of assistance on countries opening their markets.

Secondly, developing country budgets are reliant on tariff revenues for funding domestic programs. Thus a reduction in duties must be offset somewhat. In the United States, we do this through reducing expenditures in other programs or through finding alternative resources from new or increased taxes or suer fees. This is even difficult in the United States. Witness the recent struggles over funding NAFTA, Uruguay Round tariff reductions, GSP and CBI parity. Then think how much more difficult such a process will be for Africa.

Initially, some revenue would have to be provided by foreign resources at least until the duty reductions generate new business activities which will offset the loss in general revenue. The European Union and the World Bank are providing some of these resources.

Third, there is need for adjustment assistance. Fortunately, due to the level of development, the amount of dislocation from increased imports will be minimal.

Fourth, funding is required to assure that there is physical infrastructure to take advantage of free trade, One needs roads, telecommunications to make sure that trade and investment can follow the trade liberalization inherent in a free trade agreement. This involves coordination with donor countries and Multilateral Development Banks. At this time of scarce official resources, it also involves developing new mechanisms to tap the resources of the private sector.

Chairman CRANE. Thank you, Mr. Lande.
Next, Mr. Nedelcovych.

STATEMENT OF MIMA NEDELCOVYCH, VICE CHAIRMAN, CORPORATE COUNCIL ON AFRICA

Mr. NEDELCOVYCH. Thank you, Mr. Chairman, Members of the Subcommittee.

It is a particular pleasure to be able to testify here this afternoon on behalf of the Corporate Council for Africa. Personally, to me, it is a particular pleasure, as I have basically lived and breathed Africa all my life, having grown up in Ethiopia and then lived professionally in a number of African countries, serving 4 years as U.S. executive director of the African Development Bank, until 1993. I have since come back and am working now in international business throughout Africa with F.C. Schaffer, a sugar corporation that is building, designing, and operating sugar plants throughout the continent.

It is a particular great pleasure to appear as vice chairman of the Corporate Council. We created the Corporate Council specifically to fill a void that we saw, when there was no business voice, if you will, for Africa. People did not come to ask opinions of American businesses doing business in Africa. That is one of the main reasons that the Corporate Council was created, and also to be able to extend our hands across the continent to be able to create this sort of growth and joint ventures that we would like to do with our companies.

The Council now, in fact, has raised its membership up to about 100 members, and is growing. We represent companies of all sizes, and are, if you will, the practitioners on the continent. We operate in all services, trades, and investments and turnkey projects.

So, I think what I would like to do in the short time is to be able to give you, to some extent, our practitioner's view because we appreciate very much that finally the subject of trade, not aid, growth in the private sector and opportunities on the continent, are getting the kind of attention that we thought all along should have been the case.

We and our members strongly feel that, as far as the continent is concerned—and it is a truth—the billions of dollars that have been basically sunk into development over a number of years—and I am not telling any secrets—has not really led to the kind of results that one would have hoped. So we are of a strong belief, therefore, that it is not so much throwing money at the problem but, more importantly, how we use the money that is put out there. That is the issue.

As we operate throughout the continent, Mr. Chairman and Subcommittee Members, we have seen a lot of encouraging signs. We have seen governments that have become responsible to their people, governments that have begun to take an open view clearly to open markets, open economies. You know, to some extent, one can say that the light has lit up, and to another extent one could also say that there really is very little choice. I think the hard fact has come down to the African leadership, the African elite, that resources are scarce and resources have to be utilized in the most ef-

fective manner. That, from our perspective, is a key element as to where we see the future of the continent.

Now, a major issue comes in in terms of implementation. Yes, we are all happy with the results of free markets, the growth, the end of the road. But no one, and certainly none of our members, will state that it is an easy road to get there. There are many hard bumps on the way. There are very basic human needs and very basic infrastructure problems along the road to an open market and the end result of development. But, we are of the strong belief that it is, in fact, the only road. And it is, in fact, the one way that U.S. business, U.S. knowhow, can very much contribute in assisting this type of growth.

Take, for example, this mantra of "trade, not aid." We have all heard it. What does it mean? Well, from our standpoint, as I said, we are practitioners. we are not in the aid business. We might have aid benefits that come up, but we are in the business of growth and in the business not only of promoting our own interests, but in so doing, jointly promoting the growth and benefits that are to be found on the continent.

We feel that only through that kind of private sector growth can the basic human needs be sustained over a period of time. Therefore, that, to us, is the most effective way to utilize resources.

If one were to get to point out a couple of specific points, there are very critical agencies that have been very supportive, clearly, in our operations—and here I am generalizing across the various companies in our Council. One can name them. You've heard the Department of Commerce, with their advocacy roles, and the embassies have clearly gotten the message and they are out there to support us; AID with their attempts at promoting U.S. involvement; very critical agencies that I will pinpoint that we, as petitioners, have been able to benefit from. The Trade Development Agency, the U.S. Ex-Im Bank, OPIC, these are all agencies that certainly people are familiar with what they do.

The one thing I would state from a practitioner's standpoint that is very important is the ability for these agencies to be able to support U.S. business most effectively. We operate very much—we at Schaffer—in Francophone countries. We are constantly up against the European mechanisms of finance, and a colleague of mine will deal more specifically with Ex-Im, so I will not steal much of the show. But, it is a very critical element to be able to match the kind of funds that come out of Europe. If we agree we want to do it, we can figure out a way to do it. That is the key issue to me.

Right now Ex-Im is closed in most of the African counties. Let's identify the problem that is there and how we resolve it. USAID really must want to support U.S. business—and it has not for a long period of time been in the growth business, trying to grow economies. Now, I have seen over the last few years USAID shift back more toward the basic human needs side. In my mind, we are reversing a certain positive process we began, and that is the sustainable ability to meet needs through growth.

If I may make another specific recommendation, the Trade and Development Agency provides, what I call, the opening wedge for U.S. business to go in and identify opportunities, to help defray some of the front-end costs with feasibility studies. Why is that im-

portant? To newcomers in Africa—and this is for many companies in the Council—it is difficult to enter the market. It is timely, therefore, it is costly. Any ability to be able to defray those costs is of great benefit.

The ability to create the opportunities for the various countries' leaders, be it business or political, to have the interchange and exchange with our leaders on the business side, also is a great supportive element.

Members of the Subcommittee, I can go on and on. The prepared statement is there, as the Chairman stated earlier, so I will proceed with the conclusions. My final recommendation is that we here are convinced that there is good business to be done in Africa—certainly I can speak as a practitioner that there is—and if we are convinced that it is through business, the private sector, that growth is achieved, and that growth meets best the needs of the countries, then we can create that kind of alliance between business and government and allow each of us to do what we do best.

I thank you. I remain open for questions.

[The prepared statement follows:]

STATEMENT OF
DR. MIMA NEDELCOVYCH, VICE CHAIRMAN
CORPORATE COUNCIL ON AFRICA

The Corporate Council on Africa

Mr. Chairman and members of the Committee, it is a great pleasure to have been invited to appear before you as a representative of the Corporate Council on Africa. As you may know, the Corporate Council on Africa is a private, non-profit organization, composed of nearly 100 American corporations and individuals who came together in 1992 to promote the growth of the private sector in Africa. Our members represent a broad set of interests and hold a variety of views on most African issues, but they all agree on the Corporate Council on Africa's guiding principle that the engine for economic growth in Africa must be the indigenous African private sector.

It is the African private sector, not foreign assistance, that will create jobs, create new enterprises, provide a tax base for African government, and improve the quality of life for all Africans. When Africans create wealth, they can feed and clothe their own families, educate their own children, and demand that their leaders provide good and accountable government to provide for their common welfare.

For too long, the international community has pumped billions of dollars into Africa to promote "development," but the impact has been minimal. According to one study conducted by the London School of Economics in 1994, sub-Saharan Africa has received over $170 billion in international aid over the past decade, yet during the same period, living standards fell by 2% annually and are now lower than they were in 1970. There is no question that the international community must and should respond to Africa's compelling needs, particularly in the wake of the continent's all-too-frequent man-made and natural disasters. However, there is also no question in the minds of the American business community that the ingredient most often overlooked in the development equation has been the private sector, in Africa and here in the U.S. In this regard, the Corporate Council on Africa heartily welcomes the Committee's determination to include the views of the private sector in its deliberations.

Encouraging Signs

Members of the Corporate Council on Africa have been doing business in Africa since the early part of this century. In many respects, we are encouraged by what we see. Contrary to the popular images -- seen on magazine covers and nightly news reports -- of children with bloated bellies or young teenagers waving AK-47's, we are encouraged by the growing trend toward elections and democracy across the continent. More specifically, we have noted a discernible shift as Africans come to understand that they have a right to good and responsible governments that do not abuse their basic rights. Military regimes are no longer in fashion, and those which do exist are being pressured to give way to elected civilian governments. On the economic side, we share the views of Assistant Secretary of State for African Affairs, George Moose, when he told the Corporate Council on Africa in September 1994 that "African governments increasingly acknowledge that outward looking policies which encourage trade, investment, and the growth of the private sector are essential for economic development."

Africans Have Got the Message

Across the continent -- from Uganda to South Africa to Cote d'Ivoire -- African governments have begun to put important policy reforms into place. Africans have learned the benefits of more realistic exchange rates, and that they can be implemented without the dire political consequences that were once feared. Functioning stock markets have emerged in 11 African capitals with combined market capitalization of nearly $300 billion, and estimates predict that Africa will be able to increase their share of the world equity market by nearly 35% by 2010. And African governments are coming to realize that parastatial monopolies over power and telecommunications -- which in many African countries were the "crown jewels" at independence and remain symbols of national sovereignty and easy sources of revenue -- must be privatized if they are to attract the foreign technology, expertise, and capital necessary to meet the burgeoning demands of growth.

African governments have also recognized the necessity to lower barriers to intra-African trade if they are to establish competitive markets. Several economic communities have been established, the largest of which are the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS). Last week, at its annual summit meeting in Yaounde, the 53 members of the OAU considered ways to implement the African Economic Community (AEC) treaty which came into force in 1994 and commits its members to a working economic community by the year 2025.

Africans clearly have got the message. On June 24-27, 1996, the Corporate Council on Africa, together with the World Bank and the UN Economic Commission for Africa, co-sponsored an international conference in Accra, Ghana on "Reviving Private Investment in Africa." A number of our members participated in that conference, where they heard directly from key African leaders, including Ghanaian President Jerry Rawlings who has used economic reforms to fuel a period of unexcelled economic growth for his country. In one of the many discussions in which government and business leaders exchanged views, President Rawlings went right to the heart of the dilemma facing Africans as they make this massive change: "I don't understand capitalism, but I do understand the fruits of capitalism."

The Problems of Implementation

The major problem facing African governments today -- which, like President Rawlings, understand the "fruits of capitalism" -- is how to implement the systemic changes they are introducing. Without glossing over the many and complicated aspects of policy implementation, the participants in the Ghana conference identified two key constraints to the success of the reform efforts.

To be successful, African governments will need a cadre of highly-skilled and technologically-proficient people to implement the policies and put new programs in place. In some cases, the sons and daughters of Africa are returning home from good jobs with large companies in America and Europe; that trend should accelerate as they see the evidence that the commitments to reform are sincere. However, Africa's indigenous human capital must be trained and energized with an ability to execute the new policies. Managers need to be trained to make the stock exchanges function effectively, developing new procedures for settlement and clearing accounts and overcoming dismal liquidity ratios. There is also much international experience to be transferred about the mechanics of privatization, whether of national airlines (as in Kenya) or power distribution grids.

The second crucial area is the development of domestic markets large enough to support local business and attract foreign interest. Without a strong domestic market and consumers with disposable income, African businesses will never approach their full potential and foreign investors will continue to concentrate on extractive industries and operations which produce goods for export. Unfortunately, policies which encourage the development of local markets -- primarily low tax rates -- often run afoul of IMF directives designed to enhance government revenues. Nevertheless, the evolution of regional economic communities promises to provide the foundation of substantially larger markets, with the potential to support both American and African investors. SADC, for example, brings a dozen southern African nations together, with a population of nearly 150 million, nearly three times the market of its most prominent member (South Africa) alone. In West Africa, ECOWAS includes 16 countries and a market of nearly 200 million potential customers.

As I have already noted, African leaders have recognized the importance of establishing free trade areas and agreed in principle to reducing tariff and other barriers. However, progress in these areas is notoriously slow and merely opening markets is often not enough. African economies must actively compete for favorable terms of trade and investment with larger and better-known regions of the world, including Southeast Asia. African countries must learn to identify and target individual companies which can complement their development efforts, and then they must take the initiative to aggressively market their advantages.

Meanwhile, other impediments to opening African markets remain. For example, non-trade barriers -- in this case, governmental safety standards -- effectively limit the ability of American automobile manufacturers to sell their American-made products in South Africa. Local ownership requirements remain in force in several countries, including Benin and Zimbabwe, where they send a strong signal that special interests and out-dated protectionism continue to counteract efforts to expand American trade and investment.

America Needs a Strategy

Mr. Chairman, I have tried to sketch a profile of how much of the American private sector views the current economic climate in Africa. Unfortunately, in doing so, I have had to make some very general observations, which obviously do not apply to each nation. The members of the Corporate Council on Africa are active in every country on the continent, and we are more aware than most of the shortcomings of such an approach. Nevertheless, this broad perspective does highlight what I believe many would agree is a need for a consolidated American strategy for dealing with the economic changes underway in Africa today.

Mr. Chairman, many of us have heard the mantra of "Trade, not Aid" as a prescription for U.S. policy toward the developing world, including Africa. It certainly sounds good. Not only does the phrase stress the attributes of enhanced trade in generating wealth, but it also implicitly recognizes the reality of declining assistance resources. However, as a strategy, the concept is unfortunately quite hollow. In fact, U.S. government policy toward African economic development has changed very little in recent years, except for the elimination of a number of AID missions and a reduction in direct assistance monies. There has been no concomitant increase in resources or attention paid to expanding trade opportunities for American businesses. Nothing demonstrates this reality more vividly than the fact that the U.S. still maintains hundreds of AID officers and hundreds of contractors, while supporting only four full-time commercial officers in all of sub-Saharan Africa.

American Embassies have been given new directives to provide support for U.S. business interests, and many are doing an admirable job. We know this because we have had a firsthand opportunity to meet some of our best and brightest diplomats as they have worked diligently to support the Corporate Council's recent trade missions to Eritrea and Ethiopia, as well as our trade missions last year to Mozambique and Zimbabwe. Nevertheless, it is true that U.S. presence overseas is being cut, including commercial officers. This is not good news for American business and businesspeople as they face increased competition from their European and Asian counterparts who often enjoy strong and direct support from their governments.

A Government-Business Partnership

Mr. Chairman, much has been said about how U.S. government policies can be realigned to better support U.S. international trade and investment. I do not pretend to speak for American businesses in other parts of the world, but the members of the Corporate Council on Africa have some very definite ideas about how the situation might be improved regarding trade with sub-Saharan Africa. Nearly two years ago, our members met together for three days with senior officials of the Administration to discuss policy recommendations to improve commercial opportunities in Africa for the U.S. private sector. The conclusions of the group were compiled into a policy paper which was included in testimony before both the House and the Senate in the spring of 1995. Copies of that document are still circulating and many of its recommendations are still operative.

Mr. Chairman, what we propose is a partnership based on the simple concept of comparative advantage, with both the U.S. government and the American private sector doing what each is best suited to accomplish. The objective is to develop the African market, opening it to American trade and investment, and -- in the process -- empowering the African private sector and promoting real and sustainable economic development on the continent.

There is ample evidence that American business is interested in the arrangement. Those companies which are operating in Africa are doing well and profit margins in the region are among the highest in the world. Membership in the Corporate Council on Africa has sky-rocketed, from barely 6 companies three years ago to almost 100 today. Thirty-two American companies recently paid $3,000 to participate in our trade mission to Eritrea and Ethiopia -- an event unimaginable only a few years ago. U.S. investors have also discovered the continent. There are at least seven mutual funds dedicated to investing in Africa, while a number of emerging country funds have substantial holdings of Africa-based equities. There is no doubt that American business is interested in Africa.

Business Looks to Government

If the U.S. government-business partnership is to succeed where traditional development assistance has failed, much will depend on our ability to parlay the inherent advantages of both into an effective force for progress. While business has its strengths, it is also clear that business is not suited to carry out many functions which are natural to government. In particular, this means the U.S. government working with other governments -- in Africa and with other trading partners -- and international organizations to create the necessary environment for economic development and to level the playing field among potential competitors.

Perhaps no single initiative by the U.S. government would be as effective in improving the competitiveness of American companies than the successful negotiation of an international agreement which elevated the key elements of the Foreign Corrupt Practices Act into international practice. Steps within the EU to limit tax deductions for special payments are a welcome development, but until America's competitors are held to a similar high standard of conduct, they can continue to turn to bribery and other unethical practices to increase their "competitiveness" thereby abetting the cycles of corruption which plague many African countries.

The U.S. government should also continue to promote free trade arrangements, and the elimination of tariffs and other barriers consistent with WTO precepts. Regional efforts already underway in Africa -- especially SADC, COMESA, and ECOWAS -- to open trade and enlarge markets should be strongly encouraged, and the U.S. might consider establishing multilateral free trade agreements with them. The U.S., through AID or other organizations, should provide technical assistance in setting regional standards for road and rail transport, simplifying customs requirements, and easing regional financial transfers which would foster more rapid integration of the regional economies, making the markets larger, more open, and ultimately more attractive to both American and African business. Although an all-encompassing arrangement such as the OAU's African Economic Community might ultimately be realized, the existing regional groupings could serve as a catalyst for encouraging other states to make the necessary policy adjustments.

Within almost every African country, there is a substantial role for the various arms of the U.S. government -- Department of State, AID and USIA -- to play a meaningful role in creating an enabling environment to enhance the opportunities for the private sector. As I already noted, most African governments have "got the message," but they do need assistance in implementing the more open policies and developing their human resources if they are to make rapid progress. For example, American assistance could play a pivotal role in training customs services and personnel for more efficient operation. African central banks could use assistance in managing a national banking network, while outside expertise could be instrumental in facilitating privatization efforts and efficient stock exchanges. Many of these policies were originally encouraged by AID, and we should not be hesitant to take the next steps necessary to actually implement the resulting reforms

Besides continuing to encourage market-friendly policies, the Department of State and USIA have a unique opportunity to contribute to the enabling environment by advocating and facilitating where possible the stable, predictable and democratic political and legal systems upon which any sustainable economic development must be founded. American companies have a

long-term stake in Africa's future, and only governments that enjoy the support of their populations can promise that necessary stability and opportunity.

Lastly, U.S. companies doing business in Africa look to their government to support them in relation to their host governments as well as against their international competitors. In most cases, American Ambassadors have been forthright in taking up cudgels for American companies in disputes with the local governments. However, many American companies presently doing business in Africa are apprehensive about discussions of economic sanctions against Nigeria. For them, the implications are clear: today's hot investment opportunity could be tomorrow's target for economic sanctions, based not on traditional standards of threatening the international peace but on its domestic policies.

Some Specific Recommendations

Mr. Chairman, it seems clear that major new programs for Africa are most unlikely at the present time. And the suggestions I have made recognize that fact. What we are proposing is generally a realignment of existing institutions and programs to capitalize on what we view as some encouraging signs within Africa that some of the basic preconditions for economic development -- based on an indigenous private sector and open markets -- are being realized. In short, we want to work closely with the U.S. government to load some real substance into the "Trade, not Aid" equation for Africa.

Mr. Chairman, members of the Corporate Council on Africa have been privileged to meet with individual members of the Committee to discuss how we might best accomplish this goal, and we would greatly welcome the opportunity to continue this dialogue as the Committee works toward legislation. While we remain open to new ideas, our experience indicates that the institutions already in place -- AID, the Export-Import Bank, OPIC, TDA -- have the potential to fill most of the gaps with relatively minor adjustments.

The Trade and Development Agency is singularly the most effective government agency most of our members have encountered in promoting trade with Africa. By providing support for feasibility studies and creating opportunities for African decision-makers to meet American manufacturers and service providers first-hand, TDA provides the "opening wedge" in helping American companies penetrate the African market. Its only limitation is its small staff and budget which could be upgraded, a minimal increase for a maximum impact.

However, the Export-Import Bank is missing many opportunities in Africa due to constraints on its ability to take what seem to be reasonable and prudent risks. Whereas foreign competitors can generally obtain advantageous financing terms from their governments, various U.S. policy decisions concerning the credit-worthiness of many African countries, legislative prohibitions, and various repayment issues preclude EXIM Bank from proving trade financing to a majority of African countries. One clear example of these lost opportunities for American exporters is the fact that of the seven African countries which demonstrated the strongest gains in GDP growth rates last year -- Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Malawi, Mali, and Togo -- EXIM was only able to provide services in two, Ghana and Kenya. The Committee may be interested to note that the Corporate Council and senior officials of the Bank have already established a Working Group to explore appropriate mechanisms to better integrate the views and experience of the private sector into the Bank's financing decisions. A key member of the Corporate Council on Africa, Mr. William Bucknam, will also be testifying before this Committee and will discuss the Export-Import Bank at greater length.

The Overseas Private Investment Corporation (OPIC) definitely provides a necessary function, since OPIC's political risk insurance is a fundamental part of the majority of American investments undertaken in Africa. OPIC, however, needs both staff and resources to meet the demands placed on it, much less expand its activities into areas of additional opportunity, such as meeting its targets for investments into Africa from smaller American companies. OPIC has the authorization to fund equity investments, but this has never been funded. Mixed credit programs to meet third country competition should also be considered.

Lastly, while we continue to support Secretary Christopher's directive to American embassies to promote the interests of U.S. business, we would also encourage additional personnel and resources to promote U.S. commercial interests in Africa. As I noted earlier, there are only four full-time Foreign Commercial Service officers assigned in all of sub-Saharan Africa. However valiant the efforts of our Ambassadors to mobilize their existing resources, we believe that the direct benefits to the American economy of promoting trade through a few more dedicated commercial offices would far outweigh any incremental costs.

A More Active Role for the USG?

Mr. Chairman, while some of the suggestions I have outlined above may require some rethinking, and in some cases some regulatory changes, they represent very little in terms of new expenditures or programs. The government-business partnership we envisage is not based on new programs. To the contrary, we would rather see more effective use of existing organizations than the introduction of new activities designed to encourage private sector functions but which frequently fail, or accomplish their missions at a cost much higher than normal market mechanisms.

In this context, we would recommend for the Committee's consideration a creative approach which would use the Internal Revenue Code to encourage equity investments in Africa. The Internal Revenue Code could be amended to provide for a tax credit for investments made in specific African countries, which could be stated by name, or descriptive condition (per capita income under a specific amount). The Code would specify the financial limits on the credit, as well as other conditions. Types of activities could be encouraged (agriculture) or excluded (arms manufacture). American jobs would be created as equipment for the plants is produced, and the African private sector would benefit from both new jobs and ancillary businesses. A major advantage of this concept is that it would create a strong capital flow into selected countries, while leaving the economic decisions in the hands of private sector investors. African countries would gain experience in competing for the private sector dollars. Most importantly, no new government bureaucracy would be required, since oversight mechanisms are already in place through IRS enforcement procedures.

Conclusion

Mr. Chairman, the members of the Corporate Council believe that Africa has the strong potential for a positive future. Africans themselves are increasingly taking their fate into their own hands as they turn to free markets and competition to lead them to prosperity. The American people have a strong and vested interest in their success.

For decades, American business has worked in Africa, building successful enterprises but falling short in building up an indigenous private sector which could achieve the critical mass to promote real development. Likewise, the American government has labored, together with its international partners, to foster economic growth but also without success. It is time that American business and government forge a stronger partnership, designed to create the enabling environments and open markets that will allow African governments to succeed in their reforms. The result will inevitably be new opportunities for trade and investment which will benefit both Africans and Americans.

Mr. Chairman, we very much appreciate this chance to offer our perspectives and share our experiences in Africa over the years. We look forward to continuing this dialogue with you and your Committee. Thank you.

Chairman CRANE. Thank you.

Mr. Bucknam, Clay Shaw wanted to be here to introduce you as a neighbor, but he conveyed his best. Unfortunately, he is locked into a conference at the present time. But, we welcome your testimony.

STATEMENT OF WILLIAM E. BUCKNAM, VICE PRESIDENT AND GENERAL COUNSEL, MWI CORP., DEERFIELD BEACH, FLORIDA

Mr. BUCKNAM. Thank you, Mr. Chairman, for giving me the opportunity to appear before the Subcommittee this afternoon. I would like to compliment both you and Mr. McDermott on the bipartisan initiative which raises the level of debate on important issues regarding African trade.

I have come today to discuss some of the practical as opposed to the theoretical aspects of opportunities and obstacles that currently exist in our trade with sub-Saharan Africa, as well as ways to expand our existing trade relations and to develop new trade opportunities in that region.

MWI Corp. was founded in 1926 in Deerfield Beach, FL, which does lie in the heart of Mr. Shaw's congressional district. We manufacture a variety of equipment, including the Hydraflo irrigation pump, also used for drainage, borehole drilling rigs, and a revolutionary new device that we call Pedalflo, that does away with the age-hold hand pump that is used for village water supplies, which can be operated by peddle power or solar power and deliver a pressurized and clean supply of drinking water in areas where there's never been any. We have three factories in Florida and one factory in Maiduguri, Nigeria.

We first looked to the African continent approximately 25 or 26 years ago as a significant potential market for our equipment. Today, we export worldwide 85 percent of what we manufacture, with a large amount of that going to Africa.

Although we are still categorized as a small business, we have significant experience with the Export-Import Bank. We received our first Ex-Im Bank commitment for work back in 1982 in Nigeria. By fiscal year 1992, we had been rated by Ex-Im Bank as the number one small business user of Ex-Im Bank financing nationwide, as well as the number 13 user overall of Ex-Im Bank financing.

We have no doubt that significant trade opportunities currently exist for our equipment in sub-Saharan Africa. Unfortunately, in 37 out of 48 of the countries in the region, Ex-Im Bank is now completely closed for business in the public sector.

I have taken the liberty of dissecting the country limitation schedule issued twice a year by Ex-Im Bank, and creating one for sub-Saharan Africa, which I have attached as exhibit 1 to my statement. You can see, country by country, where Ex-Im Bank is open and where Ex-Im Bank is closed.

Short and medium term public sector cover is available in two of the countries, and Ex-Im Bank is now open in all programs for public sector cover in nine of the countries in the region.

The decision as to whether Ex-Im Bank should be open or closed in a particular market, and if so, what exposure fee to charge, is based on credit ratings issued by the Interagency Credit Risk As-

sessment System, also known as ICRAS, chaired by the Office of Management and Budget. Members of this interagency group include the Departments of State, Treasury, Commerce, Defense and Agriculture, as well as the Overseas Private Investment Corp. and Ex-Im Bank, and there are observers from three other agencies as well.

Ex-Im Bank prepares risk assessment papers which are circulated. The proposed ratings are reviewed, and if there is a disagreement, a meeting is held. OMB ultimately, however, decides what the rating is going to be. Unfortunately, neither independent parties, U.S. exporters, or the subject countries are allowed to have any input into this particular system.

The difficulty that American companies have in penetrating new markets in sub-Saharan Africa is best exemplified by the current situation in Cote d'Ivoire. We recently received a delegation of Cote d'Ivoire government officials at our factory in Deerfield Beach, which included the Ambassador and leading representatives from the private sector. This meeting had been arranged by a Washington-based firm called Alexis International.

Members of the delegation were clearly interested in all of our products. They wanted to become self-sufficient in food production, and they want to be able to provide clean drinking water to people throughout their country.

The most effective way for an American company to determine the depth of a potential market before deciding whether it is possible and feasible to establish a manufacturing facility is to be able to sell its goods in a particular market. Substantial sales can only be made with the support of the Export-Import Bank. Unfortunately, today, notwithstanding dramatic economic gains, Ex-Im Bank remains completely off cover in Cote d'Ivoire.

In a recent report by the World Bank, they were quite optimistic about Cote d'Ivoire, talking about their structural adjustment program, privatization, trade reform, agricultural reform, and the fact that last year the Ivorian economy achieved an astounding, staggering rate of growth of 7 percent.

Unfortunately, notwithstanding their best efforts, Cote d'Ivoire government officials, including the ambassador, were unable to find out why Ex-Im Bank remains off cover. One Ex-Im official says that the Ivorian economy is the best managed in sub-Saharan Africa. Another member of ICRAS apparently feels the debt load is still too high. And then another Ex-Im Bank official expressed his own opinion, that there just probably is not enough U.S. business interest in Cote d'Ivoire to justify going on cover.

Well, all of this leads to three or four general conclusions and recommendations. If we are sincerely interested in increasing U.S. trade in sub-Saharan Africa, the sine qua non for doing that is the availability of Ex-Im Bank financing. It is intolerable that in 37 out of 48 sub-Saharan African countries, U.S. exporters continue to be put at a decided competitive disadvantage by this credit rating system, a system that we are not allowed to have any input into.

Second, the congressional mandate that before Ex-Im Bank opens in a particular country that there be a "reasonable assurance of repayment" really needs to be modified in order to permit Ex-

Im support in more sub-Saharan countries, just as it was in the Caribbean Basin, just as it was more recently in Russia.

Ex-Im Bank needs to be more aggressive, at least in two countries where they are closed in the public sector but open in the private sector. They should identify and qualify one or two commercial banks to take on the foreign exchange risk and onlend to the government and to open up the opportunity for U.S. exports in those two countries, which are Gabon and Kenya.

Last, and not the least important, and apropos of part of Mr. McDermott's recommendation, there needs to be someone at the director level who takes on the responsibility of sitting down with the ambassador from Cote d'Ivoire, or from whatever country, and review, in a general way—not necessarily all the specifics—as to why the decision was made not to go on cover, and to identify for these countries the specific economic targets that need to be achieved in order for there to be cover. This has been done by Ex-Im Bank in the case of Latin America. There has been one director for the last 12 or 13 years that has taken an interest in the Latin American region. Africa does not have an advocate.

I again thank the Subcommittee for the opportunity to make these comments today.

[The prepared statement and attachment follow:]

STATEMENT OF
WILLIAM E. BUCKNAM
VICE PRESIDENT & GENERAL COUNSEL
MWI CORPORATION

Honorable Chairman.

Thank you for giving me the opportunity to appear before the Subcommittee this afternoon to discuss opportunities and obstacles which currently exist in our trade with Sub-Saharan Africa, as well as ways to expand our existing trade relations and to develop new trade opportunities in the region.

MWI Corporation (formerly, M&W Pump Corporation), was founded in 1926 by the Eller family in Deerfield Beach, Florida, which lies in the heart of Mr. Shaw's Congressional District. We manufacture a variety of equipment including the patented *Hydraflo* water pumps for irrigation and drainage, borehole drilling rigs and a revolutionary new patented device called *Pedalflo* which can be operated by either pedal power or solar power and deliver a reliable supply of pressurized and clean drinking water in areas where potable water has never been available. Today, we operate three factories and a rental facility in Florida, as well as an assembly plant in Maiduguri, Nigeria.

MWI first looked to the African continent as a significant potential market in the early 1970's. Today, we export worldwide over 85% of what we manufacture in Florida with a significant amount of our exports going to Africa. We have equipment in operation in six African countries and we have ongoing marketing activities in twelve African countries at the present time.

EXIMBANK

Even though we are a small business, we have significant experience with the Export-Import Bank of the United States ("Eximbank"). We received our first Eximbank commitment in 1982 for Nigeria. In FY'92 we were rated by Eximbank as the number one small business user of Exim financing in the country as well as the number 13 user overall nationwide of Eximbank financing, just behind Asea Brown Boveri, Inc. and Overseas Bechtel, Inc. Today, we have over $300 million in outstanding Exim Letters of Interest and we hope to finalize $60-$80 million of this business in the near future.

We have no doubt that significant trade opportunities currently exist for our equipment thoughout Sub-Saharan Africa. Unfortunately, in 37 out of 48 of the countries in the region, Eximbank is now completely off cover and closed for public sector transactions. Short and medium terms public sector cover is currently available in two of the countries, and Eximbank is now open in all programs for public sector cover in only nine Sub-Saharan countries. [1]

I.C.R.A.S.

The decision whether Eximbank should be open in a particular market and, if so , what exposure fee to charge, is based on credit ratings issued by an interagency group known as the Interagency Credit Risk Assessment System ("I.C.R.A.S."), which is chaired by the Office Of Management and Budget ("O.M.B.") Members of this interagency group include the Departments of State, Treasury, Commerce, Defense and Agriculture; the Overseas Private Investment Corporation and Eximbank. Observers from the National Security Council, the National Economic Council, the Council of Economic Advisers and the Federal Reserve Bank also participate.

Eximbank prepares risk assessment papers for sovereign risk and private sector transactions in particular countries and these papers are distributed to I.C.R.A.S. members by O.M.B. The proposed ratings are reviewed and if there is disagreement a meeting is held. O.M.B., however, ultimately decides what the rating should be. Neither interested U.S. exporters nor the subject countries are permitted to participate in the rating process. The actual ratings are not made public and are considered to be confidential information.

1. See attached Exhibit One for the current Eximbank Country Limitation Schedule for public sector transactions in Sub-Saharan Countries.

The Cote d'Ivoire Dilemma

The difficulties American companies have in penetrating new markets in Sub-Saharan Africa is best exemplified by the current situation in Cote d'Ivoire. We recently received a delegation of Cote d'Ivoire government officials at our factory in Deerfield Beach, including the Ambassador to the United States and leading representatives from the private sector.[2] The members of the delegation were clearly interested in our products. After all, what is more important than acquiring pumping equipment to become self-sufficient in food production or equipment to provide clean drinking water which would, undoubtedly, reduce the infant mortality rate dramatically.[3] We also sensed that the members of the delegation were anxious to aquire the latest American technology and, most importantly, to break the commercial bonds of their colonial past.

The most effective way for any American company to determine the depth of a potential market before deciding whether to establish a manufacturing facility in a particular country is to sell its goods in that market. Substantial sales can only be made with the support of the Export-Import Bank. Today, notwithstanding dramatic economic gains, Eximbank remains completely off cover in Cote I'voire.

In a recent report, the World Bank was quite optimistic about Cote d'Ivoire: Their structural adjustment program is on track with both the International Monetary Fund and the World Bank; since the devaluation of the CFA in 1994, privatization, trade reform and agricultural reform are also on track. The Ivorian public debt has been rescheduled with the Paris Club and they are currently negotiating the rescheduling of their commercial debt with the London Club. Last year, the Ivorian economy achieved an astounding growth rate of 7%.

The precise reason why Eximbank remains off cover today in Cote d'Ivoire is unclear. While one Exim official believes that the Ivorian economy is the best one managed in Sub-Saharan Africa, another member of I.C.R.A.S. apparently feels that the debt load is still too high and places too much demand on future income. Another Eximbank official recently opined that there is "not enough U.S. business interest in Cote d'Ivoire to justify reopening at this time".[4]

---

2. This meeting was organized by Alexis International, Inc. of Washington, D.C. which had also organized a recent series of major trade and investment conferences for Cote d'Ivoire in San Francisco and Tampa where over 200 interested U.S. companies had participated.

3. The water crisis is a significant worldwide problem. In a 1987 report, the World Bank noted that nearly 1.8 billion people are still in need of safe drinking water. In Africa, however, the bank noted that the "prognosis is less good" since no more than half of the rural population will have an adequate supply of clean drinking water by the end of the century.

4. This perceived "lack of interest" would certainly not be sufficient to justify the continued off cover policy of Eximbank. In any case, it is clear from the trade and investment conferences held by Alexis International, Inc., and the follow-up trade mission scheduled for later this year, that there is significant U.S. business interest in the Ivorian market. In any case, Eximbank has no way to verify actual exporter interest in a particular country in which they are closed for business. Once an exporter reads Exim's published Country Limitation Schedule and learns that Exim is closed in a particular country, few exporters would then call Exim to express interest in the country.

Conclusions and Recommendations

In order to remove some of the obstacles which currently exist and to create new trade opportunities in Sub-Saharan Africa, the following steps should be taken:

1. At the present time, the Export-Import Bank is completely closed for public sector business in 37 of the 48 Sub-Saharan African Countries. U.S. exporters continue to be put at a decided competitive disadvantage by a credit rating system which is not transparent and which should be reviewed and revised to allow critical input from independent sources as well as interested exporters and the subject countries.

2. The congressional mandate that before Eximbank opens in a particular country that there be a "reasonable assurance of repayment" needs to be modified in order to permit Exim support in more Sub-Saharan countries, just as it was for the Caribbean Basin Initiative and, more recently, for Russia.

3. In two countries where Eximbank is closed in the public sector but open in the private sector, *e.g.*, Gabon and Kenya, Eximbank should qualify one or more local commercial banks, and provide lines of credit which will enable the banks to onlend to their government in order to finance U.S. exports of goods and services. Such creditworthy commercial banks would then be responsible for servicing the foreign debt.

EXHIBIT ONE
EX-IM BANK COUNTRY LIMITATION SCHEDULE
SUB-SAHARAN AFRICAN COUNTRIES
PUBLIC SECTOR
EFFECTIVE MAY 1, 1996

ANGOLA:	NO COVER
BENIN:	OPEN SHORT AND MEDIUM TERM
BOTSWANA:	OPEN ALL PROGRAMS
BURKINA FASO:	NO COVER
BURUNDI:	NO COVER
CAMEROON:	NO COVER
CAPE VERDE ISLAND:	NO COVER
CENTRAL AFRICAN REP:	NO COVER
CHAD:	NO COVER
COMOROS:	NO COVER
CONGO:	NO COVER
COTE D'IVOIRE:	NO COVER
DJIBOUTI:	NO COVER
EQUATORIAL GUINEA:	NO COVER
ERITREA:	NO COVER
ETHIOPIA:	NO COVER
GABON:	NO COVER*
GAMBIA:	NO COVER
GHANA:	OPEN ALL PROGRAMS
GUINEA:	NO COVER
GUINEA-BISSAU:	NO COVER
KENYA:	NO COVER*
LESOTHO:	OPEN ALL PROGRAMS
LIBERIA:	NO COVER
MADAGASCAR:	NO COVER
MALAWI:	NO COVER
MALI:	NO COVER
MAURITANIA:	NO COVER
MAURITIUS:	OPEN ALL PROGRAMS
MOZAMBIQUE:	NO COVER
NAMIBIA:	OPEN ALL PROGRAMS
NIGER:	NO COVER
NIGERIA:	NO COVER**
RWANDA:	NO COVER
SAO TOME & PRINCIPE:	NO COVER
SENEGAL:	NO COVER
SEYCHELLES:	OPEN ALL PROGRAMS
SIERRE LEONE:	NO COVER
SOMALIA:	NO COVER
SOUTH AFRICA:	OPEN ALL PROGRAMS
SUDAN:	NO COVER**
SWAZILAND:	OPEN ALL PROGRAMS
TANZANIA:	NO COVER
TOGO:	NO COVER
UGANDA:	OPEN SHORT AND MEDIUM TERM
ZAIRE:	NO COVER
ZAMBIA:	NO COVER
ZIMBABWE:	OPEN ALL PROGRAMS

*ALTHOUGH CLOSED IN THE PUBLIC SECTOR, EXIM IS EITHER PARTLY OR FULLY OPEN TO THE PRIVATE SECTOR.
**SUPPORT LEGALLY PROHIBITED.

Chairman CRANE. Thank you, Mr. Bucknam.

Next is Mr. Foote. I trust I am pronouncing it right, "foot" and not "foot-ee." After my mistake with Mr. Lande, I just wanted to make sure.

STATEMENT OF MELVIN P. FOOTE, EXECUTIVE DIRECTOR, CONSTITUENCY FOR AFRICA

Mr. FOOTE. Thank you very much.

Mr. Chairman, distinguished Members of the Subcommittee on Trade of the Ways and Means Committee, on behalf of Ambassador Andrew Young and the Constituency for Africa's board of directors, it is quite an honor for me to appear before you today.

I also want to use this opportunity to thank you and this important Subcommittee for your continued efforts to consider the ways and means for the United States to expand its trade relationship with sub-Saharan African countries. This surely makes good sense for America, which as we rapidly move toward the 21st century, is challenged to find new markets for its products. It also makes good sense for Africa as well, which needs access to American capital, American technologies, and American goods and services, as it strives to improve the standard of living for the 800 million people residing in the region. This is clearly a "win-win" opportunity for Americans and Africans.

The CFA, Constituency for Africa, is a membership coalition of organizations, groups and individuals with interest in Africa. Founded in 1990, CFA's mission is to educate the American public about Africa and African issues, and to strengthen linkages and cooperation between and among American organizations, groups and companies and counterpart institutions and organizations in Africa. A sizeable portion of the CFA is either now doing business or interested in doing business in Africa.

I have a number of practical suggestions that I hope you will consider as a way of strengthening America's trade relationship with Africa. These suggestions fall into three basic categories: U.S. policy formulation, U.S. programs in Africa, and programs to be carried out in the United States.

Let me preface these suggestions by stating that many of the suggestions and proposals put forth by Representative McDermott are, indeed, encouraging and deserving of serious consideration.

Any reservations I have concerning the McDermott proposals are in the area of funding. Will the necessary resources required to finance these initiatives be taken from already meager resources targeted at child survival and emergency assistance programs in Africa, a sort of reverse "Robin Hood"?

Under U.S. policy formulation, certainly Ambassador Moose talked about debt relief. While a number of African countries have made impressive strides over the past decade toward democratic governments and free market economies, still even these countries are finding that they are merely "treading water." We have to do something to ease the burden of debt.

On the programs in Africa, the United States should promote the regional integration of African economies. As I am sure you are aware, one of the legacies of colonialism was the creation of the more than 50 countries which exists today, with different economic

and political structures and policies. Many of the conflicts and economic problems facing Africa can be easily traced to the way boundaries have been drawn.

Much progress is now being made in integrating the Southern African market through SADC. Other regional blocks are in various stages of development in west, east, central and northern Africa. What turned out to be Ronald Brown's final trip to Africa, whereas the convened regional business forums, to me is a move in the right direction.

The United States should also work with African countries to remove trade barriers and target major resources at helping to build and improve infrastructure, i.e., port facilities, roads, warehouses, telecommunications systems and the like in Africa. The new Leland initiative connecting 20 African countries to the Internet system is certainly promising. U.S. firms should be given encouragement to participate in these major projects.

The United States should expand investment guarantee programs to more countries in Africa. Many of these countries are of a much better risk than many of the Eastern European countries, which now have guarantee programs in place.

In terms of programs in the United States—and this addresses some of the concerns that Congressman Rangel raised—the American public overall, and the business community in particular, remain uneducated, undereducated or miseducated about Africa and about business opportunities on the continent. In many respects, this poses the greatest challenge to expanding trade with Africa. The way Africa has been portrayed in the U.S. media and in the Congress has only served to dissuade Americans from taking an active interest in Africa and has discouraged the American private sector from looking at Africa as a place to do business.

The U.S. Government, led by the Department of Commerce, and in close partnership with nonprofit organizations such as the Constituency for Africa, the Corporate Council on Africa, the U.S.-Africa Chamber of Commerce and other quality organizations promoting trade with Africa, should take the lead in rectifying this situation.

I would estimate that if $3 million per year for 5 years, say $15 million, could be made available for this purpose, to produce quality educational materials, to organize and sponsor seminars, workshops and other educational events in target cities and in selected regions around the country, and to support a variety of trade promotion activities, that there will be a major shift in the attitudes and activities of the American business community, especially the small and medium sized firms which more readily match up with business concerns in Africa.

The U.S. Government could also be helpful by assisting African embassies in the United States in their trade promotion activities. Many of these embassies are completely dysfunctional as outposts for business and trade with their countries. They lack the necessary equipment, supplies, promotional materials, travel budgets and skilled promotion officers to adequately promote their countries.

Perhaps some of the major computer and software firms can be given incentives to donate computer equipment and supplies and to

train African embassy staffs in their usage. Perhaps some of the U.S. air carriers and major tour operators could be encouraged to assist African embassies in their tourist promotion programs.

If funding could be identified, CFA certainly would be prepared to take a leading role in organizing such support. CFA is also positioned to assist the African embassies to take advantage of the numerous national meetings of African American organizations throughout the summer and early fall months. These meetings represent prime opportunities for African embassies to exhibit, network, and to share information about their countries with opinion makers and decisionmakers in business and commerce, technology, education and in government.

Thank you again for this opportunity to share some ideas on ways and means for the United States to expand its trade activities with Africa. Thank you.

[The prepared statement follows:]

HEARING ON U.S. TRADE WITH SUB-SAHARAN AFRICA
Committee on Ways and Means
Subcommittee on Trade

by

Melvin P. Foote
Executive Director
Constituency for Africa

August 1, 1996

Longworth House Office Building
Washington, D.C.

Mr. Chairman, Distinguished Members of the Subcommittee on Trade of the Committee on Ways and Means, on behalf of Ambassador Andrew Young and the Constituency for Africa's Board of Directors, it is quite an honor for me to appear before you today. I also want to use this opportunity to thank you and this important Subcommittee for your continued efforts to consider the "ways and means" for the United States to expand it's trade relationship with Sub-Saharan African countries. This surely makes good sense for America which as we rapidly move towards the 21st century, is challenged to find new markets for it's products. It also makes good sense for Africa as well, which needs access to American capital, American technologies and American goods and services, as it strives to improve the standard of living for the 800 million people residing in the region. This is clearly a "win-win" opportunity for Americans and Africans.

The Constituency for Africa (CFA), is a membership coalition of organizations, groups and individuals with interest in Africa. Founded in 1990, CFA's mission is to educate the American public about Africa and African issues, and to strengthen linkages and cooperation between and among American organizations, groups and companies and counter-part institutions and organizations in Africa. A sizable portion of the Constituency for Africa is either now doing business or interested in doing business with Africa.

The tragic airplane crash which took the life of the Secretary of Commerce, Ronald H. Brown, and so many others earlier this year, is truly a tremendous blow for those of us promoting a stronger United States trade relationship with Africa. Secretary Brown was in every respect a "pioneer" with

the vision, charisma and ability to transform the American business community's view of Africa and opportunities on the continent. I believe that the fact that so many are today exploring opportunities to do business in Africa, is a true testament to the legacy of the late and great Ronald H. Brown. Certainly CFA will do it's part to continue the great work that Secretary Brown leaves behind.

I have a number of practical ideas and suggestions that I hope you will consider as a way of strengthening America's trade relationship with Africa. These suggestions fall into three basic categories: U.S. policy formulation; U.S. programs in Africa; and programs in the U.S. Let me preface these suggestions by stating that many of the suggestions and proposals put forth by Representative Jim McDermott, are indeed encouraging and deserving of serious consideration. Any reservations I have concerning the McDermott proposals are in the area of funding. Will the necessary resources required to finance these initiatives, be taken from already meager resources targeted at child survival and emergency assistance programs in Africa. Are we "taking from the poor to give to the rich". Otherwise, the establishment of a U.S. - Africa Free Trade Zone; the creation of a U.S. - Africa Economic Cooperation Forum; a $300 million Partnership program to support privately managed equity, and infrastructure funds to leverage private financing for small and moderate sized African businesses, are all clearly moving in the right direction. To these I offer the following suggestions.

I. U.S. Policy Formulation:

-- Debt Relief: While a number of African countries have made impressive strides over the past decade, towards democratic governments and free market economies, still even these countries are finding that they are merely "treading water". While much of this debt is clearly rooted in the colonial and post colonial period economic policies and later in the policies and politics of the cold war -- it is obvious and clear that it is now in all of our interest to relieve these countries (especially those that are deemed on the right course) of this tremendous burden. The U.S. should use it's good auspices and it's leverage with the Europeans, and with the World Bank and other multi-lateral financial institutions, to help create an enabling environment for the private sector in Africa, and to address this crucial problem of the debt.

II. Programs in Africa:

-- The U.S. should promote the regional integration of African economies. As I am sure you are aware, one of the legacies of colonialism was the creation of the more than 50 countries which exists today, with different economic and political structures and policies. Many of the conflicts and economic problems facing Africa, can be easily traced to the way boundries have been drawn.

Much progress is now being made in integrating the southern Africa market through SADC (The Southern African Community). Other regional blocks are in various stages of development in west, east central and northern Africa. What turned out to be Ron Brown's final trip to Africa, whereas he convened regional business forums, is the strategy we ought to pursue.

-- The U.S. should also work with African countries to remove trade barriers and target major resources at helping to build and improve infrastructure, i.e. port facilities, roads, warehouses, telecommunications systems, and the like in Africa. The new Leland initiative (connecting 20 African countries to the Internet system) is promising. U.S. firms should be given encouragement to participate in these major projects.

-- The U.S. should expand investment guarantee programs to more countries in Africa. Many of these countries are of a much better risk than many of the eastern European countries, which now have guarantee programs in place.

III. Programs in the U.S.:

-- The American public overall, and the business community in particular, remain uneducated, undereducated or miseducated about Africa and about business opportunities on the continent. In many respects, this poses the greatest challenge to expanding trade with Africa. The way Africa has been portrayed in the U.S. media, and in the Congress, has only served to dissuade Americans from taking an active interest in Africa and has discouraged the American private sector from looking at Africa as a place that they can do business.

The U.S. government, led by the Department of Commerce, and in close partnership with non-profit organizations such as the Constituency for Africa, the Corporate Council on Africa, the U.S./Africa Chamber of Commerce and other quality organizations promoting trade with Africa, should take the lead in rectifying this situation. I would estimate that if $3 million per year for 5 years ($15 million), could be made available for this purpose, to produce quality educational materials, to organize and sponsor seminars, workshops and other educational events in target cities and in selected regions around the country, and to support a variety of trade promotion activities; that there will be a major shift in the attitudes and activities of the American business community, especially among small and medium-sized firms which more readily match up with business concerns in Africa.

-- The U.S. government could also be helpful by assisting African embassies in the U.S. in their trade promotion activities. Many of these embassies are completely dysfunctional as outposts for business and trade with their countries. They lack the neccessary equipment, supplies, promotional materials, travel budgets, and skilled promotion officers, to adequate

promote their countries.

Perhaps some of our major computer and software firms can be given incentives to donate computer equipment and supplies, and to train African embassy staffs in their usage. Perhaps some of the U.S. air carriers and major tour operators, could be encouraged to assist African embassies in their tourist promotion programs. If funding could be identified, CFA would be prepared to take a leading role in organizing such support. CFA is also positioned to assist the African embassies to take advantage of the numerous national meetings of African-American organizations throughout the summer and early fall months. These meetings represent prime opportunities for African embassies to exhibit, network and to share information about their countries with opinion-makers and decision-makers in business and commerce, technology, education and in government.

Thank you again for this opportunity to share some ideas on "ways and means" for the U.S. to expand it's trade activities with Africa.

Chairman CRANE. Thank you, Mr. Foote.
Mr. Tilton.

STATEMENT OF IMANI COUNTESS, EXECUTIVE DIRECTOR, WASHINGTON OFFICE ON AFRICA; AS PRESENTED BY DOUGLAS TILTON, ASSOCIATE DIRECTOR FOR COMMUNICATIONS, WASHINGTON OFFICE ON AFRICA

Mr. TILTON. Good afternoon. My name is Douglas Tilton, and I am the associate director of communications for the Washington Office on Africa. I am testifying this afternoon in place of the Washington Office on Africa's executive director, Imani Countess, who is regrettably out of town today.

On behalf of our staff, I would like to thank the chairperson and the Members of this Subcommittee for the opportunity to make a statement on U.S. trade with sub-Saharan Africa. I would also invite members to review the more detailed statement that we have submitted for the record.

The Washington Office on Africa is an advocacy organization supported by church, labor and civil rights groups. Before 1990, our work focused on accelerating the end of white minority rule in Southern Africa. More recently we have taken up issues affecting the continent as a whole. We aim, in part, to familiarize the Washington policy community with the perspectives of opinion leaders and grassroots organizations within Africa.

Let me say first how much we appreciate the Subcommittee's decision to consider this important subject and to solicit a wide range of opinion. We hope that these hearings will ultimately generate concrete measures to increase mutually beneficial trade between the United States and African countries. We consider commercial ties to be one crucial component of good relations between the people of the United States and of Africa.

However, they are only one component. The United States should seek to construct a comprehensive and integrated Africa policy. Trade, investment aid, and debt reduction are all essential components of such a policy. Trade enhancement initiatives cannot take the place of a well-structured and targeted development assistance program.

Trade and aid policies should be seen as complementary rather than mutually exclusive options. The effectiveness of both will also be affected by the adequacy of measures to address the serious problem of indebtedness of African states. Potential programs should be assessed in relationship to existing ones. There should be procedures for results-based evaluation of both current and future programs.

Aid programs should not be viewed as a form of "welfare" but should promote public investment in social, physical and economic infrastructure. Such investment should be designed to maximize access to public goods and services and to build productive capacities.

We strongly favor additional measures to increase U.S. trade with and investment in Africa. We applaud the efforts of this Subcommittee, the Office of the U.S. Trade Representative, and Representative McDermott and his colleagues on the African Trade and Investment Caucus. We welcome moves to strengthen existing

U.S. Government programs, to improve their level of coordination and visibility, and to explore new mechanisms to encourage trade.

At the same time, we believe that the details of emerging policy proposals must be more completely elaborated. For example, we agree that trade and investment programs and other economic cooperation initiatives must be conditioned on transparent standards applied to recipient governments. However, we are eager to ensure that such conditionalities are developed in an open debate, rather than being imposed by donors according to a set of rigid economic prescriptions.

Likewise, we expect the Congress would wish to review the experience of the 10 enterprise funds created for Eastern Europe and the former Soviet Union before establishing any new, privately managed equity fund to leverage investment capital for African nations.

Funds should not be transferred from existing programs without a prior evaluation comparing the effectiveness of their current use with the projected effects of their redeployment.

At this juncture, it might be most appropriate to allocate funds to facilitate the initial planning process. This should involve extensive consultation with African states, representatives of African civil society, multilateral agencies, and expert advisers. This type of holistic review could lay the foundation for a thoughtful, balanced, and comprehensive realignment of our economic relations with Africa.

Thank you.

[The prepared statement and attachments follow:]

Hearing: US Trade with Sub-Saharan Africa
Subcommittee on Trade, Committee on Ways and Means

July 16, 1996

Submitted by
Washington Office on Africa
Imani Countess, Executive Director

On behalf of the Washington Office on Africa, I would like to thank the Chairperson and the members of the Subcommittee for this opportunity to make a statement on US trade with Sub-Saharan Africa. We appreciate the attention given to this important subject by the staff and members of the Subcommittee and your efforts to solicit a wide range of opinion. We hope that these hearings will generate concrete measures to increase mutually beneficial trade between the United States and African countries, as we consider commercial ties to be one crucial component of good relations between the people of the United States and of Africa.

The Washington Office on Africa (WOA) is an advocacy organization working in favor of grassroots African interests with the support of church, trade union, and civil rights groups. Its educational affiliate is the Africa Policy Information Center (APIC), formerly the Washington Office on Africa Educational Fund. Before 1990, both organizations focused primarily on the issues of freedom from white-minority rule in Southern Africa. Since then, WOA and APIC have taken on a wider range of issues affecting the continent as a whole. One of our central objectives is to foster awareness within the Washington policy community of the creative debates taking place among African opinion-leaders and grassroots groups.

Neither organization is an operational agency engaged in development, relief or other projects in the field. Nor do we receive government funding. We are in contact with a wide range of groups such as the All Africa Conference of Churches and other national and regional organizations which comprise civil society across the continent. We share information and join in coalitions around a range of issues with US and international organizations concerned with human rights, sustainable development, democratization, and other issues relevant to grassroots African interests.

APIC has published two background papers particularly relevant to the topic of this hearing, namely *The US and Africa's Trade: Prospects for Partnership* and *Thinking Regionally: Priorities for US Policy toward Africa* (copies of which are available from the Africa Policy Information Center, 110 Maryland Avenue, NE, Suite 509, Washington, D.C. 20002 or on the World Wide Web at: http://www.igc.org/apic/index.shtml).

We have followed with interest the productive discussions on US economic relations with Africa catalyzed by the congressional mandate in the 1994 act approving the Uruguay Round Agreements. We prepared a written reaction to the first annual report presented by the Office of the US Trade Representative in compliance with this mandate. That letter, addressed to the co-chairs of the newly-formed Africa Trade and Investment Caucus, was endorsed by 17 other organizations. It is included in this statement (below); we think the points made therein are still of relevance as the Subcommittee continues to develop its own proposals.

In this testimony I would like to concentrate on several particular points, in the context of preliminary proposals which have emerged from the Africa Trade and Investment Caucus[1]. We recognize that these proposals are still evolving, and intend our remarks to be a constructive contribution to that debate as the Caucus and the Subcommittee move toward formulation of specific legislative measures. I will address first the general framework within which trade relations with Africa is to be considered, and then make some comments and raise some questions about particular aspects of the proposals being advanced within the Africa Trade and Investment Caucus.

I. Trade and aid policies should be seen as complementary, rather than as mutually exclusive options applied to different sets of countries. The effectiveness of both will also be significantly affected by the adequacy of measures to address the serious problem of indebtedness of African states. Proposed new programs should be considered in relationship to each other, and evaluated in terms of their potential contribution to sustainable development. There should be procedures for results-based evaluation of both existing and future programs, regardless of

---

[1]Rep. Jim McDermott, "Growth and Opportunity in Africa: The End of Dependency," Remarks to the Overseas Development Council Conference on African Economic Recovery, Washington, D.C., June 12, 1996.

whether they are implemented primarily through governmental agencies, the private sector, or the voluntary sector.

The issue of what policies are most effective in promoting sustainable development that can benefit the majority of Africa's people is complex. There are no magic formulas to ensure success. That is why we are concerned to ensure that the paradigm for US policy integrates a range of components, without portraying sustainable development and private sector approaches as contradictory alternatives. In our view, sustainable development remains the goal. This means "improving the quality of human life while living within the capacity of supporting ecosystems."[2] It includes economic growth, social equity, and the preservation of environmental capital to protect the options of future generations. These are goals and values which apply equally to the least developed and the most industrialized countries.[3]

Aid Still Essential

In our view "aid" should not be conceived as "charity" or "welfare," nor restricted to humanitarian relief. Aid is more properly seen as a counterpart to government support and subsidies for private sector initiatives. It should represent public investment in sustainable development to produce long-term benefits for both "donor" and "recipient" countries. Current aid programs, both bilateral and multilateral, are in serious need of results-based evaluation and reform to ensure that limited funds are well-used for the intended objectives. But whatever the current political climate, the need is for more aid, not less. US foreign assistance levels are already disgracefully low; at 0.1% of GNP, they are the lowest among the OECD countries. Opinion polls show that these figures are also far below the level that the US public supports—once they know the actual amount which the United States spends on foreign assistance. Short-sighted and indiscriminate cuts in aid programs not only endanger human lives today, but also seriously diminish the chances for future economic growth in Africa and other regions—growth which could benefit the United States, too.

USAID, the World Bank, and other agencies which have drawn criticism from African grassroots groups and others for their past performance, are now demonstrating a growing responsiveness to pressure for reform. This increased openness presents unique opportunities for bold new initiatives. In considering the past record and future potential of these institutions, it would be unfair to evaluate previous programs against goals of sustainable development when they were in fact aimed largely at unrelated objectives. Historically, much bilateral aid has been devoted to the pursuit of geostrategic objectives or the short-term political advantage of client regimes, rather than to improving the quality of life for ordinary people in recipient countries. Much multilateral aid, as internal World Bank studies acknowledge, was marred by the unfounded assumption that macroeconomic stabilization was in itself sufficient to set countries on the path of growth and poverty alleviation.[4]

Trade and Investment Essential, but not Sufficient

Private sector trade and investment is a necessary component of any sustainable development strategy, and government subsidies to facilitate the acceleration of such private sector activities are amply justified. The extent of US trade with Africa that already exists is far greater than is commonly assumed. Thus, to give only two examples, US trade with Southern Africa is roughly comparable to that of the US with the former Soviet Union; US trade with West Africa is 50% more than US trade with Eastern Europe. The potential is much greater; investment in facilitating it can pay off for both the US and Africa.

Even in the case of the most advanced African countries, however, private sector trade and investment is not a sufficient substitute for adequate and sustainable levels of aid. The diverse experiences of East and Southeast Asian countries show that taking advantage of market opportunities requires not only liberalization and export orientation, but also massive investments in state capacity

---

[2] David Reed, ed., *Structural Adjustment, the Environment and Sustainable Development* (London: World Wildlife Fund/Earthscan, 1996), p. 33.

[3] *Toward A Moral Economy: Responses to Poverty in the North and South* (Toronto: Inter-Church Coalition on Africa, 1996).

[4] World Bank, *Taking Action for Poverty Reduction in Sub-Saharan Africa: Report of an Africa Region Task Force* (Report No. 15575-AFR, May 1, 1996).

and human resource development.[5] This does not mean that the prospects for such economic expansion in Africa are hopeless. It does, however, imply a long time frame. Creating the basis for such development requires concurrent action to promote investment in social and physical infrastructure through targeted foreign assistance, facilitate trade and investment, and address the pressing issue of debt overhang. It also means involving multilateral institutions, national governments, the private sector, and the voluntary sector in ongoing dialogue about their appropriate contributions.

Debt Reduction Prerequisite for Effective Trade Expansion

Among the issues of critical importance for the success of aid and trade programs is the status of Africa's debt (see point 2 in letter below, p. 8). The details of initiatives under way for reduction of Africa's debt, both bilateral and multilateral, are most appropriately addressed elsewhere than in this testimony. It is clear, however, that failure to resolve this issue could undermine the prospects for new investment, aid initiatives or trade-related credits, even for many countries that have been most consistent in implementing economic reform packages.

New Paradigm Requires Debate

We applaud the Subcommittee's recognition of the need to "initiate and pursue a mutually beneficial trade relationship with the countries of Sub-Saharan Africa."[6] The success of this endeavor will depend upon our ability to look beyond the narrow national security and geopolitical strategic concerns which shaped policies of the Cold War era and to implement a paradigm shift in our relations with Africa. US policy must recognize Africa's economic potential and promote mature and equitable relationships between the United States and African nations. A new paradigm, however, must represent an improvement on the past. To this end, it is essential that policies on trade and investment be contextualized in an integrated fashion with other concerns and instrumentalities.

All aspects of US policy including trade, investment, economic and social development assistance, promotion of democracy and human rights should be crafted to support one another in order to generate a multiplier effect, maximize impact, and ensure responsible use of US funds. It would not be helpful to abandon a simple faith in aid as the instrument of development to embrace trade and market forces with equal zeal as "the" solution.

While we recognize that this Subcommittee is necessarily focused on trade and trade-related investment in particular, we also think the search for a new paradigm for US-Africa economic relations requires a broader and longer-term debate. We therefore welcome the formation of the Africa Trade and Investment Caucus as an important forum for the discussion of a new paradigm which might enjoy more broadly-based support. We think it important that debate on the relationships among these issues continue not only within the administration—through a vehicle such as the African Trade and Development Coordinating Group proposed by the US Trade Representative—but also among those concerned with trade, investment, and development in the Congress, the private sector, and the voluntary sector. While the Africa Trade and Investment Caucus' initiatives have taken very productive steps to set such a dialogue in motion, we think it essential that the range of issues and of those involved in the dialogue continue to be expanded. To the extent that a wider consensus develops on these issues, reaching a variety of constituencies in Congress, the private sector, and the voluntary sector, we think it will enhance the chances for legislative success and effective implementation of trade-specific proposals.

II. **We strongly favor additional measures to enhance mutually beneficial US trade and investment, including strengthening existing US government programs, improving their level of coordination and visibility, and exploring proposals for new mechanisms. However, any new initiatives will require careful consideration and a full elaboration of details prior to**

---

[5] See Howard Stein, ed., *Asian Industrialization and Africa: Studies in Policy Alternatives to Structural Adjustment.* (New York: St. Martin's Press, 1995), as well as Barbara Stallings, ed., Global Change, *Regional Response: The New International Context of Development* (New York: Cambridge University Press, 1995).

[6] "Advisory from the Committee on Ways and Means: Subcommittee on Trade," No. TR-26, June 28, 1996.

implementation. This planning process should include extensive consultation with African states, multilateral agencies, and expert advisors. Proposals involving the transfer of funds from existing programs should not be undertaken without a prior evaluation comparing the effectiveness of these funds in their current deployment with the projected effects of their redeployment.

As noted in the letter below, we think that a number of the specific proposals advanced in the first annual report of the US Trade Representative are positive initiatives, many of which can be implemented by executive action with no new legislative guidance. We hope that other witnesses to this hearing, and continued inquiries by the Subcommittee, will provide the public with additional information on the implementation of these proposals.

We also agree that a more comprehensive initiative, such as that outlined in general terms by Representative Jim McDermott (D-WA), could well make a significant contribution to expanding mutually beneficial US-Africa trade and investment. At the same time, we still have a number of doubts and questions which have not been resolved by preliminary versions of those proposals we have seen. We hope that these hearings and future elaboration of legislative initiatives by the Subcommittee can shed further light on these questions. The remainder of this testimony is our effort to specify some of the questions raised in our minds and that of others in the non-governmental Africa advocacy community, answers to which would influence the level of support we and our constituencies might offer to specific legislation as it emerges. Any suggestions made in the context of these questions should be regarded as tentative in character, and offered as a contribution to the wider debate, rather than as alternative proposals.

Equity and Infrastructure Funds

In the course of his remarks to the Overseas Development Council on June 12, 1996, Representative Jim McDermott presented the option of privately managed equity funds that would leverage private financing for African agribusiness, manufacturing, women entrepreneurs and infrastructure projects. We think this proposal has considerable potential for making a constructive contribution. We are concerned, however, that there be adequate planning so that in fact the public monies invested in such ventures are productively used and have the maximum effect. The level of specificity of proposals we have seen to date does not give adequate information for a careful evaluation. In this context, it seems that the Subcommittee might at this time consider legislation allocating funds for an initial planning process and/or encouragement of appropriate agencies within the administration to undertake such a planning process, which could result in a detailed proposal for establishment of such equity and infrastructure funds.

The mixed experience to date of the ten enterprise funds created for Eastern Europe and the former Soviet Union, and particularly the failure of the Czech and Slovak American Enterprise Fund, emphasizes the need for adequate planning.[7] The planning process should include detailed consultation with private and public financiers of African projects, including potential private sources of risk capital. These consultations might be directed not only at determining appropriate governance structures, levels of financing, and business procedures, but also at the advisability of focusing resources on specific sectors of investment, and the appropriate level of bundling of sectors within or between funds so that adequate management expertise in evaluating projects will be built up within each fund.

Source of Funds

One of the most contentious aspects of any new trade and development initiative will be the source of funds used to underwrite it. At least one of the plans currently under consideration proposes to divert a substantial proportion of funds from USAID programs in Africa. Given the deep cuts which Congress has made in USAID funding allocations in recent years and the benefits which can be derived from a balanced and integrated approach to development—in which development assistance is used to complement and enhance trade and investment strategies—we would argue strongly against any plan which further diminished USAID's capacity to support long-term, equitable, and sustainable development.

---

[7] Leslie Eaton, "Public Money Foots the Bills for 'Privatized' Foreign Aid," *The New York Times*, February 7, 1996, pp. A1, A10.

This is not to suggest that USAID funds should be sacrosanct. On the contrary, the merits of existing programs must be weighed carefully against the potential benefits which both Africans and Americans might derive from alternative initiatives. However, it is worth noting that USAID has already acquired considerable experience in promoting small business and entrepreneurial development. Other existing US programs have also demonstrated success in stimulating private sector growth, trade, and investment, often in highly creative ways. The African Development Foundation, for example, has provided seed capital for projects such as the Spring Cabinet Cooperative Society in Harare. This extremely successful furniture manufacturing enterprise has grown from a ten-member cooperative in 1987 to become one of Zimbabwe's major furniture suppliers with a staff of 178 and earnings of more than $1 million in 1994. Although it uses predominantly local materials, it also imports fabric and oak from the United States. Future US trade and investment programs in Africa should be carefully designed so that they reinforce, rather than compete with, these valuable initiatives.

Over a number of years, Congress has repeatedly reviewed USAID's activities and has delineated a set of guidelines to govern USAID's operations and expenditures. For example, in 1994, Congress stipulated that no funds appropriated under the Foreign Assistance Act of 1961 should be used "for the purpose of establishing or developing in a foreign country any export processing zone or designated area in which the tax, tariff, labor, environment, and safety laws of that country do not apply, in part or in whole, to activities carried out within that zone or area . . ." A risk inherent in the diversion of funds from USAID is that they would not automatically be regulated by provisions intended to protect workers and the environment. Funds should therefore not be redirected from USAID—even from the agency's private sector development activities—without a detailed assessment of the comparative advantage which is expected to result from such a transfer and an evaluation of the proposed action's likely impact on USAID's Africa program as a whole.

Access for Africa Exports to the U.S.

We are encouraged by the efforts currently being made by members of Congress and administration officials to identify new strategies to expand bilateral trade with African nations. To achieve long-term success, such initiatives must dramatically enhance African access to US markets. This includes not only the extension of preferential terms of trade to African nations, but also the encouragement of investment in both the physical and social infrastructure which undergird sustainable development. US policy should also promote emerging African processing and manufacturing industries in a manner which does not invite worker exploitation or environmental destruction.

Most African nations are poorly situated to realize significant advantage from the trade liberalization agreements generated by Uruguay Round negotiations. Studies designed to predict the impact of tariff reductions on sub-Saharan Africa have produced ambiguous and conflicting results, but they agree that the greatest threat which the Uruguay Round presents to African nations is the potential for the further economic marginalization of those countries which are unable to capitalize on the new opportunities presented by the agreements.[8] In order to expand these opportunities, Congress should reactivate the Generalized System of Preferences (GSP). In the short term, this could be accomplished through the expeditious enactment of the GSP Renewal Act of 1996, which was adopted by the Senate on May 13, 1996, as an amendment to H.R. 3074.

Ultimately, however, the US should revise the terms of the GSP to enhance the benefits available to participating countries and to encourage sustainable development. This might involve, on the one hand, waiving statutory product exemptions for eligible countries for a specified period (5 to 10 years) while, on the other, modifying the eligibility criteria. In particular, the United States should move away from its present practice of extending preferences to "least-developed countries," as this designation only takes into account economic considerations. Instead, the program should be geared for those nations which the United Nations Development Programme (UNDP) identifies as "low human development" countries, most of which are in sub-Saharan Africa. The UNDP's human development index (HDI) provides a more appropriate gauge of a country's achievement than purely economic indicators because it factors in data pertaining to the health, education, and income of the

[8]World Bank, *Findings*, Africa Region, No. 67 (July 1996); and US International Trade Commission, *U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreements and US Trade and Development Policy* (Washington, D.C.: US ITC, January 1996).

country's population.[9] Similarly, GSP eligibility should be restricted to nations which abide by basic environmental protection policies and which demonstrate respect for human rights—including equal protection under law for women and adherence to the labor protections cited in the Trade Act of 1974.

Eligibility for New Initiatives

If, as discussed in the previous points, measures are taken to establish investment funds or greater access to the US market for African exports, it is our view that the criteria for eligibility to these programs should be established on the basis of transparent conditions relevant to the programs themselves, and not exclusively conditioned on participation in larger schemes such as those discussed in the next point.

Thus, once the scope of a particular investment fund is determined by its charter, applications to financing from the fund should be open to projects in any sub-Saharan African country, perhaps even with preference to projects which could demonstrate regional rather than single-country impact alone. The viability of such projects should be evaluated with respect to all relevant factors, which would certainly include, but not be limited to, the investment context in the country or countries of the companies presenting the project.

Similarly, expanding export opportunities through amendments in a reauthorized GSP, or other mechanisms, should be open to all countries eligible for that program.

Among the reasons for not linking eligibility in these cases to broader initiatives, such as a US-Africa Free Trade Area, is the different time frames involved. Detailed plans for such ambitious programs, as we argue below, will inevitably take considerable time to develop. More specific measures, such as equity funds or adjustments in GSP product eligibility, could hopefully be implemented on a faster-track legislative and administrative timetable.

U.S.-Africa Forum, Free Trade Area, and Partnership

The proposals sketched out by Rep. Jim McDermott in his remarks to the Overseas Development Council on June 12 provide a very ambitious framework with many features that seem to us highly positive. Precisely because of their ambitious scale, however, we think that they require much more fleshing out and systematic consultation before taking legislative shape. Hopefully other witnesses at this hearing will have commentary that can advance the process considerably. Our remarks are primarily concerned with the issues of timetable, process, and interrelationship among the three elements identified by Rep. McDermott, namely the Forum, the Free Trade Area, and the Partnership.

The first priority, in our opinion, and the one that could also move on a fast track, if there were support from Congress and the Administration, is the U.S.-Africa Economic Cooperation Forum suggested by Rep. McDermott. This would provide an arena in which dialogue about plans for the Free Trade Area and the Partnership could take place among relevant stakeholders, including the US and African private investors, African governments, multilateral agencies, US government agencies, and the US and African voluntary sectors. An effective model for such an exchange is the privately initiated series of US-Africa Telecommunications and Broadcasting Conferences (AFCOM), of which the fifth was held at the Hyatt Dulles hotel in early June this year. These conferences have brought together key players, both private and public, in the telecommunications, broadcasting and informatics communities in Africa, the US and other world regions.

Like the AFCOM conferences, the broader forum should be at the same time high-level and open to interested participants from different sectors, allowing for a wide exchange of views. It would provide the opportunity for public airing of a range of proposals. It could also facilitate informal dialogue which could set the context for more detailed negotiations by government officials concerning particular programs, including the suggested Free Trade Area and Partnership, as well as for subsequent exploration of investment and trade opportunities by private companies.

---

[9]United Nations Development Programme, *Human Development Report 1996* (New York: Oxford University Press, 1996).

Letter from the Washington Office on Africa and other organizations

April 11, 1996

Dear Representatives Crane, Gilman, McDermott, and Rangel:

Thank you for your invitation to respond to the Comprehensive Trade and Development Policy for the Countries of Africa, released by the Office of the United States Trade Representative on February 1, 1996. We applaud the formation of a bipartisan Caucus on Trade and Investment in Africa and appreciate the Caucus' efforts to promote a thorough and participatory discussion of these vital issues.

We congratulate the original authors and supporters of the 1994 legislation which gave rise to these policy proposals. We concur in their assessment that a coherent and effective US policy towards Africa must encompass a full range of interlocking issues, including trade, development, and investment.

We strongly support the continuing efforts of both Congress and the Administration to formulate an integrated US-Africa trade and development policy. Although we have strong reservations about the current document, we believe that it represents a valuable preliminary step toward the realization of that goal.

In particular, we wish to affirm the document's emphasis on the creation of permanent structures within the Executive branch responsible for coordinating US-Africa trade and development policy and overseeing its implementation. We believe that this will help to raise the visibility of US-Africa relations and encourage a thoughtful and systematic approach to the expansion of US ties with the continent.

We also support the document's attention to facilitating regional coordination in Africa. The proposed provisions relating to the designation of groups of countries for cumulation treatment under the terms of the GSP will create new opportunities for African nations.

Several other strategies mentioned in the document are worthy of further exploration. In particular, we would endorse the development of creative and flexible sources of capital and credit, geared to the needs of small producers, credit unions, and cooperative associations. Similarly, we support proposals designed to increase Africa's access to, familiarity with, and use of electronic networks—particularly where these seem likely to create opportunities for grassroots community groups and non-governmental organizations to participate more effectively in defining development agendas.

While we see these as positive aspects of an emerging policy, we believe that the current document ignores many aspects of African realities and disregards well-grounded African analyses of key issues. Instead, it adopts a "one-size-fits-all" approach to development, the many flaws of which have been repeatedly identified by critics in Africa and around the world.

If we are serious about formulating a comprehensive US trade and development strategy that is capable of narrowing the economic gulf between (and within) the US and Africa, establishing a foundation for sustainable development, and addressing our mutual needs for security and prosperity then we must radically revise our policy priorities. We therefore propose that this process recognize the following general principles:

1. Trade programs, debt reduction, aid, and other economic cooperation initiatives should be conditioned on transparent standards applied to recipient governments. But such conditionalities should be developed in open debate, rather than being imposed by donors according to a set of rigid economic prescriptions. A strategic approach to African development requires explicit discussion of the combined impact of aid, trade, debt, and different structural adjustment policies. The US can most usefully shape its own policies on these complex and related topics only if it is willing to engage in genuine dialogue on these issues within African and multilateral contexts. This should include not only the clubs of Western donors that coordinate policy towards particular African countries, but also a broad range of scholars and representatives of civil society.

The US Trade Representative's policy proposals are premised on the assumption that "statist economic regimes" are primarily responsible for a failure "to deliver sustained increases in prosperity for the peoples of Africa." The policy points with approval to the rapid growth achieved by many

Asian economies over the past three decades—without acknowledging the central role which the governments of these countries played in orchestrating the development process, protecting growth industries, and ensuring social investment in education and agriculture. At the same time, the document presents an unambiguously favorable depiction of structural adjustment policies, ignoring the very grave objections which have been raised by African analysts and which are receiving increasingly serious consideration within the World Bank. As a result, the policy states flatly, "A successful development strategy must be *trade-led* and *market-oriented*."

In fact, the experience of most African countries demonstrates that this rigid formula has been equally unsuccessful in generating "sustained increases in prosperity" for Africa's poorest households. Unregulated markets hold few rewards for those who approach them with little or no economic clout. Nevertheless, the dominant policy-making trend of the past decade has been to demand that more and more economic relationships be governed by the market. This model has obstructed the efforts of African leaders, United Nations agencies, and many non-governmental organizations to identify and to implement programs more consistent with "sustainable development."

Ultimately, "public sector vs. private sector" debates obscure much more important questions—questions about *what* policy choices are being made, about how the fruits of growth and development are distributed within a society, and about the extent to which policy-makers are accountable to the people whose lives they affect. Similarly, a narrow focus on macroeconomic indicators (such as aggregate economic growth) disguises more localized, but equally important, dynamics (such as the differential impact of development across gender, class, ethnicity, etc.).

US policy should not aim to impose market-oriented "solutions" on Africa, especially when these involve efforts to constrain, indiscriminately, the role of government. Instead, US trade and development strategies should be components of a broader policy agenda which recognizes a useful and legitimate regulatory role for government, promotes the public accountability of government officials, encourages greater incentive-orientation in all economic relationships, and facilitates the efforts of African public, private, and voluntary sector organizations to identify and implement new economic initiatives suited to local needs and conditions. Access to US development assistance and preferential trade and investment programs should be conditional not merely on the beneficiary's adoption of sound and appropriate economic policies, but also on a demonstrated commitment to sustained social investment, to principles of open and democratic administration, and to the full recognition of basic human rights (including, in particular, the rights of women, youth, landless households, and other historically marginalized groups).

2. Any comprehensive policy must address Africa's enormous debt burden. The current proposals only mention Africa's debt burden in passing. They include no substantive recommendations for a systematic program of debt reduction. Sub-Saharan Africa's debt grew from $84 billion in 1980 to $223 billion by the end of 1995. Twenty-eight sub-Saharan countries have amassed debts which total more than twice their annual income from the export of goods and services. Partly in the interests of enhancing the ability of these nations to service their onerous debts, G-7 nations and Bretton Woods Institutions have promoted export-led growth. As a result, sub-Saharan economies have made little progress toward self-sufficiency while periodic over-production has weakened commodity prices and diminished the purchasing power of their exports.

Overwhelming debt service obligations prevent most African countries from embarking on any integrated and effective development plan. US policy must acknowledge this situation and address it through the introduction of systematic measures to reduce Africa's bilateral and multilateral debt. Africa's bilateral debt to the US is less than 3 percent of its overall debt burden. But the US can and should press for revision of the so-called "Naples Terms" that currently govern bilateral debt restructuring. These terms are inadequate in addressing Africa's enormous bilateral debt, primarily to European governments. For example, Uganda was granted only 2 percent reduction of its $3 billion debt under the Naples terms, despite its strong compliance with economic adjustment programs.

In addition, the US should vigorously support efforts for a comprehensive approach to Africa's debt to multilateral institutions. Any solution should provide additional funding, rather than divert scarce resources from development aid, and should give priority to countries committed to poverty reduction.

3. A top priority for US trade policy should be the establishment of fair trading terms. Congress is right to recognize trade's potential as a tool for the promotion of economic growth and development, both in the US and in Africa. In order for it to fulfil that potential, however, US policy must do more than simply expand US exports to Africa. Trade growth will only be sustainable if it is bidirectional and if it meets the needs of both partners. Fair terms of trade are a prerequisite for such durable partnerships.

The provisions of the GATT treaty, which govern international trade, generally favor industrialized nations. Most African countries have less capacity to take advantage of the new trade opportunities expected to flow from the Uruguay Round agreements. The US should enter into a regular dialogue with a broad cross-section of Africans in order to define more equitable trade terms and to work for their eventual incorporation into existing agreements. In the interim, the US should endeavor to minimize GATT's negative impact on African trading partners by making full use of provisions designed to assist developing countries (such as the Generalized System of Preferences). It should also increase its technical assistance programs to facilitate regional integration and economic diversification.

4. Development assistance should continue for the foreseeable future. Carefully targeted development assistance can complement trade and investment growth to accelerate economic transformation. Moreover, the US must share responsibility for Africa's problems. Many of Africa's present problems are directly attributable to the Cold War—which made countless African nations battlegrounds for US-Soviet competition—and to the continent's long and negative experience of precolonial and colonial engagement by Western powers. The US should be as active in addressing the consequences of these struggles as it was in perpetuating them.

At the same time, the US must radically reassess its assistance strategies and priorities. We cannot afford to squander funds in the pursuit of short-term economic objectives, on well-intentioned projects which are peripheral to the needs and interests of their ostensible beneficiaries, or on the cultivation of fragile alliances with governments which do not enjoy the support of their citizens. US assistance must be aid that works. It must advance America's interests in long-term peace and security by promoting sustainable and equitable development. African assistance programs should emphasize investment in both physical infrastructure and in human resources. Social investment is especially important, not only because it puts *people* at the center of the development process, but also because it enhances the potential for rapid and equitable economic growth.

Focused efforts to prevent humanitarian crises are also priority assistance investments, given their potential to avoid more costly crisis-relief expenditures later. And humanitarian aid needs to be rethought so that it lays the groundwork for long-term development rather than only addressing immediate disasters.

In conjunction with the reorientation of its funding priorities and the other initiatives discussed above, the US should renew its commitment both to bilateral aid programs and to multilateral institutions, including UN agencies and the IDA facility of the World Bank. US assistance programs should achieve a rough balance in their support for public, private, and voluntary sector initiatives. US aid could be particularly valuable in encouraging national and regional dialogues on trade and private sector development by engaging a cross section of the society (men and women; rural and urban; employed, self-employed, unemployed, and under-employed; public, private, informal, and voluntary sectors; etc.) in discussions related to these topics.

Finally, we recognize that this is an evolving policy which is scheduled to be reviewed annually over the next four years. We welcome the opportunity to be involved in this process on an ongoing basis. We also encourage the Caucus to seek out a variety of African perspectives and advice as frequently as possible.

Sincerely,

American Committee on Africa
Jennifer Davis, Director
Bread for the World
David Beckmann, President
Constituency for Africa
Mel Foote, Executive Director
Evangelical Lutheran Church in America, Lutheran Office for Governmental Affairs
Mark Brown, Assistant Director for Advocacy
Global Ministries of the United Church of Christ and the Disciples of Christ, Africa Office
Rev. Dan C. Hoffman, Area Executive, and Mr. Erich Mathias, Program Associate
Inter-Church Coalition on Africa, Economic Justice Programme
John Mihevc, Programme Officer
Maryknoll Justice and Peace Office
Terence W. Miller, Director
Mennonite Central Committee
Jim Shenk and Eric Olfert, Co-Secretaries for Africa
National Council of Churches, Africa Office
Willis Logan, Director
Presbyterian Church (USA)
Rev. Jon T. Chapman, Area Coordinator for Southern Africa
Presbyterian Church (USA), Washington Office
Elenora Giddings Ivory, Director
Progressive National Baptist Convention, Home Mission Board
Rev. Archie LeMone, Executive Director
Society of African Missions
Stephen G. Price, Office of Justice and Peace
Society of Missionaries of Africa
William C. Dyer, Justice and Peace Officer
United Church of Christ, Office for Church in Society
Rev. Jay Lintner, Director, Washington Office
United Methodist Church, Africa Office
Doreen Tilghman, Assistant General Secretary
United Methodist Church, Women's Division
Anna Rhee, Executive Secretary for Public Policy
Washington Office on Africa
Rev. Dan C. Hoffman, Chair, Board of Directors

BACKGROUND PAPER

TRADE: ISSUE BRIEF

THE U.S. AND AFRICA'S TRADE: PROSPECTS FOR PARTNERSHIP

The U.S. Stake in African Economic Progress

Africa is a paradox. Largest among the continents in area, second largest in population, and arguably the richest of all in terms of natural resources, its people are among the poorest in the world. Africa's people are hard-working and intelligent, and the continent can boast of having produced great civilizations long before today's developed countries came into existence. But the vast gap between contemporary Africa's level of economic development and that of virtually every other area of the world is, in fact, growing.

In today's world, stability is not possible in the face of massive international economic and social disparities. Isolationism is not a viable option, even for the U.S. Each new advance in telecommunications, each new desecration of the global environment, each new strain of infectious virus, each new advance in fissionable or biological weaponry, each corporate decision to relocate a plant overseas, shrinks the global community and confirms the interrelatedness of all peoples. Clearly, in today's world, to be one's own keeper one must be one's neighbor's keeper as well.

If the vast economic disparities between the U.S. and Africa place the U.S. at risk, then it must be a matter of U.S. policy to strive to shrink that gap. For half a century, "foreign aid"[1] has been the principal weapon for attacking the vast disparities between the developed and the least developed countries. While the debate over the quality and quantity of aid will continue, and the need for aid remains great, the reality is that it is fast diminishing.

The precipitous decline in Africa's economic performance beginning in the late 1970s led the donor community, directly and via its international funding agencies such as the World Bank and the IMF, to exert great pressure on African countries to restructure their economies so as to render them more efficient and more market-oriented. A major objective of these "structural adjustment"[2] programs was to prod the African countries to revamp their economies in ways which would make them more viable and more attractive to foreign traders and investors. After a decade of experimentation, these programs have shown only mixed results in economic development terms. But in many cases, they have led to new prospects for using trade as a means for transforming African economies. An expanded U.S.-Africa trade relationship deserves high priority on country agendas on both sides of the Atlantic.

U.S.- Africa Trade Relationships

The African continent is a more significant trading partner for the U.S. than most people realize, and potentially even more significant. Both the reality and the potential warrant much greater attention from policy-makers and the public alike. The strategic significance of African oil, for example, should imply much more focused concern with the long-term future of such countries as Nigeria, Angola and Algeria, each confronting very different but intense political and societal crises. The medium-term potential to expand the share of exports to Africa supplied by the U.S. is significant. The long-term potential—if the U.S. aids Africa in expanding and diversifying its exports—is even greater.

The magnitude of U.S.-Africa trade ($23.4 billion in 1994) comes to almost exactly two per cent of overall U.S. foreign trade of $1.2 trillion.[3] U.S. exports to Africa come to almost $9.2 billion. The U.S. imports some $14.3 billion from Africa, creating a trade deficit with the continent of about $5.1 billion.

The imports, moreover, are of strategic importance. Two-thirds of U.S. imports from Sub-Saharan Africa are accounted for by a single commodity: petroleum, comprising 20 per cent of total U.S. crude oil imports in 1994. This is mainly the sweet Nigerian crude oil ($4.4 billion), with sizeable amounts also coming from Angola, Gabon and Congo. Oil from west Africa is particularly favored by American users

because of its high quality, but also because its supply has generally been considered to be more stable by comparison with that from the Middle East.

Of equal or greater strategic importance are several minerals for which Africa constitutes a major, if not the major Western source. In this group are such items as chromium, cobalt, vanadium and manganese, used in making specialized steel products. Africa supplies the U.S. with 47, 43, 35 and 25 per cent, respectively, of its imports of these commodities.

On the export side, U.S. sales to Africa have been in the $8 to 10 billion range for the last four years. The bulk of these sales are of equipment and machinery. Sales to Sub-Saharan Africa, for example, in total some $4.4 billion, included $289 million in U.S. aircraft and aircraft parts, $245 million of oil and gas field equipment, almost $200 million in construction machinery, and over $100 million each of computers, motor vehicles, telecommunications and farm machinery. The other major component was food — principally wheat ($250 million) and rice ($107 million). In 1994, the $2.2 billion of U.S. exports to South Africa alone made it a larger market for the U.S. than all the countries of Eastern Europe combined (see chart on page 4).

While the U.S. runs a trade deficit with Africa, most European countries run a trade surplus there. There is, therefore, ample opportunity for the U.S. to increase its exports to Africa, especially if these exports are balanced by increases in imports from Africa as well, so that Africans can earn the dollars to pay for U.S. goods and services.

Africa's capacity to expand imports on a sustainable basis, however, is vulnerable not only to the multiple weaknesses of internal economic infrastructure and management, but also to its continued dependence on exports of primary commodities. Countries exporting

TABLE 1: U.S. Imports from African Countries (in millions of $)

Country	1990	1992	1994
Algeria	2,645.4	1,693.8	1664.3
Angola	1958.1	2302.8	2061.3
Benin	21.5	9.6	10.1
Botswana	14.2	46.5	13.7
Burkina Faso	1.1	13.2	0.4
Burundi	8.3	8.4	7.7
Cameroon	158.2	83.8	55.2
Central African Rep.	2.2	0.8	0.2
Chad	1.1	0.3	1.6
Comoros	4.7	10.4	6.0
Congo	413.6	509.8	403.0
Cote d'Ivoire	199.7	187.5	165.4
Djibouti			0.1
Egypt	396.4	485.6	593.6
Equatorial Guinea		0.1	0.3
Eritrea			0.1
Ethiopia	39.6	8.5	34.1
Gabon	720.3	927.9	1,154.6
Gambia	1.9	1.1	2.4
Ghana	168.6	96.4	198.5
Guinea	141.3	101.6	92.1
W.Africa, N.E.C*	0.6	0.5	0.2
Kenya	58.4	72.9	108.7
Lesotho	25.1	53.0	83.0
Liberia	49.3	12.3	3.5
Libya			
Madagascar	41.5	53.5	57.0
Malawi	52.8	58.5	56.5
Mali	2.7	1.5	4.1
Mauritania	23.9	8.5	3.5
Mauritius	158.4	136.7	217.1
Morocco	109.1	194.8	210.6
Mozambique	28.9	19.4	15.3
Namibia	33.2	23.1	27.8
Niger	46.0	2.9	2.4
Nigeria	5,977.3	5,073.7	4,429.8
Rwanda	30.9	5.0	1.7
Senegal	4.4	10.3	11.4
Seychelles	0.6	1.1	2.8
Sierra Leone	46.0	60.9	51.2
Somalia	0.3	2.4	0.1
South Africa	1,700.6	1,723.0	2,030.2
Sudan	15.8	11.0	35.1
Swaziland	34.1	23.5	37.6
Tanzania	15.4	11.0	14.9
Togo	3.7	6.1	4.1
Tunisia	32.32	51.4	58.7
Uganda	15.9	12.0	34.9
Zaire	316.5	250.2	187.7
Zambia	28.6	70.2	63.5
Zimbabwe	118.7	106.7	102.4
Africa Total	**15,867.2**	**14,524.2**	**14,329.6**

*Includes Guinea Bissau, Cape Verde Islands, and São Tomé and Principe.
Source: U.S. Department of Commerce

oil have advantages that those exporting agricultural products such as coffee or sisal do not have. But oil producers too can easily be battered by wide price swings. Even South Africa is highly vulnerable to price shifts in gold and other minerals.

The catch-22 for primary commodity producers in the world market is that if everyone produces more, the price may go down, as consumers are oversupplied with cocoa, for example, or manufacturers with raw materials. The only secure route to better trade performance consists in being able to export more highly processed products with greater value added inside the country. The international trading system has historically not helped African countries to make that transition. Current changes may impose even greater difficulties.

TABLE 2: U.S. Exports to African Countries (in millions of $)

Country	1990	1992	1994
Algeria	951.4	676.6	1,191.1
Angola	149.7	157.6	197.4
Benin	23.7	27.0	25.9
Botswana	19.2	46.5	22.7
Burkina Faso	14.7	13.2	7.3
Burundi	0.9	9.6	17.7
Cameroon	46.4	57.0	53.6
Central African Rep.	1.2	1.0	2.5
Chad	7.9	5.3	7.5
Comoros	0.1	0.6	0.1
Congo	89.8	59.7	38.0
Cote d'Ivoire	78.4	87.1	111.2
Djibouti	7.4	10.6	6.7
Egypt	2,248.9	3,087.3	2,843.8
Eq. Guinea	0.2	10.8	1.9
Eritrea			8.4
Ethiopia	157.0	249.5	143.1
Gabon	49.0	54.7	40.2
Gambia	8.7	10.1	3.9
Ghana	138.4	123.8	124.5
Guinea	42.9	60.5	49.8
W. Africa,N.E.C.*	20.0	8.5	18.6
Kenya	115.9	124.2	169.5
Lesotho	2.8	3.1	3.4
Liberia	44.3	30.6	46.4
Libya			
Madagascar	11.5	6.1	47.9
Malawi	13.8	13.6	18.7
Mali	9.0	11.3	19.0
Mauritania	14.5	59.4	14.0
Mauritius	12.9	22.3	23.8
Morocco	495.3	493.2	405.2
Mozambique	50.3	149.7	39.4
Namibia	44.4	34.2	16.3
Niger	12.4	12.8	12.0
Nigeria	551.4	1,000.8	509.2
Rwanda	1.0	2.5	34.8
Senegal	52.6	80.2	42.5
Seychelles	2.2	2.3	6.1
Sierra Leone	26.6	28.1	24.2
Somalia	11.6	20.8	29.9
South Africa	1,732.5	2,425.2	2,172.7
Sudan	42.3	52.5	54.5
Swaziland	7.8	3.6	5.4
Tanzania	48.0	33.8	48.9
Togo	30.7	19.5	12.5
Tunisia	178.5	232.5	327.1
Uganda	26.0	15.3	27.7
Zaire	138.4	32.7	39.5
Zambia	80.1	68.1	32.6
Zimbabwe	134.7	143.4	92.8
Africa Total	**7,947.42**	**9,876.9**	**9,191.7**

* includes Guinea Bissau, Cape Verde Islands, and São Tomé and Principe
Source: U.S. Department of Commerce

The Global Trading System Handicaps Africa

As currently structured, the global trading system is not especially friendly to African exports. The recently renegotiated General Agreement on Tariffs and Trade (GATT) Treaty[4] did little to ease the restrictions on the ability of Africa to export to America and elsewhere. In fact, while lowering tariffs will have different impacts on different African countries and sectors, most analysts agree that treaty implementation will have an overall negative impact on Africa's trade prospects, by raising prices of imported foods and removing trade concessions previously granted by European countries. Those countries most able to take advantage of the new opportunities will be those with better trading infrastructures and a larger share in the world market already.[5]

Tariff escalation, that is the fact that import duties generally become higher for products with greater proportion of value added by processing, does considerable harm to Africa's efforts to industrialize itself. Most African countries have an under-exploited export po-

tential, which can be translated into economic growth with virtually no additional monetary assistance from abroad. Foremost among such potentials is the option of processing Africa's primary commodities prior to their shipment abroad. If Zambia could process its copper, Guinea its bauxite, Ghana its cocoa, Ethiopia its coffee, the value added to these exports would provide both employment and vitally needed foreign exchange for these struggling economies.

The fact that the tariff codes raise the levy with each higher level of processing of the raw item discourages such structural changes. So does attaching quotas on the importation of semi-processed and processed goods into the developed countries. This can have even more significant effects in blocking Africa's imports than the tariff escalation practices.

Another widespread practice, subsidizing U.S. and European food exports, has discouraged African farmers from growing wheat and other foodstuffs. To be sure, these subsidized foodstuffs provide a short-term benefit (lower food prices) to the African economies, but in doing so they perform a long-term disservice by driving domestic farmers out of business.

In theory, the latest round (Uruguay Round) of GATT, leading to reduction of many such trade barriers, should open up new opportunities for African countries, as for other countries. In fact, developed countries were well able to fight for detailed provisions defending their interests in the complex treaty negotiations, and are best placed to make the transitions needed.

Many GATT provisions have ambivalent effects when they are applied to Africa. The Trade Related Investment Measures (TRIMS)[6], for example, are designed to make foreign investment more attractive to foreigners, an objective widely shared by both sides. At the same time, some of the TRIMS provisions may be viewed as affronts to the national sovereignty and as unwarranted efforts to repeal local legislation. In-

U.S. TRADE IN 1994 WITH SELECTED REGIONS AND COUNTRIES, IN MILLIONS OF DOLLARS

Place	Exports	Imports	Trade
World total	502483.6	668584.6	1171068.2
Compare All of Africa with:			
South & Central America	41708.4	38461.0	80169.4
France	13618.7	16699.0	30317.7
Singapore	13019.9	15357.7	28377.6
All of Africa	**9164.9**	**14033.9**	**23198.8**
Italy	7182.7	14802.2	21984.9
Hong Kong	11441.0	9695.6	21136.6
Compare Sub-Saharan Africa with:			
Sub-Saharan Africa	**4388.8**	**11707.5**	**16074.3**
SS Africa (w/o South Africa)	**2194.5**	**9677.0**	**11871.5**
Eastern Europe (inc FSU)	5301.0	5831.9	11132.9
Former Soviet Union	3561.6	3847.6	7409.2
Compare African Regions and Countries with:			
Former Soviet Union	3561.6	3847.6	7409.2
SADC (inc SA)	**2649.9**	**4488.4**	**7138.3**
Ireland	3418.6	2893.5	6312.1
Russia	2578.1	3245.0	5823.1
Nigeria	**508.1**	**4429.9**	**4939.0**
South Africa	**2172.3**	**2030.5**	**4202.8**
Eastern Europe (w/o former SU)	1739.5	1984.3	3723.8
Norway	1267.3	2353.4	3620.7
Egypt	**2854.8**	**548.7**	**3403.5**
SADC (w/o South Africa)	**477.6**	**2455.9**	**2933.5**
Algeria	**1191.6**	**1525.9**	**2716.4**
Kuwait	1175.9	1457.5	2633.4
Angola	**197.3**	**2061.3**	**2258.5**
Poland	625.2	651.2	1276.4

DEFINITIONS OF REGIONS USED IN TABLE:

Sub-Saharan Africa: All African countries except Algeria, Morocco, Tunisia, Western Sahara, Libya, and Egypt.

SADC (Southern African Development Community): Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

Eastern Europe: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

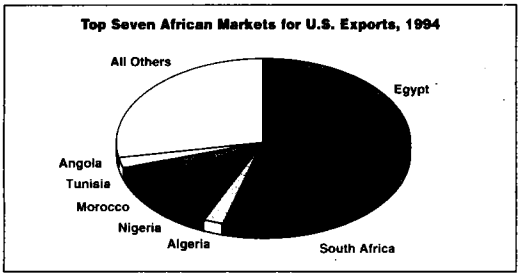
Former Soviet Republics: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

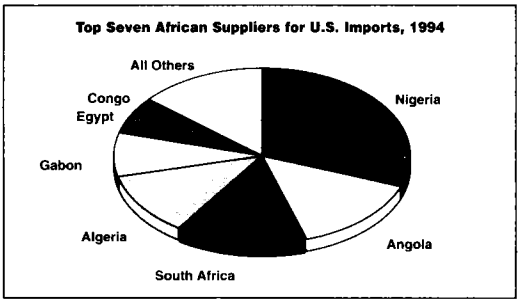
South/Central America: Anguilla, Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Falkland Islands, French Guiana,Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Montserrat, Netherland Antilles, Nicaragua, Panama, Paraguay,Peru, St. Kitts and Nevis, St. Lme, Trinidad and Tobago, Turks and Caicos Islands, Uruguay, Venezuela.

Source: Bureau of the Census, Foreign Trade Division

Note: The figures in this chart show very minor differences with those on previous pages, which come from the Department of Commerce rather than the original Bureau of the Census figures.

Africa Policy Information Center
110 Maryland Avenue, NE, #509
Washington, DC 20002





deed, while attracting foreign investors and stimulating trade, these provisions may also discourage local investors and self-reliant development.

Thus, while African countries may open their economies more widely to imports and investments from other countries, they may not have the capacity to take advantage of new opportunities for exports in sectors other than primary commodities.

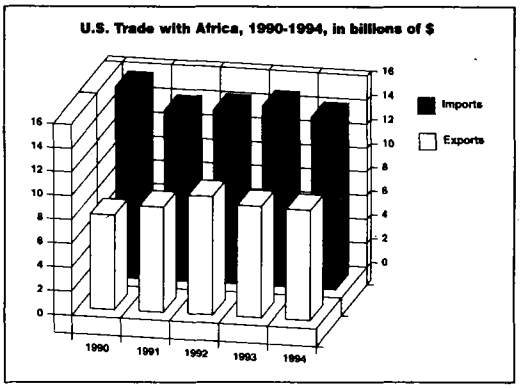
Unfortunately, the architects of the global trading system, including the U.S., display very little sensitivity to these issues. Aside from its traditional purchases of critical commodity and mineral imports from Africa, the U.S. commercial interest in Africa is almost exclusively focused on what it can sell rather than on what more it can buy. There seems to be little recognition of the need for Africa to increase its exports and shift its pattern of exports to enable it to service its debt as well as to increase its purchases.

Breaking Out of the Colonial Model

Sparked by the severely deteriorating economic situation which they faced in the early eighties, African countries sketched out an alternative to the export-led development strategy inherited from the colonial era. Instead of continuing to use exports as their engine of growth, they expressed a desire to place greater emphasis on producing goods for consumption within Africa itself, and developing strategies which could shift foreign trade away from the traditional dependence on a few primary commodities.[7]

One aspect of the strategy was termed "collective self-reliance," acknowledging the need to create sub-regional economic entities which could offer economies of scale in both production and marketing. A number of such sub-regional groupings were already in existence (COMESA, SADC, ECOWAS, and others)[8] but were suffering from general neglect by the Africans and from dismissal as unfeasible by the major donor organizations. This donor reticence softened over the decade, however, and in 1991, African heads of state collectively committed themselves to the creation of an African Economic Community by 2025, to be built on the sub-regional economic structures, which hopefully would have matured by then.

In the long term, Africa's potential for trade will depend on building up productive capacity within the continent for goods more in demand by the outside world. U.S. trade policy towards Africa should be consciously aimed at assisting such structural changes, as well as satisfying the more immediate needs for imports of primary commodities and export opportunities for U.S. companies.



Elements of a U.S.-Africa Trade Policy

It is in the long-run interest of all peoples that the yawning gap between economic conditions in Africa and in the United States be seen to be closing. That is not the case now. Given the fact of diminishing aid resources it is imperative that less costly instruments be found to address this problem. Trade is one such instrument.

To the extent that U.S. policymakers have focused on trade with Africa, it has primarily been in the context of encouraging U.S. exports to Africa. There are indeed many opportunities in this regard, particularly in South Africa but also around the continent. The principal barriers on the U.S. side are the lack of sufficient detailed knowledge of the opportunities, a gap which both government and private efforts can help to fill (see, for example, the African Business Handbook, described on page 8).

In order for trade growth to be sustainable, however, it must be a two-way street. It would be short-sighted for the U.S. to concentrate exclusively on immediate export opportunities and import of the traditional primary commodities. There are a number of trade-related routes by which the U.S. could bring genuine assistance to Africa, and ultimately, to itself. They need not entail large outlays of money.

In 1994, Congress, recognizing the difficulties Africa faced in adjusting to the new GATT treaty, mandated the Administration to implement a "comprehensive trade and development policy in Africa" and to report annually, for four years, on the steps taken to carry out this instruction. The results to date have been extremely limited. The administration has proposed a program of assistance to U.S. companies interested in trade and investment in the SADC area and in four other African countries (Ghana, Gabon, Uganda and Côte d'Ivoire). But critics feel the plan still falls far short of a multi-faceted strategy focused on facilitating development of Africa's trade, and some members of Congress plan to continue pushing for greater efforts.

The following list, although general in character, indicates areas which warrant much more detailed attention from policy-makers.

(1) Encouraging the Production of African Products

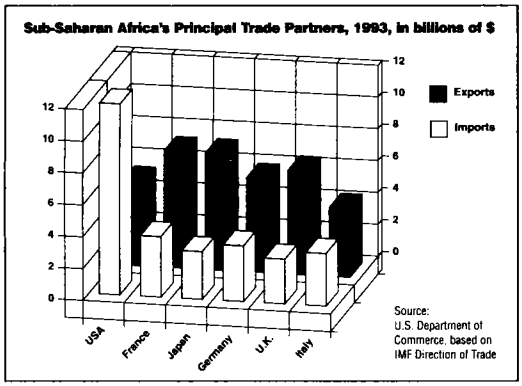
The U.S. is well suited to help Africa to identify new products which it might develop for export, and to provide the technical assistance to initiate such industries. In some cases, such as tropical food products, a limiting factor may be the quality standards required by U.S. importers. Technical assistance can overcome this problem with a minimum of effort.

(2) Countering Harmful Effects of GATT

The GATT provisions are set until the next round of negotiations. However, GATT member countries have some flexibility in implementing some of its provisions and the U.S. should take advantage of these opportunities. Furthermore, the World Trade Organization (WTO), the new organization designated to administer the treaty, is in its infancy. There will be numerous opportunities for the U.S. to influence the direction in which it goes, especially with respect to developing-country relationships.

3) Liberalization of the GSP

The Generalized System of Preferences (GSP) is probably the most important legislation which affects



African exports to the U.S. Its intent and purpose was to ease some of the burdens placed on developing countries' trade by the creation of GATT. The GSP created the option for exempting certain developing country exports from the restrictive effects of the reciprocity provisions of GATT. Each developed country enacts its own legislation. Under the U.S. system, specific countries and products are included as eligible when designated as such by the office of the U.S. Trade Representative, an agency directly responsible to the president.

In practice, the GSP has been of very limited benefit to the poorest countries, such as those in Africa. Despite proposals to reform the program suggested in 1994 and 1995, the GSP was renewed in 1995 for five years with little change. Even without legislative reform, however, African countries could be assisted in taking advantage of the complex administrative procedures for obtaining exemption for specific products.

(4) Assisting the Regional Integration Process

Regional integration offers Africa its greatest hope for escaping from its current economic predicament. Achieving it will be difficult and will require serious financial, technical and moral support from the U.S. and other foreign donors. The U.S. could open foreign commercial service offices at the headquarters of each of the major African sub-regional entities, such as COMESA, SADC, and ECOWAS, to promote the sub-regional concept among U.S. investors.

(5) Reducing African Debt

To service its enormous debt obligations, Africa owes in excess of $ 35 billion annually to the developed countries and international financial institutions. This obligation swamps whatever surpluses Africa may have in its trade balances. Although the debt is not being fully serviced, it should be forgiven or scaled down to a level which is manageable, so that Africa can move ahead with its development. It is particularly urgent to consider Africa's debt to the international financial institutions as well as bilateral debt.

(6) Increasing the Provision of Credit

With the decline in aid monies, Africa is in urgent need of financing for its necessary imports of U.S. goods, and for making capital investments. The Export-Import Bank, a leading U.S. agency charged with this mission, is currently inactive in most of Africa. This void should be reversed. Other U.S. capital-providing agencies, such as the Overseas Private Investment Corporation (OPIC) and other specialized government programs for promotion of trade and investment, should be widely represented in Africa as they are in Eastern Europe. — *Robert Browne*

Robert Browne is currently an Adjunct Fellow at TransAfrica Forum's Policy Institute. He was formerly the U.S. Executive Director at the African Development Fund in Abidjan, Côte d'Ivoire.

Endnotes

1 "Foreign aid," or "official development assistance" (ODA), is formally defined by the Organization of Economic Co-operation and Development (OECD) as financial flows that (1) "are administered with the promotion of the economic development and welfare of the recipient countries as the main objective" and (2) "are concessional in character," with a grant element of at least 25 percent. Developed country "donors" provided approximately $57 billion in ODA in 1993, the equivalent of 0.3 percent of Gross National Product (GNP), the lowest percentage level since 1973.

Selected Information Resources

The third biannual *African Business Handbook*, for 1995-1996, is due out in December 1995. This extensive compilation of general background, statistics, and contact information for a wide variety of government agencies, companies and other groups, costs $35 and is published by 21st Century Africa, Inc., 818 18th St. NW, Suite 810, Washington, DC 20006. Tel: (202) 659-6473; Fax: (202) 659-6475).

Africa Can Compete! Export Opportunities and Challenges for Garments and Home Products in the U.S. Market. Tyler Biggs et al. World Bank Discussion Paper 242 (June 1994). 84 pages. ISBN: 0-8213-2838-7. $7.95.

More information on the impact of GSP, and the failure to use it to benefit African countries, is available from the Environmental and Energy Study Institute (EESI), 122 C St. NW, Suite 700, Washington, DC 20001. Tel: (202) 628-1400; Fax: (202) 628-1825; E-mail: eesi@igc.apc.org.

Among all donor countries, the U.S. provided the lowest percentage of GNP in 1993, only 0.15 percent.

2. While "structural adjustment" programs vary in their particulars, they have mainly been concerned with reducing deficits in financial dealings with other countries and with balancing government budgets. Measures commonly include cuts in government spending, removal of import controls, devaluation of currencies, and privatization of government enterprises. Critics argue that while economic crisis clearly demands "adjustments," the packages imposed often take little account of the damage to human capital and fail to bring about the long-term economic development they promise.

3. These figures refer to the entire African continent. Most easily available statistics separate Sub-Saharan Africa from North Africa, which is generally grouped with the Near East. In this paper, unless otherwise noted, "Africa" refers to the entire continent. When statistics are for Sub-Saharan Africa only, that is noted in the text or table.

4. GATT is the international agreement which has regulated most world trade since 1947. In the Uruguay Round, lasting from 1986 through 1994, negotiators eventually agreed on new rules for tariff reduction, the formation of a new World Trade Organization (WTO), and other measures aimed at liberalizing international trade.

5. See *Wall Street Journal*, Aug. 15, 1994, "Sub-Saharan Africa Is Seen as Big Loser in GATT's New World Trade Accord," Congressional Research Service, *Africa: Impact of the Uruguay Trade Round Agreements*, Oct. 3, 1994; U.S. International Trade Commission, Posthearing Brief in INV. No. 331 362, "U.S. Africa Trade Flows and Effects of the Uruguay Round Agreements and U.S. Trade and Development Policy," Aug. 2, 1995.

6. TRIMS are measures to regulate investment, such as by requiring a certain proportion of local content in manufacturing or a certain percentage of local ownership. The United States, arguing that such measures could have a negative impact on trade, pushed strongly and successfully to include language against such restrictions in the agreement. Developing countries have up to five years, and developed countries up to two years, to eliminate TRIMS which are not in conformity with the agreement.

7. See *Africa's Problems ... African Alternatives* (APIC, 1992) for an abridged version of the 1989 African Alternative Framework to Structural Adjustment Programs. Other sources introducing these issues include Adebayo Adedeji et al., eds., *The Challenge of African Economic Recovery and Development* (London: Frank Cass, 1991), Robert S. Browne and Robert J. Cummings, *The Lagos Plan of Action vs. the Berg Report* (Lawrenceville, VA: Brunswick Publishing, 1984), and James Pickett and Hans Singer, *Towards Economic Recovery in Africa* (London: Routledge, 1990).

8. SADC stands for Southern African Development Community; ECOWAS for the Economic Community of West African States. For lists of member countries in 1994, see page 4. Mauritius was admitted to SADC as its 12th member in 1995. COMESA (Common Market of East and Southern Africa) is the new name for the PTA (Preferential Trade Area), which overlaps with SADC but also includes the countries of East Africa and the Horn.

Additional copies available at $2 ea., $1.60 ea. for 20 or more. Add 15% for postage and handling. May be freely reproduced with attribution to APIC.

APIC

Produced by the
Africa Policy Information Center
110 Maryland Ave. NE #509
Phone: (202) 546-7961
Fax: (202) 546-1545
E-mail: apic@igc.apc.org

This series of background papers is part of a program of public education funded by the Carnegie Corporation of New York, The Ford Foundation, and The John D. and Catherine T. MacArthur Foundation.

BACKGROUND PAPER

THINKING REGIONALLY

THINKING REGIONALLY: PRIORITIES FOR U.S. POLICY TOWARD AFRICA

Recent Congressional action to significantly cut aid to Africa is only one sign among many of a trend to reduce U.S. involvement on the continent. How much further Africa is marginalized in the U.S. will ultimately depend on the ability of Africa's multiple constituencies to reverse this trend. Nevertheless, events on the continent are likely to compel a greater commitment of resources than U.S. policymakers currently contemplate. And engagement at any level needs to be based on clear identification of U.S. interests in Africa and well-defined criteria for establishing priorities.

This paper suggests a framework to assure the promotion of U.S. interests in all five regions of the African continent, and of three important goals shared by Africans and Americans alike.

Although conventional wisdom tends to dismiss Africa's importance for the U.S., each one of Africa's five regions is significant enough in terms of population, potential economic development, impact on global issues and even current trade ties to warrant sustained policy attention. Economic, strategic, political, and societal interests, intertwined within any one African country, are also easily influenced by events across porous borders. African policy-makers are increasingly realizing the need to take this regional dimension into account. U.S. policy should also do so.

Negative goals such as Cold War rivalry no longer define the U.S. interest. It is in the U.S. interest that, within each African region, as elsewhere in the world, countries and peoples should be able to advance the common goals of achieving security, democracy and development. While the paths to these objectives may differ, they are inseparable. Economic progress cannot be isolated from the needs for security and expansion of democratic rights.

U.S. involvement in averting crises and building a sustainable future in each of Africa's regions should not be dismissed as "social work." It is a genuine national interest because of the need for the U.S. to establish a responsible role as a leading participant in the new post-Cold War international community. It is also justified on the grounds of actual or potential economic partnerships in each region. A downward spiral of chaos in any one of these large regions, moreover, would inevitably have costly fallout for the developed countries of the North Atlantic, in the form of refugees, drug traffic, the spread of disease and rising costs for humanitarian aid.

Rational strategies to achieve these goals cannot be designed purely in terms of bilateral relations with selected countries. At the same time, it is not feasible to give equal weight to U.S. relations with each African country. This paper singles out five African nations as focus countries where the U.S. must be consistently involved: South Africa in Southern Africa; Nigeria in West Africa; Zaire in Central Africa; Kenya in East Africa; and Algeria in North Africa.[1]

Giving priority to these countries should not be confused with making unconditional alliances with their ruling elites, with seeking to build them up as regional hegemonic powers, or with granting them automatic first-call in the queue for aid dollars. The idea of 'focus countries' suggested here should be sharply distinguished from the similar-sounding concept of 'pivotal states,' which designates regional powers for virtually exclusive attention within a region, with the assumption that they will lead their neighbors. Rather, U.S. policy towards each of these key countries must encompass the realities of each region and encourage constructive dialogue and collective problem-solving among neighbors.

We also must recognize that the U.S. has special historical responsibilities toward a select number of other countries—Liberia, Angola, Somalia, and Sudan—that also warrant particular attention.[2] The policy approaches to these countries also will be most effective if integrated into policies toward their respective regions. So will the responses to crises forced on the international agenda by their horrendous scale or their momentary passage through the global media spotlight. Likewise, aid programs to "success cases" in large or small countries need to be viewed through the regional prism.

Sustained policy attention to certain countries should always be placed within the respective regional context. Thus there should be a Southern Africa policy while acknowledging that South Africa is a priority within the region, and a West African policy that recognizes Nigeria's centrality to U.S. concerns in that region. What happens in Zaire, still saddled with the dictator installed with U.S. assistance in America's first major Cold War adven-

ture in Africa, will have profound effects on the prospects for its neighbors. Although their regional weight is less overwhelming, Kenya and Algeria will also have major impacts on their respective regions.

This brief paper does not claim to present a fully elaborated case for this approach, which would involve more detailed discussion of policy for each distinct region. The aim here is rather to offer an initial framework to help answer the questions of *where* the U.S. should be most engaged in Africa, and *on what issues*. Even given a consensus on geographical and program priorities, there will remain the debates over what methods to employ and which agencies should have policy leadership and managerial responsibilities. Overshadowing all of this is the specter of diminished resources. But such immediate questions should not distract us from thinking strategically about what are, in fact, significant and growing American interests in Africa.

Deciding Where to Focus

As budget constraints force reductions in embassy and aid personnel, including the closure of some country programs, making decisions about where to focus is inevitable. Yet the grounds for making these decisions are not self-evident. One approach is to concentrate on "success" cases, those countries thought most likely to make it in terms of criteria defined by U.S. officials, assuming that their success will set an example and positively influence the decision-making and behavior of their neighbors. This perspective is often accompanied by the corollary argument that the U.S. should simply opt out of involvement in cases involving too much risk of failure. Since, in Africa, this is often taken to mean most countries, the obvious consequence would be to focus only on the least needy.

At the extreme, some commentators suggest that in Sub-Saharan Africa only South Africa warrants being considered a "pivotal state."[3] Yet together the countries of Sub-Saharan Africa, *excluding South Africa*, account for more total trade with the U.S. than all of Eastern Europe and the former Soviet Union combined.[4]

The framework presented here is different. The point is not to limit U.S. perspectives exclusively to bilateral relations with certain states. Rather it is to find cost-effective ways for the U.S. to pursue its interests for each region as a whole, beginning with consistent involvement with key regional actors.

Focus Countries

I have designated South Africa, Zaire, Nigeria, Algeria and Kenya as five countries too important not to be involved in. Each meets most or all of the following criteria:

(1) they are large countries with large populations;
(2) they boast the strongest and most industrialized economies in their respective regions;
(3) they are presently among the largest trading partners for the U.S. in Africa;
(4) the U.S. has diverse and longstanding interests in them (economic, political, societal and security);
(5) they are potential economic and political powerhouses of their respective regions;

These countries are all key actors within their respective regions, whose cooperation will be invaluable to resolving a wide range of problems. They are likely to be either forces for regional security or sources of regional instability. Finally, there are domestic constituencies in the U.S. concerned with policy toward each of these countries that can help build and sustain public support for new U.S. initiatives.

Together, these five focus countries provide nearly 60% of all U.S. imports from the African continent, and comprise the markets for 75% of total U.S. exports to Africa.[5] The total population of these five countries, nearly 250 million, comes to almost half the population of the entire continent.[6]

The potential for positive (or negative) influence that these focus countries have within their own regions and elsewhere on the continent is illustrated, to give only a few examples, by Nigeria's leading role in the West African peacekeeping force in Liberia, the South African role in promoting political settlements of conflicts in Mozambique and Lesotho, and Zaire's role in alternately accepting, expelling, or arming refugees from the Rwandan conflict. Nigeria largely determined who would be the new head of the African Development Bank (in opposition to the U.S.-supported candidate). Allgeria still has important influence with the Polisario Front of the Western Sahara, whose independence struggle against Morocco—the traditional ally of the U.S. in the Mahgreb—represents the continent's remaining unresolved colonial conflict. And South Africa's current increasingly active foreign policy on Nigeria is a new example of the potential for African powers to influence international policies toward other African states.

Each focus country—and its role within its region—is unique, and U.S. relations with each one will be different. It is now possible to conceive of a U.S.-South Africa policy that considers Pretoria an ally with whom the U.S. can work on a host of issues. Both government-to-government and people-to-people ties are growing rapidly and, tentatively, the two countries share broad policy objectives in South Africa itself and throughout the region. South Africa is the second largest trading partner for the U.S. in Africa, and there is a positive trade balance. With $4.2 billion of trade with the U.S. in

Africa Policy Information Center
110 Maryland Avenue, NE, #509
Washington, DC 20002

1994, South Africa is a more important trading partner than all of Eastern Europe combined.

In Zaire, in contrast, it is neither possible nor desirable to treat the government as an ally. The U.S. approach there will require a more creative and energetic combination of collaboration with the government on specific matters of mutual concern (e.g. Rwandan refugees, the Ebola virus outbreak), increasing pressure for measurable democratization and the observance of human rights, and strengthening ties with democratic forces.

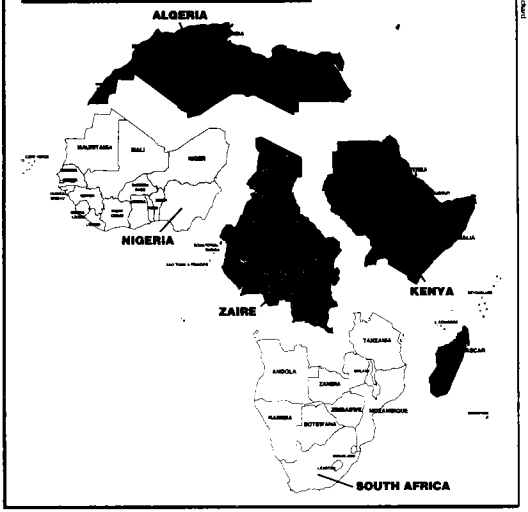
Economic relations with Zaire are limited and have been diminishing in recent years. Given the country's vast natural wealth, however, its future as an important emerging market should not be discounted solely because of the near chaotic current state of affairs. Indeed, the past U.S. "investments" of over $1.3 billion in grants and loans to Zaire should not be written off so cynically. The country continues to face a national political crisis, and only a democratic resolution of it can unlock the country's enormous but long-blocked potential. It is in the U.S. interest to help achieve such an outcome, and in doing so, to overcome one of its worst policy legacies in Africa.

In Nigeria and Kenya similar approaches will be required, at least in the short term. In both countries the U.S. has considerable economic interests. Nigeria is the largest trading partner of the U.S. in Africa and the third largest U.S. oil supplier after Saudi Arabia and Venezuela. Importing some $4.4 billion in Nigerian oil, petroleum and petroleum products, and exporting only $509 million in goods, the U.S. ran a trade deficit of nearly $4 billion with Nigeria in 1994 which accounted for most of the total $5 billion trade deficit with the African continent.

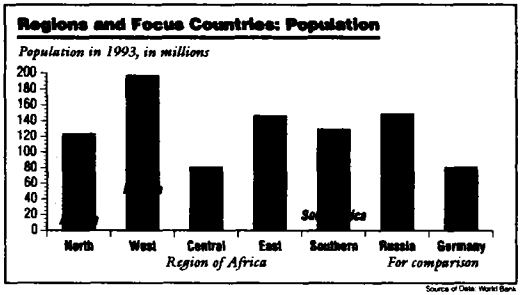
U.S. policy toward Nigeria cannot fail to recognize the centrality of successful democratization to the country's prospects for security or for development. Thus despite the significance of U.S. trade with Nigeria, U.S. long-term interests require re-prioritization of elements in current U.S.-Nigerian relations. The fate of Nigeria's democracy movement holds significant import for the evolution of democratic political systems in other countries in West Africa, and across the continent more generally. The rising calls in the U.S. and internationally for sanctions including an oil embargo against Nigeria will have to be taken seriously sooner or later. Washington will find it difficult to adopt a different standard toward Nigeria than that applied to South Africa, which involved the successful implementation of a comprehensive sanctions policy during the latter 1980s. Similarly, combining sanctions with significant investments in supporting the growth of democratic civic forces makes just as much sense in Nigeria as it did in South Africa.

Likewise, a revitalization of U.S. support for democratization in Kenya is crucial to avoid that country's slippage into a violent ethno-regional crisis, and to provide a positive example of the economic benefits that can accrue from democratic governance. In addition to its economic interests in Kenya, the U.S. still depends on access to Kenyan ports and airfields for various military planning scenarios involv-

Thinking Regionally About Africa



Note: Any division of Africa into regions is to some extent arbitrary, given that the regions used by different international organizations and scholars do not precisely correspond. Within East Africa, as designated here, the Horn and the Indian Ocean countries are often considered regions of their own. There are many countries which could fit into more than one region. Among such ambiguous cases: Burundi and Rwanda are sometimes considered part of East Africa or the "Greater Horn of Africa." Tanzania and Mauritius, often grouped with East Africa, appear on this map in Southern Africa because of their membership in SADC (Southern African Development Community).



ing the projection of U.S. force into the Gulf as well in East Africa itself. This should lend some urgency to U.S. efforts to support democratic reform and state observation of human rights in Kenya. Contrary to the conventional wisdom of the Cold War era, the U.S. cannot afford to elevate basing rights over human rights. Kenya is also a potentially important "hub" around which regional economic development can be built as well as greater economic cooperation between the countries in the Economic Community of Eastern and Southern Africa (COMESA).

In Algeria the complicated challenge of "mainstreaming" Islamic fundamentalism into a new democratic system is a problem with important regional implications across North Africa, in parts of West and East Africa, and in Western Europe as well. Algeria is also the fourth largest trading partner of the U.S. in Africa with total trade of $2.9 billion. Altogether, the countries of North Africa represent some $7.3 billion in trade for the U.S. The dual threats of radical religious fundamentalism and the anti-democratic authoritarianism of governments in most North African states require a strong policy response if the U.S. is to help increase the chances for sustainable democracy and decrease the chances for conflict in this vital region.

There is a need to find rapid ways of pressing forward on human rights and democratization issues, in part because they deserve urgent attention in themselves. This is also imperative because to fail to do so may jeopardize the ability of the U.S. to promote solutions to larger regional problems.

Historical Obligations

In addition to the focus countries identified above, U.S. policymakers should publicly accept greater responsibility for this country's "unfinished business" on the continent. The U.S. should acknowledge that many of its Cold War policies—which shaped U.S. relations with Africa from the era of independence until this decade—have done considerable damage in a number of key African states. We should feel a national obligation to help the people and governments of these countries to recover from the devastation that superpower rivalry inflicted upon them, and helped them to inflict upon themselves.

This is not a matter of pleading guilty and feeling remorse for past deeds. As appropriate as that might be, it would do very little for Africa. More constructively, the U.S. must commit itself to sharing the burdens of reconstruction and reconciliation in order to promote a new international order which fosters accountability for state actions and the international rule of law. We should be particularly concerned about intractable cases of civil strife where past U.S. policy arguably bears substantial responsibility for that result and where external assistance is required to increase the chances of resolution. Among these cases are Somalia, Liberia, Sudan, Zaire and Angola. The U.S. should not simply walk away from involvement with countries that were former allies, client states or, as in Angola, the target of attack by American military proxies.

One reason is that justice in international relations is important in its own right. Unaddressed injustices are likely to fester and weaken any new international order based on rules and ideals. There is also considerable domestic support for the idea that the U.S. should be morally and fiscally responsible for its international behavior. But there is little public recognition of the negative role the U.S. played in some of these cases. Acknowledgement of past mistakes can be useful in sending signals to dictators, demagogues and other human rights abusers that the U.S. is really committed to a new post-Cold War vision. It can also raise visibility of these issues for a public generally unaware of the past.

Current involvement in such issues is warranted as well because America needs to demonstrate the durability of its commitments, and the coherence and predictability of its international behavior. Because our actions abroad frequently have a major impact on entirely different regions (e.g. U.S. intervention in Somalia is still a major influence on U.S. policies toward Haiti and Bosnia), we must be careful to avoid ad-hoc short-term responses to problems for which we share longer-term responsibilities. If the U.S. abandons the people of those countries in Africa where it was most heavily involved dur-

Africa Policy Information Center
110 Maryland Avenue, NE, #508
Washington, DC 20002

ing the Cold War, it would demonstrate that the U.S., only concerned with short-term geostrategic interests, is not a reliable partner. Finally, the U.S. continues to have significant 'practical' interests in many of these same countries (e.g. strategic minerals, oil, and access to ports and bases). Taken together, these elements provide ample justification for re-engaging in our "lost legacies" in Africa.

Regional Perspectives

The five focus countries and six "historical responsibility" countries add up to nine, with Zaire and Kenya in both categories. This list is not the same, nor should it necessarily be the same, as those countries currently highest on the agenda for aid programs, for commercial missions, or for crisis response. Those priorities may change more quickly, and should be regularly evaluated on more particularized criteria: the quality of aid programs, the governance capacity of a particular host country, prospects for exports or investments, or the need for response to immediate crises, such as those in Rwanda and Burundi. But such programs should be shaped in the context of a longer-term regionally informed policy framework.

Thus it is essential to take stock of existing U.S. interests throughout each region and understand how they are inter-related. For example, peace and security in Angola and Mozambique, and economic policy reforms in Zimbabwe and Zambia, are all critical for the development of a Southern African economic community. Already in 1994, U.S. trade with the 11 countries of the Southern African Development Community (SADC) totaled over $7 billion, about the same level as with all of the former Soviet Union. Future political and economic progress in this region—including the capacity to attract foreign investment—will depend not only on domestic developments in South Africa, but on the success of regional institutions in dealing with complex and potentially divisive cross-border issues.

In West Africa, although U.S. interests in Nigeria are clearly preminent, a resolution of the wars in Liberia and Sierra Leone will have a direct bearing on the prospects for prosperity or suffering throughout the region. Any policy toward Nigeria focussed on internal reforms must also consider Nigeria's role in the region. In turn, the course of Nigeria's internal struggle for democracy has enormous implications for the legitimacy of its actions in the region. And the results of Ghana's continuing commitment to western economic policy prescriptions are likely to influence the choice of economic policies pursued by its neighbors.

In Central and East Africa, the enormous number of refugees and the continuing conflicts in Rwanda, Burundi and Sudan are straining intra-African relations, and draining local and international resources. Other countries in the region cannot possibly isolate themselves from their effects. In North Africa, the US approach to the confrontation in Algeria must be shaped with an awareness of the parallel but distinct issues of governance in other North African states.

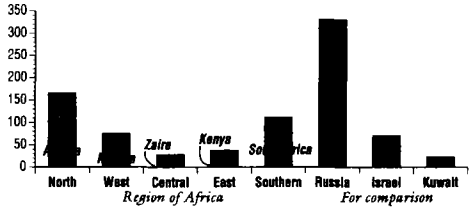
By considering South Africa, Nigeria, Algeria and Kenya within their regional contexts rather than simply in bilateral terms, one can better promote stronger regional economies that will begin to benefit the poorest among them as well as their larger partners. The same pertains to Central Africa, though the prospects for an emerging regional market there depends disproportionately upon a new start in Zaire.

Despite the unevenness of efforts and the mixed results to date, African states have consistently endorsed the goals of regional development and economic integration as crucial to their overall development efforts. Implementing such programs in practice requires confronting many complex negotiations and potential conflicts of national, bureaucratic or commercial interests. But supporting regional economic integration, as is coming to be widely recognized, is in the U.S. interest, since it should help develop larger markets that can better attract U.S. direct investments and exports. The U.S. should develop strategies to promote such integration, while remaining sensitive to the dangers of unsustainable imbalances among countries within a region.

The interplay between bilateral relations with focus countries and wider regional concerns will be different, depending on the region and on the is-

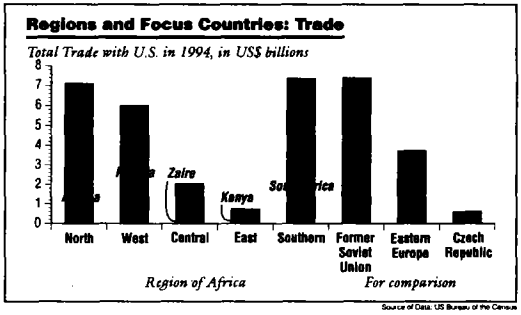
Regions and Focus Countries: Economy

Gross Domestic Product in 1994, in US$ billions



Source of Data: World Bank

sues at stake. But the framework outlined here gives the option of sharpening the focus without writing off non-focus countries. A regional approach would permit the U.S. to remain engaged with the whole of the African continent, while increasing its capacity to promote the objectives it shares with most of its African partners. The alternative of 'selective engagement' only with 'pivotal states' or 'success stories,' in contrast, would tend to ignore the deeper interdependence which exists across the continent.



Priority Issues: Security, Democracy and Development

The criteria above serve to set priorities for *where* in Africa the U.S. should be most involved. Determining which substantive goals should constitute priorities for U.S. policy attention is in many ways easier, despite the complexity of determining how best to achieve those goals. The post-Cold War period has, thus far, been marked by a striking unanimity between African states and the U.S. on priority objectives and even on many of the methods to pursue such objectives. For more than six years now, the African priorities of security, democratization and economic development have been embraced by American policymakers. Indeed, the Administration's vision for U.S. foreign policy, focused on the expansion of democracy and the growth of market economies, could have been inspired by the changes taking place in Africa.

Given this vision, it's surprising that there isn't more focus on Africa, the region of the world with the most emerging democracies and the greatest number of countries undertaking economic reforms. This discrepancy is very telling about American indifference to Africa. It suggests that there is a problem in the political culture of this country which allows policymakers to calculate U.S. interests elsewhere in the world using one set of criteria, while neglecting interests in Africa that meet the same criteria.

Africans are pursuing strategies to establish institutions and processes through which they can collectively promote conflict resolution and prevention, and generally promote stability. In most countries, some form of democratization is underway, albeit haltingly in some cases. The recent disappointing lull in the pace of democratization only underscores the need for more timely and significant support. Democratization offers the only hope of creating and sustaining internal and then regional security and stability, and of legitimizing the process of economic reform which is critical to these countries' long-term development. Despite an adverse global environment, African countries are continuing to pursue major restructuring of their economies. But they are also recognizing the need to increase investments in human resource development, and for greater public participation in development efforts as well as development policy deliberations.

While the U.S. cannot and should not be involved to the same extent everywhere, it must be concerned with the overall progress of all three goals throughout the African continent and take timely action to encourage the most promising African initiatives. Advance towards one goal does not automatically result in progress on the others. In general, however, they are mutually reinforcing, and successes on one front help to improve the chances for advancing on the others.

There is also a need, however, to set priorities among the three broad goals of security, democracy and development. Without security neither of the other two policy priorities can be realized. Security, especially the end to current armed conflicts, must therefore be the first preoccupation of U.S. policy toward each of the five regions. To prevent a return to war where agreements have been reached and to prevent religious, ethnic, or political intolerance from leading to war, democratic institutions will need continuing support in democratizing states.

The details of policy on each of these issues are beyond the scope of this paper. But, for each one, a regional perspective is indispensable to making choices that can have the most effect not only in one country but on advancing these goals for the continent as a whole.

Security

The regional dimension of security issues is vividly demonstrated in human terms by the flow of refugees across

Africa Policy Information Center
110 Maryland Avenue, NE, #509
Washington, DC 20002

the U.S. and multilateral agencies in which the U.S. has a prominent voice.

Shrinking resources clearly imply a need to focus. But the concerns should go beyond choosing which country programs should be maintained and which shut down. A regional perspective, including the five focus countries, should also highlight investment in programs that develop the African human resources needed to solve Africa's own problems, and that help create larger regional markets better able to sustain economic growth and attract U.S. investment and trade. Promoting human resource development through greater investments in health and education, as well as increasing support for participatory development programs at the community level, should be priorities within each country program.

A strategic approach to African development, however, requires explicit discussion of the combined impact not only of aid but also of trade, debt and different variants of structural adjustment policies. And it requires consideration of the regional impact of developments within any one country. The U.S. can most usefully shape its own policies on these complex topics only if it is willing to engage actively in dialogue on these issues within African and multilateral contexts, including but not limited to the clubs of Western donors that coordinate policy towards particular African countries. Once a clearer understanding is gained of how best to promote regional economic development and infrastructure, the U.S. must also be prepared to increase its level of assistance.

Conclusion

With the decline of the strategic significance of Africa in Cold War terms, and the relatively small U.S. economic ties with Africa, too many observers are prepared to state—quite emphatically—that the U.S. has no significant interests in Africa, and that this is unlikely to change in the near future. Such thinking disregards moral imperatives for involvement in Africa that are often just as compelling as economic or national security arguments. In doing so, it ignores the ancestral ties of some 25 million African Americans who have significant and growing investments—political, social, cultural, emotional, psychological and economic—in Africa's future.

It also reflects the absence of a strategic vision to replace the Cold War scenario. There is a failure to see Africa as a whole, a continent with existing economic ties to the U.S. already greater than those with the former Soviet Union. It is true that much of Africa is now handicapped by conflict, poverty or repressive governments. Each of Africa's major regions, however, with populations ranging from 80 million to almost 200 million (see chart), has the potential for significantly increasing mutually profitable ties with the United States, in the economic arena as well as in cultural and political ties.

A new policy perspective must build a new vision for involvement. There are multiple constituencies for Africa in the U.S., concerned about a variety of countries and issues, that together can offer significant support for U.S. engagement in Africa. This regional framework is offered as one component of such a vision, which can hopefully enhance our collective effectiveness in promoting positive change in Africa and U.S.-African relations.

— *Salih Booker*

Salih Booker is the Fellow for Africa at the Council on Foreign Relations, and Senior Advisor to the Vice President for Diversity in International Affairs Programs. An earlier version of this paper was presented to a meeting of the Council on Foreign Relations held in Washington, D.C. (June 16, 1995) to discuss criteria for setting priorities in U.S. policy toward Africa.

Endnotes:

1. While Egypt is obviously considered the top priority in North Africa by U.S. policymakers — and receives more in US assistance than all the rest of Africa combined — it is primarily viewed as a key actor in the strategic Middle East. By choosing Algeria as a focus country, policymakers would need to reorient their thinking and develop policies more sensitive to the African context rather than only a Middle Eastern one.
2. These are in addition to focus countries Zaire and Kenya, where the criterion of US historical obligations also applies.
3. See Robert Chase, Emily Hill and Paul Kennedy, "Pivotal States and U.S. Strategy," *Foreign Affairs* (January/February 1996), 33-51. The authors also include Egypt and Algeria among African countries on their list of pivotal states around the world.
4. Source: Bureau of the Census, Foreign Trade Division, 1994 data. These and additional comparisons compiled in APIC, *The U.S. and Africa's Trade: Issue Brief (Background Paper 004)*, November 1995.
5. Source: US Department of Commerce, 1994
6. Source: UNDP, *Human Development Report 1994*.

Additional copies available at $2 ea., $1.60 ea. for 20 or more. Add 15% for postage and handling. May be freely reproduced with attribution to APIC.

APIC

Produced by the
Africa Policy Information Center
110 Maryland Ave. NE #509
Phone: (202) 546-7961
Fax: (202) 546-1545
E-mail: apic@igc.apc.org

This series of background papers is part of a program of public education funded by the Carnegie Corporation of New York, The Ford Foundation, and The John D. and Catherine T. MacArthur Foundation.

borders, so that the destructive effects of an internal conflict almost always extend far beyond the borders of one country. In the most dramatic case, even without the humanitarian demand for international involvement in the aftermath of genocide in Rwanda, and the threat of new escalation of violence in Burundi and Rwanda, it should be impossible to ignore the impact of these crises on neighboring countries in both Central and East Africa, including the two focus countries of Zaire and Kenya. Renewal of violence in Angola would threaten stability and the prospects for economic advance in both Southern and Central Africa. The precarious peace settlement in Liberia is of wider concern not only because of US historical responsibilities there, but because of the destabilizing effect of refugees on other West African states, the expansion of illegal arms trading, and the example of continued reliance on violence unchecked by civilian control.

Increasingly, political and economic refugees are finding their way to South Africa, not only from its immediate neighbors but from other regions of Africa. The issue of illegal immigration is becoming the subject of heated debate within South Africa. South Africa's own chances of success as a new democracy and a new emerging market cannot be separated from the prospects of other African countries.

The U.S. cannot avoid responsibility for involvement in conflict resolution efforts where the U.S. has a regional concentration of interests and where the focus country in the region is affected or directly involved in the conflict. The precise mix of bilateral and multilateral engagement that involvement should take is debatable. But it is shortsighted to opt out of sustained efforts, while waiting for disaster to become so overwhelming that costly emergency relief is the only option.

There can be no guarantee of success in resolving intractable conflicts. As it deals with current crises, the U.S. should be concerned first of all with building stronger African multilateral institutions to assist in the future. It must also maintain support for UN peacekeeping efforts, striving to improve their effectiveness. Finally, the U.S. should promote reductions in the arms trade that helps to devastate Africa and rethink our own security assistance programs in Africa, no matter how small.

Democracy

In many cases the threats to regional security and stability come in the form of repressive regimes which refuse to accept greater democracy within their political systems. The struggle for democracy and human rights in the focus countries is of particularly critical importance for other countries, both by the demonstration effect and, at times, by direct positive or negative involvement.

That is one reason why, as is generally recognized, the success of democratization in South Africa should be a fundamental ongoing goal of US foreign policy. But the state of democracy and human rights in the other four focus countries should also be high on the agenda. Among the four, Algeria, Zaire, and Nigeria are currently in the throes of enormous internal political struggles, all involving significant human rights abuses. In each case, the attainment of a democratic system of governance would positively influence the other countries of the region and help lay the groundwork for accelerated regional economic integration. In Kenya, the democracy movement has suffered severe setbacks owing both to its own disunity and the government's continuing political repression. Nevertheless, democratization is crucial to Kenya's future and the future of the East Africa region.

In each region, it will be necessary also to identify where the U.S. can best make a critical contribution to helping the smaller countries consolidate the democratic changes most of them have embarked upon. The variations of what would be appropriate in the many different cases are too numerous to detail here. Suffice it to say that with limited resources we will need to be creative, and better at coordinating with other donors, host governments and non-governmental organizations.

Focus Countries within Regions

	Status within Region					
	Population		GDP		Trade with US	
Country	*Percent*	*Rank*	*Percent*	*Rank*	*Percent*	*Rank*
Algeria	**21.9%**	**2**	**40.3%**	**1**	**38.2%**	**2**
Nigeria	53.2%	1	50.9%	1	82.2%	1
Zaire	**50.7%**	**1**	**22.1%**	**2**	**10.8%**	**3**
Kenya	17.3%	3	25.2%	2	36.0%	1
South Africa	**31.4%**	**1**	**76.2%**	**1**	**57.0%**	**1**

Development

There are many substantive issues concerning U.S. development policy, involving the size and the focus of the development assistance budget, the impact of policies on trade and debt, and the substance of the macroeconomic advice offered to African countries by

Chairman CRANE. Thank you, Mr. Tilton.

Mr. McDermott.

Mr. MCDERMOTT. Mr. Chairman, I want to thank all the people who have come today and testified. I think your input is important and will be useful as we work through the various issues you have raised.

I guess the question I would ask of Mr. Bucknam and Mr. Nedelcovych is, why do you think the Ex-Im Bank has had the policies and implemented the policies in the way they have in the past? I mean, what is it? Is it structural or is it simply a mindset that has created—or is it legislation that created the Bank that makes it impossible for them not to be further involved in Africa?

Mr. BUCKNAM. If I could respond, Mr. McDermott, I think—and I am not here to criticize Ex-Im Bank because it is an excellent organization and we rely on it heavily. But——

Mr. MCDERMOTT. I am from Seattle, where we sell airplanes, so I know a lot about the Ex-Im Bank. [Laughter.]

Mr. BUCKNAM. What you have is the end results of a situation which flows from this credit rating system, that enables them to go off cover and to hide behind a credit rating system that they are not allowed to disclose the basis for going off cover because that is confidential. But once they go off cover, they do not bother to tell anybody, including the subject country, what has to be done to go on cover.

There was a time, a little over 3 years ago, when there was actually an African Division at Ex-Im Bank, but recently they merged Africa with Europe. Now, some Africans took umbrage at that because it was like putting them back under their colonial masters. So, there is no constituency at Ex-Im Bank. There are two people, one person in business development and one person in Europe-Africa who handle Africa for Ex-Im Bank, and that is simply not enough.

Mr. MCDERMOTT. Why was that decision made to merge Africa and Europe?

Mr. BUCKNAM. Well, it is because they are off cover in 37 out of 48 of the countries, so they had to use their limited resources elsewhere.

Mr. MCDERMOTT. OK.

Mr. BUCKNAM. But if my point is adopted and somebody takes an interest at the director level to sit down with government officials and tell them A, B, C, what has to happen, then it is no longer going to be 37; it is going to go down to 30, it is going to go down to 20, and they are going to be opening in a lot of other countries and they are going to have to re-create an African Division at Ex-Im Bank.

Mr. MCDERMOTT. What you're saying is that you think if the countries knew what they had to do, they might be able to do those things——

Mr. BUCKNAM. I know in the case of Cote d'Ivoire they have asked repeatedly and they do not get any straight answer from anybody.

Mr. NEDELCOVYCH. Congressman, if I may add to that aspect, just to sort of follow what my colleague said there, the issue really does flow out of—and we use Ex-Im quite a bit ourselves—out of

this rating system. So that if one has an equation, a process, in which a number of parties rate the country—and we will leave out how it happens—then you can simply say we cannot operate there because it is an F-rated country.

The real issue is their intent. In other words, as my colleague said, if inside the Ex-Im Bank there was the interest and the willingness, then we could go forward. The edict would come and say it is OK. Ex-Im only provides cover in 13 countries out of the 51 or 52 that we operate at and it is not clear why. In fact—and this is in my statement—of the seven top growing GNP countries, only two of them—in fact, only one of them, since Kenya is sort of half-on and half-off—are provided Ex-Im cover.

Now, what is the rationale why we do not? That is the issue. We have identified the problem, and if we identify this as the problem, let's go forward and resolve it. There is an answer there, if we want to focus on it.

Mr. McDERMOTT. Mr. Lande, do you have a comment?

Mr. LANDE. Not on Ex-Im Bank.

Mr. McDERMOTT. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. No questions, Mr. Chairman.

Chairman CRANE. Mr. Payne.

Mr. PAYNE OF NEW JERSEY. Thank you.

Let me just ask this question. As you know, there are regional organizations in Africa, and the President's trade and development policy report on sub-Saharan Africa describes the history and experiences with these regional organizations. But we have not done anything to offer any kind of new initiatives in that regard.

I just wonder if any of you are familiar with the various regional organizations in sub-Saharan Africa and what progress are they making, or what kind of assistance do you think they could use from the United States or other international organizations, if anyone could try to answer that.

Mr. FOOTE. If I could just sort of comment, my view is—my organization has a number of relationships with a number of African regional organizations. We find oftentimes that they have never been contacted before. In other words, it seems to me that a lot of these institutions in Africa are overlooked. So, there is a need to learn about them, to find out where they are coming from.

Oftentimes they fall into the area of resources, technology, communications, training. The question of language barrier is oftentimes an issue. I think on the one hand, for the American business community, we need to really make a lot of these proposals coming from Africa, to put it in English so that our people can even understand it.

I would say it just falls into the whole category of just general support.

Mr. NEDELCOVYCH. Congressman, as you know, I lived in the halls of such an institution for a number of years, at the African Development Bank, perhaps in a better day. Since then, it went through a rough period. I believe that it is definitely mending itself and coming back out.

For me, there's a very simple answer. In the end, it is the regional organizations that are going to have to pull a lot of this weight. When you get right down to it, those entities—not to say that they all function well; not to say there are not many things that can be repaired within each of them to make them better. But the point is that they are the entities on the ground. They are, if you will, the organizations of the constituency or the entities you're trying to reach.

So for the African Development Bank, my personal view is, particularly with the present leadership there, the new president, that the effort and intent of developing and growing the private sector program will prove very useful. The ability to deal directly with private African businesses through the bank's private sector window, not strictly the traditional government-to-government kind of lending, a sort of IFC-like entity that we have at the World Bank—I think is a great step forward, and I would strongly encourage it.

The trade associations. You know, it is a mixed bag from my perspective. But I think particularly the COMESA, the East and Southern African trade grouping, is doing a superb job. It is creating what has been missing in Africa, a market of size that makes it credible, for particularly larger companies, to go have a look, as opposed to concentrating on Asia. COMESA I would very much single out as being successful.

So, in brief, to me, I think we have to give them support because that is where the answers will come. I think certainly our position within the multilaterals, particularly the African Development Bank, ought to be such that we do support it because we do get good value out of it, both ourselves as companies here operating in Africa, as well as my belief that it is through those organizations that you will get that kind of development.

Mr. BUCKNAM. I think, Mr. Payne, that the hope for Africa lies in the development of the private sector, and to that end, notwithstanding all these regional kinds of organizations, it is the Corporate Council on Africa, the type of organization of which my company is a member, that will really spur the type of development that is needed for Africa's future.

Mr. LANDE. I would respond, again focusing on the trade area, which I know more about. I will focus on subregional organizations. Africa is a continent of diversions. Sub-Saharan Africa has 48 countries whereas South America has only 12 countries. So, the idea of assuming that all problems can be solved on a regional basis does not really fit the bill.

The specific response to your question is, when it comes to the subregional organizations, the United States can do five things:.

First, we should decide that we support integration in Africa. As in South America, integration begins with subregional agreements, and we should make sure that the WTO's provisions are not that strong and doesn't help them. We should provide technical assistance if they require it, in terms of working out things like origin rules.

Third, we should instruct or request USAID to help countries get over their particular shortfalls that they are benefitting. Fourth, we should work together with the gentlemen in the private sector and emphasize the fact that they look at Africa as a region. And

there is one particular interest, that we should really urge South Africa to be in the lead in opening its markets to these countries, because that is the most important thing they can do. Finally, as I stated earlier, we should view sub-Saharan Africa as an entity. Any special measures opening markets to African trade should extend throughout sub-Saharan Africa without distinction.

Mr. PAYNE OF NEW JERSEY. Just real quickly, with the democratization that has taken place in Africa—for example, I think we are at a unique situation in Southern Africa. You've got Malawi with a president for now 28 years; Kenya, a 28 year president, lost election; Namibia, Ninjomo is in, and Mozambique has a new government. In the southern rim, for the first time there is no civil strife, which is a golden opportunity.

Do you think that, with the democratization, and with multiparty elections that are happening, with the support from NED and AID and so forth, and seeing that these things work, do you think the opportunity right now in that area where there are no civil conflicts would be an ideal place where you would feel the infrastructure and some of those problems still present an overwhelming obstacle?

Mr. LANDE. I would say that, in terms of sub-regional integration, you should make the SADC countries the force of U.S. attention. Since, Tanzania has historical links with Kenya and Uganda, as part of East Africa, SAPC should be encouraged to expand to encompass these countries as well.

Let me just make a quick comment on bananas we face. When deciding our trade policy priorities we have a very democratic system. Thus, anyone who has a complaint concerning a foreign trade practice has access under section 301 antidumping.

I agree that somewhere we have to translate other policies into our policy. Our major interest should not be in narrowly defining whether or not SADC meets the requirements of article XXIV of the WTO. It should be whether we should take advantage of the current impetus toward regional integration. Congressman Payne, described it 100 percent correctly. Where we happen to have a group of countries that does not have civil strife, or are struggling to regain economic stability, as Mozambique and Angola are, we should have a higher priority then the strict definitions of trade rules.

So, the challenge is—and I am sorry Congressman McDermott had to step out for a moment, since he was right on the mark to somehow convince USTR, which runs our trade policy, together with the National Economic Council, to give a priority to the development of Africa. Bananas which we do not produce should not be a trade policy priority. It is a challenge you I do not know how to overlay foreign policy consideration because the results of an open democratic petitioning system.

Mr. TILTON. Representative Payne, I think this helps to illustrate a case in point that we have been trying to make in our testimony, because earlier today as well there was a reference made to the peace and stability in parts of Africa almost as if it was serendipitous, had fallen from the sky.

In fact, we would argue that these things must happen together. Aid, trade and investment all go hand in hand. Part of what has

laid the groundwork for those greater strides in democracy and in human rights has been, first and foremost, the efforts by people within those countries. But, in addition, supporting that, the role of United States and other donor nations in helping to underwrite and support those efforts toward peace, toward human rights, toward democracy. I think those are very important to be continued in other parts of the continent, as well as building up our regional ties and greater communication with regional blocks.

Mr. PAYNE OF NEW JERSEY. Since my time is up, and I am only a visitor here, let me just say that I would be very opposed to a new initiative in trade, as you have just indicated, eroding the diminishing amount of aid which is going to, in essence trade cannot be substituted for aid. It will not work. The Congressional Black Caucus opposes it. We are for trade, African countries want trade. They say we do not want aid, we need trade.

But you cannot move into trade when you do not have a road to run down or you do not have a government to govern, or you do not have integrity in the banking system. You have to continue to have democratization, NED-type programs, USAID, infrastructure programs, clean water programs, programs of nutrition, immunization programs. That makes the stability that will make trade work. Absent that, to dilute that already diminished amount is wrong and it will be a policy that is ill-fated.

Thank you, Mr. Chairman.

Chairman CRANE. I want to thank all of you again for your time and patience and contributions. We look forward to ongoing input from you.

With that, the Subcommittee stands adjourned.

[Whereupon, at 3:40 p.m., the Subcommittee was adjourned.]

[Submissions for the record follow:]

TESTIMONY OF
THE HONORABLE LAURI J. FITZ-PEGADO
ASSISTANT SECRETARY AND DIRECTOR GENERAL
U.S. COMMERCIAL SERVICE
U.S. DEPARTMENT OF COMMERCE

Before the Trade Subcommittee
Ways and Means Committee
U.S. House of Representatives
August 1, 1996

Mr. Chairman, thank you for extending to me the opportunity to testify on behalf of the Department of Commerce on the economic situation in Africa and the measures the U.S. Government is taking to build a lasting economic and commercial partnership between Africa and the United States. As my colleagues have explained, we believe it is essential to encourage economic growth in Africa, and strengthening our commercial cooperation is a vital step in achieving that objective.

For too long, Americans have associated Africa with a continuous cycle of crisis and suffering. We have grown accustomed to the themes of famine, disease, war, political instability, and economic stagnation. Although none of these problems is unique to Africa, all have become associated with the region to an inordinate degree. But as the Twentieth Century draws to a close, Africa is undergoing unprecedented political and economic change. The transformation sweeping across the African continent is opening the region to commercial opportunity as never before.

As Africa evolves politically and economically, it is becoming increasingly attractive to foreign business enterprises. Although Africa's commercial potential is largely untapped by the American business community, the U.S. Government has undertaken several new initiatives to assist firms in participating in the region's awakening markets. These initiatives respond to the growing attention to Africa by the U.S. business community, as well as the desire of Africans for greater American involvement in their efforts to improve governance and increase prosperity based on free enterprise.

The African experience to date has demonstrated that democracy and market-based economies go hand-in-hand and are mutually reinforcing, because both depend on the concepts of predictability, accountability, and the rule of law. As the political and economic reform process proceeds, more and more African countries are making the difficult policy choices to build a foundation for political and economic freedom in the future, a future in which American business can play a pivotal role.

Africa in World Trade

As African countries continue to implement reforms, they are gradually becoming more significant players in the global trading system. In 1994, the countries of Sub-Saharan Africa represented a total import market of $71 billion, while their combined exports totaled nearly $65 billion. The United States provided just over 6 percent of Africa's total imports, placing us in fifth place as a supplier behind France, Japan, Germany, and the United Kingdom. That represents a decline from

a market share of more than 7 percent and a second place supplier position in 1993, due to a large drop in U.S. exports to Nigeria, our second leading market in Africa. Our Nigeria shipments declined by 43 percent, reflecting uncertainty in that country's political and economic climate, a shortage of foreign exchange, and the deterrent effect of widespread business scams.

Market share data for 1995 are not yet available, but we anticipate a strong rebound for U.S. suppliers from 1994. U.S. merchandise exports to the Sub-Saharan region expanded nearly 23 percent, propelled by surging shipments to South Africa and a rebound in sales to Nigeria from their low point in 1994. Nigeria's economy remains deeply troubled and our sales are well below the levels of the early 1990's. However, led by wheat, drilling equipment, and plastic materials used in pipelines, shipments have recovered enough to boost overall U.S. exports to Sub-Saharan Africa.

In comparison, U.S. merchandise exports worldwide grew by less than 14 percent in 1995. Based on partial-year data from the IMF, U.S. exporters may have fully recovered the market share they lost in Africa in 1994.

U.S. exports to Africa set a new high in 1995, reversing a two-year decline. Sales to Sub-Saharan Africa were 54 percent greater than our exports to the Newly Independent States of the former Soviet Union. U.S. exports to South Africa alone were roughly equal to our sales to Russia, and greater than those to all the countries of Eastern Europe combined. Robust growth has continued into 1996, with U.S. shipments to Sub-Saharan Africa in the first quarter a third greater than during the same period a year ago. Among the leading export categories are: wheat; oil and gas field equipment; construction machinery and parts; computers, peripherals, and software; aircraft and parts; telecommunications equipment; farm machinery; and mining equipment. U.S. exporters are making a significant contribution to African infrastructure.

U.S. investment in Africa has also outperformed U.S. investment worldwide. At year-end 1994, the U.S. direct investment position in Sub-Saharan Africa was $3.7 billion, with South Africa accounting for 28 percent of the total, Angola 14 percent, and Nigeria 11 percent. U.S. direct investment in Sub-Saharan Africa by non-bank affiliates of U.S. enterprises generated a 30 percent return on book value, compared with 11 percent worldwide, 14 percent in Latin America, and 12 percent in Asia and the Pacific region. During the period 1990-94, the average annual return on book value of U.S. direct investment in Africa was the world's highest at nearly 28 percent, compared with 8.5 percent worldwide.

U.S. investment in Africa boosts U.S. exports and helps to fuel American industry. $400 million of U.S. merchandise exports in 1994 were shipped to U.S. majority-owned non-bank affiliates in Africa, including those in North Africa. The United States imported over $3 billion from these affiliates, mostly crude oil.

Initiatives to Support U.S. Business

Despite recent growth in U.S. trade and investment, Africa remains the last frontier for U.S. exporters and overseas investors. Much of the U.S. business community has long regarded Africa as a preserve of the former European colonial powers. The late Secretary of Commerce Ron Brown challenged that self-fulfilling prophesy, insisting that the United States would no longer cede Africa's markets to our trade competitors. Secretary Brown declared the United States ready to compete for a much bigger share of Africa's markets for the mutual benefit of Africans and Americans alike, and he committed the Department of Commerce to a set of initiatives designed to broaden and deepen U.S. commercial involvement in Africa.

Much of our initial focus was on South Africa, whose economy dominates the continent and whose excellent infrastructure is a key to development throughout Southern Africa. South Africa accounts for half of Africa's total production and claims more than half of U.S. exports to the Sub-Saharan region.

South Africa's success in building a free enterprise democracy is of paramount importance to all of Africa, because many American firms view South Africa as the region's growth engine, low-cost supplier, and as their base of operations for all of Africa. These considerations led the late Secretary Brown to designate South Africa as one of the world's ten *Big Emerging Markets,* where potential for U.S. export growth is particularly strong. The Commerce Department program in South Africa includes an intensive trade promotion program, as well as special initiatives to influence development of South Africa's commercial policy and open its market opportunities. Among the initiatives is the private sector Business Development Committee (BDC), which serves as an advisory body to the government-to-government Binational Commission (BNC), co-chaired by Vice President Gore and Deputy President Mbeki. These organizations work to remove business impediments and ensure close bilateral cooperation to support private enterprise. The BNC and BDC held their combined semi-annual meeting with their South African counterparts in Washington July 22-23, and made excellent progress in strengthening the bilateral commercial partnership. South Africa announced a resolution of the long-standing tariff dispute affecting exports of U.S. washing machines, and our two governments advanced the negotiation process toward a bilateral tax treaty. The United States agreed to provide technical assistance to South Africa in formulating a trade protocol with its neighbors. The U.S. Overseas Private Investment Corporation (OPIC) announced plans to establish a new equity fund for investments in Southern Africa, and also invited South African investors to joint venture with American partners in third countries.

With attention to South Africa's position as the potential driver for the entire Southern Africa region, Secretary Brown appointed a Commercial Minister Counselor in Johannesburg, with responsibility to coordinate a program of business promotion and support throughout the twelve-nation Southern Africa Development Community (SADC). The regional Minister Counselor travels throughout the region to promote and assist U.S. business interests, and to advocate on behalf of U.S. firms competing for the region's major procurement projects.

The strong commercial relationship between the United States and South Africa has paid big dividends for both sides. U.S. exports to South Africa have grown more than 25 percent in two years, and shipments in the first quarter of 1996 were nearly 30 percent above the same period of 1995. Investments have surged as well. More than 250 U.S. firms have established affiliates in South Africa, according to the Investor Responsibility Research Center, and these enterprises employ more than 74,000 South Africans. The United States and South Africa are cooperating in the fields of commercial law and tourism development, and have made progress in resolving issues in intellectual property rights (IPR) protection and civil aviation services, which threatened to hamper further commercial expansion. Progress on IPR issues has enabled the United States to provisionally remove South Africa from its *Special 301 Watch List*, although South Africa must fulfill commitments and make further progress in the area of trademark protection, which will be the focus of a Special 301 "out-of-cycle" review in September. A civil aviation agreement was signed during the Binational Commission meeting.

The United States and Japan have also launched a joint initiative on South Africa. Commerce Secretary Kantor and Japan's Minister of Trade and Industry Tsukahara signed an accord last April to cooperate in promoting the competitiveness of South African industries and improving the South African business environment. The two countries agreed to establish a joint working group on South Africa to engage in information exchange, and to cooperate in small and medium enterprise development among South Africa's black majority population.

As the South Africa Initiative continues, the United States is engaged in the rest of Africa as well. In addition to Johannesburg, two other Commercial Service Offices in Africa--Abidjan and Nairobi--have taken on regional outreach responsibilities in cooperation with their State Department colleagues in neighboring diplomatic posts. The regionalization of the Commercial Service enables the Department of Commerce and the Department of State to maximize their scarce resources by combining their efforts in trade promotion, business facilitation, and direct support for American companies.

With Africa's own financial resources severely constrained, the operations of the multilateral development banks take on added importance. The Commercial Service has assigned staff to each of the banks, including the World Bank and the African Development Bank, to help U.S. exporters participate in the banks' project procurements and to help resolve procurement problems. Preliminary indications are that U.S. exports arising from African Development Bank operations totaled more than $100 million in 1995, a significant increase over previous years.

The Departments of Commerce and State also continue their business outreach through the annual *Conference on U.S. Trade and Investment in Africa*. The conference is co-sponsored each year in a different U.S. city, in cooperation with the Corporate Council on Africa and selected local organizations. As the government's largest outreach program on Africa to the U.S. business community, the conference involves member agencies of the Trade Promotion Coordination Committee (TPCC), an organization of 19 U.S. agencies chaired by the Secretary of Commerce and designed to coordinate our overseas business promotional programs, plus local trade

organizations and the private sector. The 1996 conference in Houston attracted an audience of nearly 250.

As you know, in compliance with the 1994 Uruguay Round Agreements Implementing Act, the White House last February transmitted to Congress the first of five annual reports on a new *Comprehensive Trade and Development Policy toward the Countries of Africa.* The Clinton Administration is the first to develop such a policy toward a region long overlooked in U.S. foreign economic and commercial policy. The report stressed that the U.S. relationship with Africa has entered a new phase, based on *trade* rather than *aid.* The Administration has committed the United States to helping Africa in various ways to build a future based on democracy and free markets:

- to participate in bilateral and multilateral efforts to support those African countries that pursue meaningful economic and regulatory reform;
- to support efforts to improve essential government and non-governmental institutions and physical infrastructure;
- to help create a more growth-oriented African business climate that will generate trade opportunities and attract both domestic and foreign investment.

The private sector will have the lead role in helping Africa to alleviate poverty and build prosperity, and the U.S. Government will work with African governments to identify and remove impediments to the functioning of free markets. We are looking to the Africans themselves to empower their own private sectors to partner with U.S. enterprises.

Commercial Development Mission to Africa

Shortly after the White House report was transmitted to Congress, the late Secretary Brown led an historic *Commercial Development Mission to Africa,* which demonstrated clearly just what the report envisioned. The mission visited five countries: Cote d'Ivoire, Ghana, Kenya, Uganda, and Botswana. In each country major initiatives were undertaken with African governments and private sector representatives to begin a lasting process of economic and commercial expansion based on close cooperation with American companies.

During the mission Secretary Brown held discussions with government leaders and private representatives from nearly 40 African countries and more than 150 U.S. firms. He announced contracts and agreements for American companies totaling nearly $500 million, and he advocated on behalf of U.S. firms competing for projects that eventually could total more than $3 billion of U.S. exports. The Secretary challenged African leaders to recommit their countries to democracy, free enterprise, transparency, and lowering of commercial barriers.

He signed a Memorandum of Understanding between the Department of Commerce and SADC aimed at increasing trade and investment ties between the United States and that important twelve-country regional organization. The agreement outlines a framework for cooperation

between the Commerce Department and SADC with respect to commercial development in Southern Africa. The SADC agreement complements the Initiative for Southern Africa implemented by the U.S. Agency for International Development (USAID), designed to help SADC increase regional trade and economic integration. Secretary Brown also opened a new Commercial Service office in the U.S. Embassy in Accra, Ghana, acknowledging the growing interest of U.S. business in Ghana as that country aggressively implements economic reforms.

After his mission to Africa, Secretary Brown moved to further consolidate the U.S. commercial partnership with the region by establishing a permanent Africa Working Group within the Trade Promotion Coordination Committee. Much as the Africa Trade and Development Coordinating Group works to coordinate trade and development policies in Africa among U.S. agencies, the TPCC Africa Working Group serves to institutionalize interagency coordination of U.S. Government programs to support a stronger commercial relationship with Africa, and to ensure that the programs continue well into the future. The Working Group convenes periodically to implement U.S. trade and investment initiatives toward Africa, to address specific problems and impediments to U.S. commercial expansion in the region, and to help coordinate U.S. Government measures to resolve them. The Working Group has discussed such key issues as project finance, IDA replenishment, and means to follow up on the Brown mission. In September, we expect to host a commercial development mission to the United States by a joint governmental-private delegation from Southern Africa.

The initiatives underway to support U.S. business in Africa have already borne fruit. American exports to the region have reached their highest level ever, and investment is keeping pace. As the Administration prepares for the second annual report to Congress on *A Comprehensive Trade and Development Policy toward the Countries of Africa*, we anticipate beginning a dialogue with African countries on a regional basis, with the objectives of promoting continued economic liberalization, regional development cooperation, and stronger commercial ties with the United States. We also look forward to close consultation with Congress toward our shared long-term objective of a more prosperous Africa in commercial partnership with the United States.

Mr. Chairman, the measures I have described which the U.S. Government has undertaken to support increased U.S. commercial involvement in Africa are important to Africans and Americans alike. We will continue our efforts to educate the U.S. business community about Africa's growing opportunities and its readiness for American business participation. However, the biggest boost to U.S. involvement in Africa's efforts to build prosperity must come from the Africans themselves. They must strive for greater openness and transparency in their business climates. We will use our dialogue with African leaders to ensure a level playing field for American firms in Africa, and we will challenge our African partners when their actions yield an unfair advantage to our competitors. Africans must also establish the political will in favor of regional development cooperation, in order to attract U.S. business to larger, better integrated, and more efficient markets. As Africa's markets become increasingly open, and African economies grow increasingly interdependent, American private sector interest will naturally grow to take advantage of the region's emerging opportunities. Thank you.

U.S. TRADE WITH SUB-SAHARAN AFRICA
U.S. EXPORTS
($ MILLIONS F.A.S.)

COUNTRY	1994	1995	JAN.-MAR. 1995	JAN.-MAR. 1996
ANGOLA	197.4	259.7	40.6	85.2
BENIN	25.9	34.0	8.7	4.5
BOTSWANA	22.7	35.8	7.1	6.9
BURKINA FASO	7.3	14.6	4.3	4.5
BURUNDI	17.7	2.9	.4	.8
CAMEROON	53.6	45.7	14.6	12.4
CENT. AFR. REPUB.	2.5	6.1	1.4	.8
CHAD	7.5	10.8	4.7	1.0
COMOROS	.1	.7	(Z)	(Z)
CONGO	38.0	54.7	11.8	12.4
COTE D'IVOIRE	111.2	173.2	35.9	32.7
DJIBOUTI	6.7	8.5	1.7	4.0
EQUAT. GUINEA	1.9	5.3	1.4	4.9
ERITREA	8.4	16.7	9.3	3.6
ETHIOPIA	143.1	148.0	33.7	28.1
GABON	40.2	54.3	13.8	16.4
GAMBIA	3.9	6.2	1.4	2.3
GHANA	124.5	167.2	31.0	60.1
GUINEA	49.8	66.6	14.6	30.2
WEST. AFRICA, NEC*	18.6	10.3	2.3	60.5
KENYA	169.5	114.0	32.8	26.2
LESOTHO	3.4	2.0	.2	.1
LIBERIA	46.4	41.7	9.3	19.1
MADAGASCAR	47.9	10.0	2.6	3.6
MALAWI	18.7	17.8	7.6	2.6
MALI	19.0	23.2	4.5	4.9
MAURITANIA	14.0	43.1	16.1	2.0
MAURITIUS	23.8	24.5	4.2	5.8
MOZAMBIQUE	39.4	49.3	9.4	11.2
NAMIBIA	16.3	26.5	9.9	5.4
NIGER	12.0	39.5	2.4	5.7
NIGERIA	509.2	602.2	141.0	187.6
RWANDA	34.8	38.5	2.2	6.6
SENEGAL	42.5	67.9	12.8	16.2
SEYCHELLES	6.1	7.1	.9	1.3
SIERRA LEONE	24.2	18.0	.9	1.3
SOMALIA	29.9	8.1	5.1	5.7
SOUTH AFRICA	2,172.7	2,750.8	612.8	791.5
SUDAN	54.5	43.3	10.5	9.2
SWAZILAND	5.4	3.2	.3	.3
TANZANIA	48.9	66.3	6.8	10.7
TOGO	12.5	18.4	3.0	4.5
UGANDA	27.7	22.1	3.8	5.2
ZAIRE	39.5	77.1	13.7	30.9
ZAMBIA	32.6	49.0	7.2	13.3
ZIMBABWE	92.8	122.0	17.7	25.6
TOTAL	4,424.5	5,406.8	1,180.7	1,568.1

(Z) = LESS THAN $50,000
* INCLUDES GUINEA BISSAU, CAPE VERDE ISLANDS, AND SAO TOME & PRINCIPE

U.S. IMPORTS
($ MILLIONS CUSTOMS VALUE)

COUNTRY	1994	1995	JAN.-MAR. 1995	JAN.-MAR. 1996
ANGOLA	2,061.3	2,236.3	488.7	477.6
BENIN	10.1	10.0	.5	3.7
BOTSWANA	13.7	21.2	3.7	7.1
BURKINA FASO	.4	.4	.2	(Z)
BURUNDI	7.7	20.6	2.3	.5
CAMEROON	55.2	47.7	12.3	15.7
CENT. AFR. REPUB.	.2	.4	.2	.1
CHAD	1.8	3.2	.2	1.1
COMOROS	6.0	2.2	.4	4.6
CONGO	403.0	207.0	42.2	66.5
COTE D'IVOIRE	185.4	214.1	64.9	201.9
DJIBOUTI	.1	(Z)	(Z)	(Z)
EQUAT. GUINEA	.3	31.0	7.6	9.9
ERITREA	.1	.4	.2	1.2
ETHIOPIA	34.1	32.8	2.4	8.2
GABON	1,154.6	1,449.4	310.5	319.3
GAMBIA	2.4	2.3	1.1	.5
GHANA	198.5	196.1	52.2	45.5
GUINEA	92.1	99.0	23.8	27.8
WEST. AFRICA, NEC*	.2	.4	.3	.3
KENYA	108.7	101.5	30.3	26.0
LESOTHO	63.0	62.1	14.2	18.9
LIBERIA	3.5	9.8	1.6	25.7
MADAGASCAR	57.0	57.2	12.2	10.8
MALAWI	56.5	40.9	3.8	14.7
MALI	4.1	5.6	2.6	.4
MAURITANIA	3.5	5.5	2.1	2.4
MAURITIUS	217.1	229.6	53.6	47.3
MOZAMBIQUE	15.3	27.6	.8	3.2
NAMIBIA	27.8	11.5	2.8	2.5
NIGER	2.4	1.6	.2	.2
NIGERIA	4,429.8	4,774.7	1,136.6	1,264.4
RWANDA	1.7	1.9	(Z)	1.2
SENEGAL	11.4	6.5	.9	1.2
SEYCHELLES	2.8	2.4	1.2	.4
SIERRA LEONE	51.2	28.5	9.5	6.1
SOMALIA	.1	.1	(Z)	(Z)
SOUTH AFRICA	2,030.2	2,209.5	489.7	492.6
SUDAN	35.1	22.7	5.4	5.3
SWAZILAND	37.6	32.3	5.1	6.0
TANZANIA	14.9	22.4	7.5	6.1
TOGO	4.1	29.3	26.9	1.5
UGANDA	34.9	13.2	4.9	1.1
ZAIRE	187.7	262.1	67.0	50.2
ZAMBIA	63.5	32.9	6.1	13.5
ZIMBABWE	102.4	97.7	21.9	24.2
TOTAL	11,793.4	12,663.3	2,921.0	3,217.4

(Z) = LESS THAN $50,000
* INCLUDES GUINEA BISSAU, CAPE VERDE ISLANDS, AND SAO TOME & PRINCIPE

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

U.S.-AFRICAN TRADE PROFILE

U.S. Trade with Sub-Saharan Africa
($ Millions)

	1992	1993	1994	1995
U.S. Exports	*5,389.5*	*4,781.5*	*4,424.5*	*5,406.8*
U.S. Imports	*12,070.9*	*12,363.2*	*11,793.4*	*12,663.3*

- U.S. total trade with Sub-Saharan Africa grew *11.7 percent* in 1995, following a *6 percent* contraction in 1994. U.S. exports expanded by *22.7 percent* from the 1994 total, and imports by *7.6 percent*.

- In comparison, U.S. global trade expanded *12.7 percent* in 1995, with total exports growing *13.6 percent* and imports *12 percent*.

- Two-way trade between Africa and the United States reached a new high in 1995, with U.S. exports eclipsing their previous high set in 1992 and U.S. imports surpassing their previous high set in 1993.

- The growth in U.S.-African trade was propelled by a *26.6 percent* surge in sales to South Africa, and a partial recovery of sales to Nigeria from their low point in 1994. Exports to Nigeria grew by *18.3 percent*, but were still well below their peak of more than $1 billion in 1992.

- The United States is an important trading partner for Sub-Saharan Africa.

  - The United States is Africa's leading market. In 1994, U.S. importers purchased more than *18 percent* of Sub-Saharan Africa's total exports. In the period 1992-94, the United States purchased an annual average of *18.6 percent* of Africa's total exports.

  - The United States was Sub-Saharan Africa's fifth leading industrial country supplier in 1994, with a *6.2 percent* share of the region's total import market. That represents a decline from *7.2 percent* and a second place position in 1993.

  - Most industrial country suppliers experienced declining market shares in Africa in 1995, as Africa increased its purchases from low-cost suppliers Korea and Thailand.

Prepared by: G. Feldman
Office of Africa
March 1996

- U.S.-African trade results in a major transfer of financial resources from the United States to Africa.

  - Sub-Saharan Africa enjoyed a *$7.3 billion surplus* in its trade with the United States in 1995.

  - During the last five years, the cumulative trade imbalance is nearly *$36 billion in Africa's favor.*

Africa's Major Industrial Country Suppliers

	1992	%	1993	%	1994	%
	($ millions and market share)					
France	*7,988*	*11*	*6,479*	*10*	*6,879*	*9.7*
Japan	*5,198*	*7.2*	*6,017*	*9*	*5,367*	*7.6*
Germany	*5,825*	*8.0*	*4,804*	*7.2*	*5,064*	*7.1*
United Kingdom	*4,976*	*6.9*	*4,544*	*6.8*	*4,860*	*6.8*
United States	*5,397*	*7.4*	*4,801*	*7.2*	*4,436*	*6.2*
Italy	*2,422*	*3.3*	*2,290*	*3.4*	*2,335*	*3.3*

U.S. Exports in 1995

- U.S. exports to Sub-Saharan Africa totaled *$5.4 billion* in 1995, an increase of $1 billion, or *22.7 percent,* over the 1994 level. 1995 reversed a two-year decline in sales to the region following a seven-year string of increases.

- The 1995 export total set a new high for U.S. sales to Africa, barely eclipsing the previous record set in 1992 by $17.3 million.

- The increase in U.S. exports was led by a surge in sales to South Africa, which expanded by *26.6 percent* to nearly *$2.8 billion*. Sales of aircraft parts, computers, construction machinery, wheat, and corn registered particularly strong gains. Exports to Nigeria also recovered from their 1994 low point, with an 18.3 percent increase to *$602.2 million*. Strongest growth was registered in submersible drilling equipment, wheat, and petroleum refinery products.

- South Africa and Nigeria remained the predominant markets of Sub-Saharan Africa for U.S. exporters. They combined to import *62 percent* of total U.S. exports to the region, compared with *60.6 percent* in 1994.

- Sub-Saharan Africa accounts for less than *1 percent* of total U.S. exports. ***Yet U.S. exports to the region in 1995 were more than 54 percent greater than our exports to the Newly Independent States (NIS) of the former Soviet Union.***

- *Sub-Saharan Africa was only a slightly smaller market for U.S. exports than the NIS States and all of Eastern Europe combined.*

  - *Manufactured exports* accounted for *84 percent* of total U.S. shipments, and *agricultural exports 16 percent*. Agricultural commodities rebounded strongly from their 12 percent decline in 1994. Sales of farm products totaled *$862.1 million,* an *18 percent* increase. Agricultural commodities traditionally have made up approximately 18 percent of U.S. exports to Africa in non-drought years.

  - Agricultural sales were led by larger shipments of wheat, up *21 percent* to *$296.3 million,* and corn which more than doubled to *$109.3 million*. Rice sales declined *26 percent* to *$72.3 million*.

  - Manufactured exports were led by drilling equipment, aircraft parts, used clothing, dump trucks, computers and peripherals, industrial chemicals, and telecommunications equipment. Agricultural machinery declined *12 percent* to *$94.8 million*.

- Among the leading export categories to Africa are the following:

Item	*1995 Export Value ($ millions)*
Wheat	*296.3*
Oil and gas field equipment	*295.8*
Construction machinery and parts	*261.3*
Computers, peripherals, and software	*244.8*
Aircraft and parts	*238.3*
Motor vehicles and parts	*183.9*
Industrial organic chemicals	*146.5*
Plastic materials and resins	*125.7*
Telecommunications equipment	*123.6*
Corn	*109.3*
Milled rice	*100.7*
Farm machinery	*94.8*
Used clothing and textiles	*80.9*
Mining equipment	*64.8*

- U.S. exports to Sub-Saharan Africa are highly concentrated geographically. Eight countries accounted for more than 80 percent of U.S. shipments to the region in 1995.

- South Africa alone purchased nearly **$2.8 billion** of U.S. exports, or more than half of total U.S. sales to Sub-Saharan Africa.

- *South Africa's market for U.S. exports is roughly equal in size to that of Russia, and is larger than all the countries of Eastern Europe combined.*

Country	1995 Export Value ($ millions)
South Africa	2,750.8
Nigeria	602.2
Angola	259.7
Cote d'Ivoire	173.2
Ghana	167.2
Ethiopia	148.0
Zimbabwe	122.0
Kenya	114.0

U.S. Imports in 1995

- U.S. purchases from Sub-Saharan Africa totaled **$12.7 billion** in 1995, a *7.6 percent* increase from 1994.

- Crude oil accounted for *$8.5 billion,* or two-thirds of total U.S. imports from the region.

  - Sub-Saharan Africa supplied nearly *22 percent* of total U.S. crude oil imports in 1995, up from *20 percent* in 1994, and equal to Africa's share in 1993.

  - Nigeria supplied *$4.6 billion* of U.S. crude oil imports, an increase of *9 percent* from 1994 but substantially below the levels of the early 1990's when Nigeria was the number two crude oil supplier to the U.S. market. For the second consecutive year, Nigeria was our fifth leading oil supplier. Angola *($2.2 billion),* Gabon *($1.4 billion),* Congo *($156 million),* and Zaire *($127 million)* also ranked among the United States' top 21 suppliers of crude oil.

- Principal U.S. imports from Africa were as follows:

Item	1995 Import Value ($ millions)
Crude oil	8,473.7
Non-ferrous metals	1,003.0
Precious and semi-precious stones	374.6
Ferroalloys	267.3
Cocoa beans	173.8
Men's and boy's shirts	153.6
Coffee	93.9
Forestry products	87.5
Natural gas liquids	86.3
Beet and cane sugar and byproducts	53.0

- U.S. imports from the region were concentrated among a small number of African suppliers, even more so than U.S. exports. Four countries accounted for *84 percent* of U.S. purchases. Three were major oil exporters, while South Africa was a principal supplier of non-ferrous metals.

Country	*1995 Imports ($ millions)*
Nigeria	*4,774.7*
Angola	*2,236.3*
South Africa	*2,209.5*
Gabon	*1,449.4*

- Utilization of benefits under the *U.S. Generalized System of Preferences (GSP)* by eligible African countries increased in 1995 by nearly half to *$492 million,* from *$332.1 million* in 1994. The increase occurred despite suspension of the GSP program at mid-year due to lapsed legislative authority. The 1995 increase followed a *136 percent* surge in 1994, when South Africa became GSP eligible for the first time.

- South Africa continued as the principal utilizer of GSP benefits in 1995, claiming *72.5 percent* of the total for Sub-Saharan Africa.

- Leading GSP items were: ferrochromium, ferrosilicon manganese, cane sugar, parts of machinery for ore processing, jewelry, and animal skins.

- Despite the increase in overall GSP utilization in 1995, the program grew even more concentrated among a small number of African beneficiary countries. Five countries accounted for more than *92 percent* of total GSP benefits in Sub-Saharan Africa. Africa's leading GSP beneficiaries were as follows:

Country	*1995 GSP Benefits ($ millions)*
South Africa	*356.6*
Zimbabwe	*53.2*
Mozambique	*20.1*
Swaziland	*13.0*
Mauritius	*10.5*

U.S. Investment in Africa

- At year-end 1994, the *U.S. direct investment position*[1] in Sub-Saharan Africa was *$3,672 million*. *$1,044 million* of the position was in South Africa, *$567 million* in Angola, and *$402 million* in Nigeria.

- U.S. direct investment in the region is concentrated in the petroleum sector, although the position in South Africa is mostly in manufacturing.

- U.S. direct investment in Sub-Saharan Africa by non-bank U.S. affiliates generated *net income* of *$1,092 million* in 1994, *a 30 percent return on book value. This compares with an 11 percent return on book value for the U.S. direct investment position worldwide, 14 percent in Latin America, and 12 percent in Asia and the Pacific region.*

- U.S. direct investment in Africa consistently generates high rates of return. *During the period 1990-94, the average annual return on book value of U.S. direct investment in Africa was nearly 28 percent, compared with 8.5 percent for U.S. direct investment worldwide.*

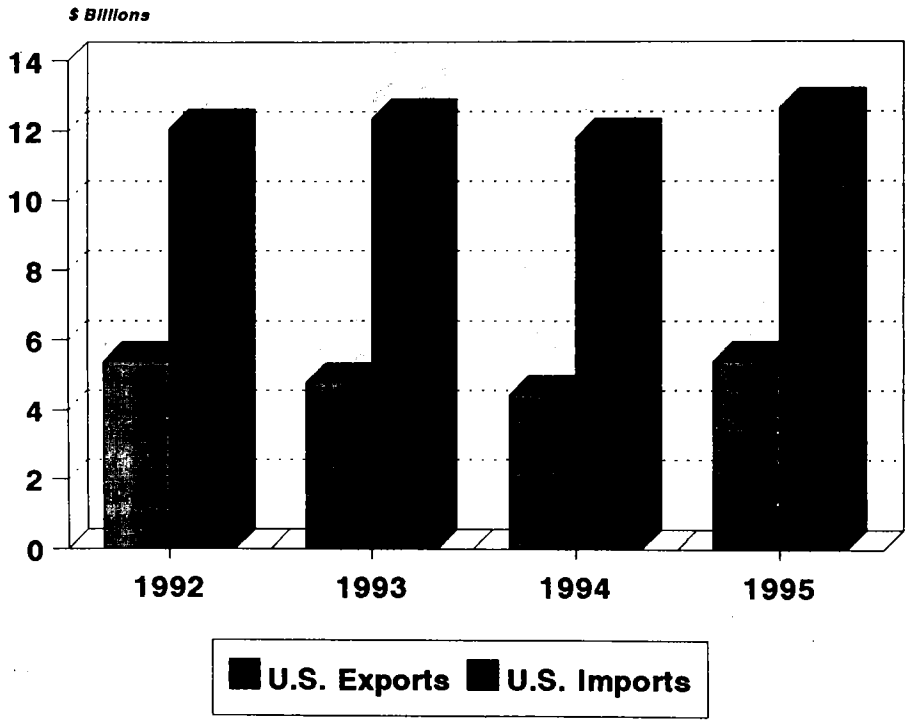
- According to preliminary estimates of U.S. direct investment abroad in 1993 by the Department of Commerce Bureau of Economic Analysis, U.S. non-bank affiliates in Sub-Saharan Africa reported *total assets* of *$12,703 million*, of which *$3,767 million* were in Nigeria and *$2,925 million* in South Africa.

- U.S. non-bank affiliates in Sub-Saharan Africa had *$12,907 million* in worldwide sales and approximately *$887 million* in net income in 1993.

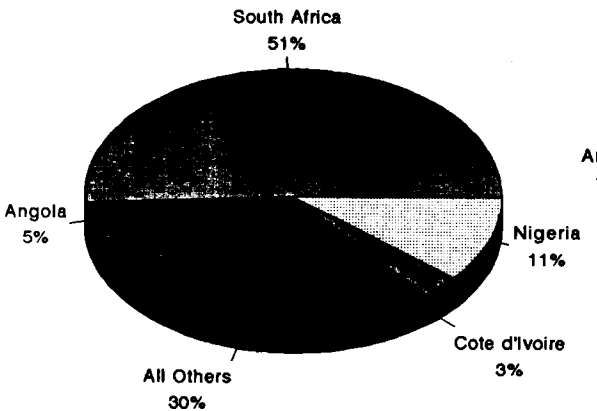
- *$400 million* of U.S. merchandise exports were shipped to U.S. majority-owned non-bank affiliates in Africa, including those in North Africa. The United States imported *$3,099 million* from these affiliates, mostly crude oil.

The U.S. direct investment position is the net book value (i.e., the historical value) of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates. A foreign affiliate is a foreign business enterprise in which a single U.S. investor owns at least 10 percent of the voting securities, or the equivalent.

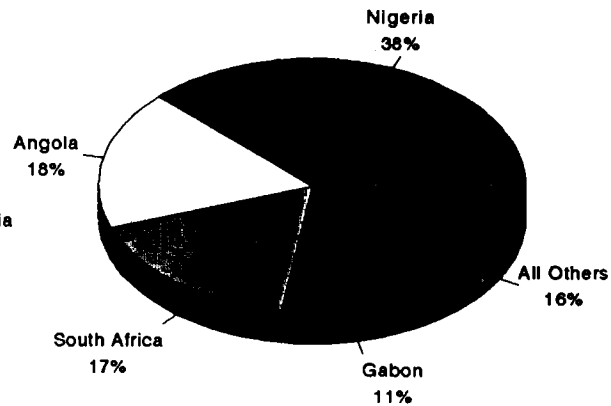
U.S. TRADE WITH SUB-SAHARAN AFRICA



PRINCIPAL U.S. TRADE PARTNERS IN AFRICA
1995



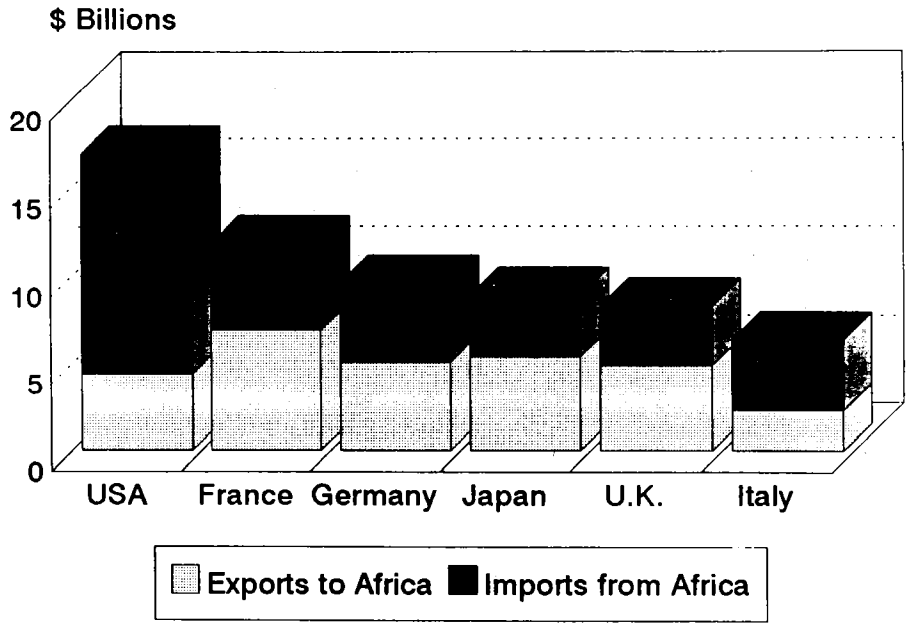
Destination of U.S. Exports



Source of U.S. Imports

AFRICA'S PRINCIPAL TRADE PARTNERS, 1994

Industrial Countries



Source: IMF Directions of Trade

American Apparel Alliance
NKSA AACA

July 30, 1996

Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

Re: U.S. Trade with the countries of Sub-Saharan Africa

This statement is submitted for the record in connection with the hearing schedule for August 1, 1996 as announced in Subcommittee on Trade press release No. TR-26.

This comment is filed on behalf of the American Apparel Alliance, comprised of the National Knitwear and Sportswear Association, a national trade association headquartered in New York City, with more than 200 members in more than twenty states, and the American Apparel Contractors Association, headquartered in Atlanta Georgia and having more than three hundred members in thirty states.

The American Apparel Alliance is supported in these comments by the Atlantic Apparel Contractors Association representing additional contractors in the New Jersey and Pennsylvania area, and by the Korean Apparel Manufacturers Association of Greater New York, representing some 450 companies in New York and New Jersey.

These companies are engaged in the production of apparel in the United States, involving virtually every type of garment, both knit and woven, and in related industries including knitting, dyeing yarns, sewing and assembling of garments, designing garments, dyeing garments and providing fashion and related services to the industry.

In recent weeks, there has been a brief semblance of public discussion of special legislation to provide trade benefits for some African countries. Among the benefits to be proffered, by those making donations of US trade benefits on behalf of interests not clearly identified, are quota free access for apparel in amounts allegedly to be "capped" at $3.5 billion annually. This, we are given to understand, will assure that there is no damage to American textile interests. (Daily News Record, June 1, 1996)

We wish to record our most vehement objections to any such legislation as it might affect apparel or apparel related products.

American apparel imports, under current legislation and international agreements, already exceed exports by more than $34,000,000,000 annually. Yes, net imports of apparel exceeded thirty four billion dollars last year, and they are generally rising. The quota system, designed to "protect" domestic apparel markets from disruption due to low cost imports, is being phased out, and already has large gaps created by existing policies to favor certain countries.

These favored countries export massive quantities of goods to the US causing substantial displacement of domestic firms and workers in competing products. In some cases, the importing firms are also partly domestic producers, or were domestic producers until they closed operations and moved them offshore. As the import pressures increase, the lure of offshore production grows, the larger firms move labor intensive production off shore, causing dislocation in the U.S. and additional competitive pressure on smaller domestic firms not enjoying the advantages of cheap labor in their offshore factories.

These developments have occurred under the operation of the GALs exception to the quota program, which was devised as an aid to the economic development of the Caribbean. It has helped the Caribbean countries at the direct expense of workers and smaller firms in the U.S.

Apparel is a highly labor intensive industry, and it is heavily affected by wage based competition. In the U.S., approximately 67,000 workers are required to produce each one billion dollars in apparel (measured by domestic shipments)[1] and US apparel producers are as efficient in their use of labor as any in the world. By that measure, $3.5 billion in imports would equal the production of 233,000 workers. But that measure likely is too conservative.

Simple logic indicates that lower wages offshore would yield more units of apparel per dollar spent than would be the case in the US, else why bother importing? If that margin is ten percent, then the displacement would be not 233,000 but 1.1x233 or 256,000. In short, the dollar spent on cheap labor buys more units, but units displace units on a one for one basis. The impact of $3.5 billion on a market already reeling from massive volumes of imports would be no less than catastrophic for smaller companies already hard pressed by permitted exports from the CBI, Asia and elsewhere, not to mention NAFTA.

A special program for Africa would heavily impact minority workers in the United States, as the garment industry is known as an entry level employer that relies on a work force that contains a substantial representation of blacks, hispanics, and Asians.

Furthermore, opening the doors to apparel from Africa, Sub-Saharan or otherwise, would encourage still more transshipments of goods emerging from China. (Those, of course, would still be subject to quota if honestly identified as being from the PRC.) Customs now has its hands full attempting to deal with the Chinese apparel flood coming into the United States through the Caribbean, Panama, and even Mexico; adding to the tide by exempting apparel from Africa would swamp the system and make a mockery of the remaining years of the textile/apparel import control program.

More basic, however, is the shocking combination of bad ideas embodied in this announced package. The idea of deciding to give away $3.5 billion in domestic jobs while simply asserting that "it should have no impact on the U.S. textile industry" is bad enough by itself. It is ignorant of the facts. Combine this with the idea of choosing for the "donation" list an industry whose firms have already lost some 100,000 jobs in the past year and whose workers are frequently minority people with limited skills, many of whom are located in parts of the country where alternative employment opportunities for people of their skill levels are scarce, and the message from the Congress is one of disdain for American workers. The public that is unhappy to spend their dollars for foreign aid is still less likely to accept having their jobs exported as a substitute.

No legislation should be considered which increases the flow of apparel into the United States. Existing agreements have already opened the doors too far, and the damage is being felt throughout the industry. Enough is enough.

Thank you for including this statement as part of the record of these hearings.

Seth M. Bodner, Executive Director
National Knitwear and Sportswear Association

NKSA, 212-683-7520; fax 212-532-0766
American Apparel Contractors Association, Sue Strickland, Executive Director, Atlanta, Ga. 404-843-3171; fax404-256-5380
Atlantic Apparel Contractors Association, Arnold Delin, Executive Director, Bethelehem, PA. 604-861-7717; fax 610-861-8069
Mr. Chong E. Hwang, Korean Apparel Manufacturers Association of Greater N.Y.
548 8th Ave. NY, NY 10018 212-714-1530; fax 212-714-0116

---

[1] 750;000 workers in 1995 against US production valued at some $50 billion..

[BY PERMISSION OF THE CHAIRMAN]

"U.S. TRADE WITH SUB-SAHARAN AFRICA"

COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE
U.S. CONGRESS, CAPITOL HILL, WASHINGTON, D.C.
TUESDAY JULY 16, 1996

STATEMENT BY H.E. EKWOW SPIO-GARBRAH
GHANA'S AMBASSADOR TO THE U.S.A.

Good Morning, Ladies and Gentlemen,

I would like to express express appreciation to the President of the United States, the Administration as a whole and Congress for the initiatives that led to the development of a Comprehensive (United States) Trade and Development Policy for Africa.

In the last few years we have seen a growing number of African leaders come to the White House for discussions, including I must say, the President of Ghana, President Rawlings. Several high-level officials of the Administration, including Vice President Gore, as well as Senators and Congressmen and women have visited various African countries. We have witnessed the organisation of a White House Conference on Africa, and follow-up conferences and seminars sponsored by the State and Commerce Departments. We have noted the development of greater inter-agency cohesion in thinking about Africa, from the State, Commerce, Treasury and Energy Departments, as well as from USAID, OPIC, Eximbank, TDA, and other agencies. Above all, Secretary Brown's extraordinary efforts in promoting U.S. business interests around the world was poignantly evident in Africa as well. So many were the friends he made in Africa in such a short period of time that we must dedicate to his eternal memory efforts to develop a greater business partnership between Africa and the United States.

As a representative of an African government, I can say that this renewed U.S. interest in Africa's development marks a major milestone in the U.S.-Africa relationship. And in our view, the Administration's 1996 Trade and Development Policy report must be assessed and evaluated, supported and improved, enhanced and modified within this overall context of progress.

It takes no major expert on U.S. trade or development policy to recognize that the Adminstration's 1996 Comprehensive Trade and Development Policy report devotes greater space to a recapitulation of current U.S. trade and development policies, practices and programs in Africa than to any new initiatives and proposals. But the mere success of the Administration in compiling into one document the essential roles and activities of the many departments and agencies which impact Africa's developmental process is most welcome--at least as a valuable reference document. And to be sure, the report goes beyond the obvious trade liberalization, financial

flows, investment promotion, and multilateral development bank issues, and manages to mention food and agriculture, water and energy resources, health and education, transport and telecommunications, and the obligatory reference to better governance, transparency and accountability.

Beyond that the document does propose a number of worthy initiatives in many of these areas, even if the perceived lack of resources may have limited many of the proposals to that of expanding and deepening current programs.

If some Africans and Africanists are less than satisfied with the report it may be due simply to the fact that such analysts may have misconstrued the purpose of the report and had hoped to find major new initiatives and proposals on how the United States was going to help to develop Africa, or at least to limit the extent to which current policies do not encourage Africa's indogenous and indegenous development. Given that this report is only the first of five annual reports mandated by Congress to be submitted by the President under section 134 of the Uruguay Round Agreement Act, it is our fervent hope that future reports will be devoted less to the restatement of historic facts and figures, and more to proposals to help change those facts and figures which have hindered Africa's fuller and faster development. Having said that, we should also agree that the primary responsibility for proposing trade and development policies that are in the interest of Africa lies in the hands and brains of Africans.

We recall the words of the late Commerce Secretary Ron Brown when he declared that "the United States shall no longer concede the African markets to her European Allies". In light of this, Africans should not be surprised if the United States concentrates its efforts on promoting its own trade objectives and exports. But I am here as an African to suggest that while we understand the U.S.'s preoccupation with its interests, we would like to assist in the production of a trade and development policy whose primary emphases are on how to level the playing field for Africa in international trade, how measures may be taken to boost Africa's exports and integrate Africa's economies, initiatives to eliminate Africa's debts, how U.S. guarantees may be used to finance Africa's infrastructure, how to promote the relocation to Africa of some of America's non-competitive industries, how to encourage Africa's important human resources in the U.S.A to help in Africa's development, and how the U.S. public and private sectors, NGOS, PVOs, religious organisations, media institutions can help to develop a real constituency for Africa and help to change Africa's negative image in the United States. Hopefully, the U.S. and Africa can jointly develop a policy with programs that are mutually beneficial.

For all these reasons, many African thinkers believe that that it is long overdue for the leaders of the United States and Africa to sit down at summit level---much as the U.S. does with the G7 (now the G8), and has done with Asian Pacific leaders and Latin

American leaders--to reflect on our past and current relationship, and together map out a new relationship based on mutual respect, fairness, equity, and a stronger sense of partnership. A donor-recipient relationship that usually favors the donor through an asymmetrical reciprocity in trade policies, the disproportionate strength of the donor, and an unequal playing field, is more likely to lead to dependency than to development, as many U.S. domestic welfare recipients may know too well. A relationship which has led to a point where the most sacred process of self-government for even a parochial club or a village association--that of an entity's ability to choose its own leaders-- has now become an area for the supervisory intervention of donor authorities, needs very urgent and significant rethinking. Mark you, many African societies have been electing traditional rulers without foreign supervision for centuries.

HOW AFRICA HAS BENEFITED FROM U.S. FOREIGN AID

There is no question that for many African countries various kinds of foreign assistance have been beneficial to them insofar as such assistance, especially of the humanitarian and emergency food aid variety, has saved lives and made a difference between precarious existence and improved life expectancy. From adult education, to new agricultural techniques, and from family planning programs and products to environmental protection assistance, U.S. development assistance, alongside support from other donor countries and agencies, has played a significant role in shaping Africa's current economic profile and developmental landscape. Even more important in recent years has been the role of U.S. funding to multilateral institutions like the World Bank, the African Development Bank Groups, the specialized U.N. agencies, and bilateral U.S. support for economic reform programs in Africa. But this is the very reason why the U.S.A. must be more forthcoming and more prompt in its subscriptions to multilateral agencies.

In some African countries, U.S. assistance has provided a timely bridge that has allowed structural adjustment reforms to take hold while mitigating the social and other costs of adjustment. For these reasons, we urge that such assistance be continued for those countries whose specific circumstances warrant them, with such modifications in project implementation, consultancy and procurement as we shall soon address. And, even for countries that may prefer a shift in emphasis to investment and export support, we do not suggest any immediate or drastic curtailment of traditional U.S.A.I.D programs, but rather a phased-in transition to more market based arrangements supported by a larger pool of U.S. public and private sector funds.

The point must, however, be made that foreign aid has never been intended to be purely altruistic. It is recognized the world over as an important lever, or indeed part of the arsenal, of big-power diplomacy. Above all, U.S. development assistance has been

as much domestic assistance for U.S. benificiaries as it has been foreign aid, seeing that it has created numerous jobs for American consultants, contractors, and suppliers. For every dollar the U.S. contributes to the World Bank or the African Development Bank, for example, it has received many multiples in return through contracts and procurements. Furthermore, development asssistance has provided a critical vent for the distribution of surpluses from U.S. farms and service firms, and has contributed to the proliferation of NGOs, PVOs, and even religious organisations which have now assumed central roles in the development business. Above all, food aid in particular, has created and sustained new markets in Africa for the U.S.A. by exposing consumers in Africa to U.S. foods such as powdered milk, wheat and rice. Those consumers who have acquired a taste for such goods continue to demand their import even when foreign assistance has been removed.

This is why we must agree that foreign aid can be an important complement to the reconstruction efforts of countries that are on their knees, whether this is due to internal mismanagement, conflicts, or the legacy of colonialism and external interventions. But for those African countries that have developed economic teeth, the infant formula of foreign aid must change. And as the infant begins to walk and run, so must the kind friendship offered by its bigger brothers and sisters go beyond supplying the dependency-inducing pacifier of traditional aid. It is for this reason, that many African countries now welcome initiatives that will help to make the dwindling U.S development assistance more effective than it has been so far.

SPECIFIC INITIATIVES TO INCREASE AFRICAN TRADE AND INVESTMENT OPPORTUNITIES

Recognizing that foreign assistance resources are declining and that developed countries have not been able to meet their commitments of aid flows to Africa, my specific recommendations are compatible with current or even declining levels of assistance.

First, for those countries that are just emerging from major internal conflicts and natural disasters, traditional aid programs should be continued to provide humanitarian and reconstruction assistance for basic human needs like food, clothing, shelter, basic education, adult literacy, job training, agricultural infrastructure, and low-technology energy and water resources.

Second, for those countries whose aspirations and levels of economic growth justify it, foreign assistance funding should be directed at creating seed capital and leverage in the financial markets to fund United States and African private and public sector joint-ventures. This way one U.S. tax dollar can help to mobilize multiples of private sector funding for income-generating, job-creating enterprises in Africa, especially those that will encourage Africa's economic integration. The U.S. domestic economy

is replete with such public-sponsored enterprises and institutions in the financial services, housing, agriculture, energy, transportation and other sectors. In this respect, the charter and or internal rules and practices of the Overseas Private Investment Corporation (OPIC) and the U.S.A.I.D. could be modified to permit them to make more equity investments in Africa, either directly or through more of such laudable initiatives as the Africa Growth Fund.

Third, aid should aim at enhancing the capability and capacity of African firms and individuals, who should play a more visible and central role in the initiation, appraisal, implementation, supervision and monitoring, of the programs and projects of donors as contractors, suppliers and consultants. Africans should benefit directly from increased allocations of the contracts given out by the USAID, the Trade Development Agency (TDA), the World Bank Group, the African Development Bank, and U.N. specialized agencies.

Fourth, the United States Government should provide other incentives such as guarantees to encourage more U.S. financial institutions to locate subsidiaries in African countries, or set up joint-ventures there, to facilitate the inflow of capital funds to Africa. Africa needs the international equivalents of the U.S. Small Business Administration and the Minority Business Development Agency. The current policies under which EXIMBANK, for instance, requires the governments of developing countries or relatively fragile financial institutions in those countries to counter-guarantee payments to it for U.S. exports of capital goods reduces considerably the opportunities for U.S. exporters in Africa. If U.S. Trade Policy aims at enhancing U.S. exports, EXIMBANK's financing should not be counter-guaranteed by African entities. Such counter-gaurantees, even as contingent liabilities, add to Africa's nominal debt obligations.

Fifth, U.S. companies must be encouraged to undertake projects in Africa that will add additional value to raw materials on the African continent and those that will help integrate Africa's economy. The new U.S.-Africa partnership must provide incentives for U.S. companies to go beyond merely supplying equipment to African industries to becoming equity partners in African projects. Merely tinkering with the current global trading system will do very little for Africa. Even a World Trade Organisation, which aspires to level the playing field for international commerce, will succeed principally only in opening up African markets for foreign goods. To the extent that Africa continues to be a raw materials exporter, marginal reforms in the international trading regime will have minimal impact on Africa's export value growth. What is called for are U.S. govcernment incentives to U.S. companies to support Africa's own long-standing efforts at regional integration, which after all will help U.S. firms invest in and export to much larger markets.

Sixth, a new U.S.-Africa partnership must emphasize scientific and technical cooperation. This could occur through a better and more effective mobilization of the expertise, resources, research data and manpower of such technical departments as the Departments of Energy, Transportation, Agriculture and Interior, and in conjunction with relevant scientific foundations, institutes and Universities, U.S. science and technology can help Africa modernize its indigenous technologies for greater manufacturing and raw material processing. Ghana, for example, has a Council for Scientific and Industrial Research and several scientific-sector research institutions which could benefit from closer collaboration and support from U.S. institutions. Recently, Ghana has passed a new Investment Promotion Centre Act and a Free Zones Law that has created enormous new opportunities for technology-based export processing that would be ideal for many U.S. firms. In this regard, U.S. incentives, such as foreign investment tax credits, to American firms to relocate non-competitive American industries in Africa, could form part of the novel contract with America that Africa seeks. This would be no different from the public-sector incentives provided to U.S. firms to invest in depressed urban centers.

Seventh, Africa, particularly Ghana, has a wealth of human resources scattered worldwide, including throughout the United States. These constitute the veritable intellectual property of Africa. The new U.S. Trade and Development Policy should devote some ideas and resources to schemes that will encourage these professionals to offer their services to African countries. U.S. development agencies, and the multilateral bodies the U.S. helps to fund, could be specifically tasked to ensure that qualified Africans in the diaspora are included in contractual and consultancy assignments managed by these agencies. Programs could be eatablished to transfer to African countries part of the taxes paid by these high net- worth individuals, without which the U.S. is imposing double taxation on African countries: the first tax occurs when needy African countries spend their hard-earned dollars to educate and train their populace; the second tax occurs when these professional emigrants to America pay taxes to the United States instead of to the countries which helped to educate them. Ways must be found to help African governments to effectively mobilize and harness these human resources for their development. U.S. green card lotteries aimed at recruiting qualified Africans for the U.S. economy, for instance, must be monitored as part of a new international trade in human services. This U.S. immigration policy and practice has the effect of further taxing Africa's economy without the payment of commensurate intellectual property rights to African governments.

Eighth, beyond broad trade and development policy reforms, any new initiatives should also address the fine print of internal bureaucratic rules and procedures of U.S. development agencies which often tend to undermine otherwise noble goals and objectives.

Administrative bottlenecks and barriers faced by some African agricultural exports at U.S. ports and cstoms bonded warehouses are a case in point. Many of these barriers may be due more to prejudicial judgements or overzealousness on the part of individual customs officials rather than to non-compliance by African exporters with U.S. laws and standards. The Overseas Private Investment Corporation (OPIC), for example, could be given the necessary mandate to become a far greater equity investor in Africa than is currently the case.

Still in the area of market access, we note with concern the virtual suspension of the U.S. Generalized System of Preferences. While requesting that the new system should institutionalize the G.S.P., allowing for graduation, we suggest that the GSP should be expanded to cover more processed goods that in no way threaten U.S. domestic production.

Ninth, both the United States and African countries recognize that trade and development are impossible without political stability. Stable economic development in Africa will not only alleviate poverty, but will also provide a buffer against acts such as terrorism, refugee flows, narco-trafficking and environmental degradation, that threaten the security of the United States and stable countries in Africa such as Ghana. Any serious U.S. Development Policy should therefore incorporate provisions that allow for a rapid and early U.S. response to helping to resolve conflicts and cross-border crime in Africa. The implementation rules for the utilization of peacekeeping funds in Africa, by ECOMOG in Liberia for example, should be modified to enable poorly-endowed troops to have quicker and direct access to promised vehicles, aircraft, equipment, communications, logistics and intelligence.

Tenth, and on another note, Africa's development and trade prospects are very much dependent on the creation in the United States and especially in the minds of potential businessmen and tourists of a more balanced image of Africa as a continent with many countries, most of which do not suffer from the major trials and tribulations that top the menu of the American media diet. While improving Africa's image is primarily an African responsibility, we welcome the support of the U.S. public sector in providing some assistance for promoting business opportunities in Africa to American businessmen. Few Americans realize that U.S. firms are aware that U.S. firms receive on average a 30% return on their investments in Africa versus an average of about 12% in other developing regions of the world. In this respect, resources for conferences, publications, electronic information and other export and investment promotion activities that support Africa could be provided through many creative applications of U.S. aid. As the African and American private sectors attempt to collaborate closer together, they need to do so in a news environment which is not so hostile to Africa's prospects.

Eleventh, by indicating that Africa's private sector needs greater U.S. support, we do not intend to suggest that governments in Africa are to atrophy and wither away. Rather, while governments may need to become leaner they also need to be stronger and quicker and be endowed with new technologies, systems, procedures, and work ethics that will permit them to better monitor, guide and oversee the activities of the private sector. More effective tax collection, quicker judicial proceedings, prevention and early detection and prosecution of white collar crime, the ability to develop and implement social safety net programs, and superior policy analytic skills all call for governments whose capacities for decision-making should be significantly enhanced. In an information-technology driven world, U.S. development assistance can and should go toward strengthening leaner African governments.

Above all, U.S. trade and development policy should help to improve Africa's tax base through creating more productive private sector enterprises and greater employment. Facilitating the ability of African companies to list on U.S. stock exchanges, for example, will open up a whole new world of private capital for African development. This will enable African governments to maximize revenues with which to attend to the more basic responsibilities of government. Given higher domestic production and revenues, African countries can take full charge of activities such as providing ballot boxes and papers and supplying voter registration and identification cards, making it absolutely unnecessary for aid agencies to become involved in this most fundamental aspect of sovereignty and self-government.

Twelfth, no development policy for Africa is likely to be sustainable while Africa carries a debt burden of some $330 billion. This overhang, and the exigencies that come from high interest and principal payments, skews Africa's budgetary priorities and its financial and investment planning capabilities. In this context multilateral bank debt must be on the table of negotiations.

Finally, we note that the President Clinton's policy proposals emphasize that the United States will focus its support on those countries that are pursuing meaningful structural adjustment and economic reform and that also have made the hard but correct choices on democracy, human rights, transparent and accountable governance, investment in people and protection of the environment. Ghana is a country that has made these right choices and is therefore richly deserving of maximum support from this Congress in its economic development efforts. The Ghana Government has specific programmes that target joint U.S.- Ghanaian public and private sector investments in independent power production, mining, energy development, agriculture including fishing, telecommunications and banking and financial institutions.

What Africa needs today is not someone who can give it fish to eat, so it can ask for more fish each day. All Africa is asking for is a friend who can teach it to fish better, so it can feed itself forever. We welcome the efforts of Congress and the Administration to fashion a new relationship with Africa and pledge our readiness to work towards mutually beneficial goals. We urge Congress to invent new paradigms and programs and to enact new laws and encourage new administrative and operational rules that will lead U.S. public agencies to work more closely with the American and African private sectors to promote Africa's development while strengthening Africa's leaner governments.

Thank you.

July 30, 1996

The Hon. Phil Crane
Chairman
Subcommittee on Trade
Committee on Ways and Means
1104 Longworth House Office Building
Washington, DC 20515

Dear Chairman Crane:

Thank you for providing an opportunity to submit a statement on the US/Sub-Saharan Africa trade relationship. As a former Commerce Department Desk office for 12 southern African countries, and as a former Peace Corps Volunteer from Botswana, I have a deep, personal perspective on African economic and private sector development.

I congratulate the Subcommittee on holding hearings on US/African trade relations, and commend it on its initiative in creating a comprehensive trade and investment strategy for Africa. I would like to further applaud the work of Congressman McDermott -- a member of the full Committee -- for his work on launching and sustaining a Congressional-Administration dialogue on trade-based economic growth in Africa.

The hearings you are holding are timely. Commerce Department figures reveal that trade between the United States and Africa hit a new high in 1995, with combined trade flows exceeding $18 billion. US investment also appears on the increase with the US direct investment position in Africa reaching $3.6 billion by the end of 1994. Finally, democratic traditions and market oriented systems are on the rise on the continent as roughly two-thirds of the countries are now undertaking some form of political or economic reforms.

But these successes, while impressive from African standards, inspire little interest in US firms consumed with the Asian Tigers or the Big Emerging Markets. Total US/Africa trade has been largely flat for the last decade. The 1995 levels stand at only 16 percent above the levels for 1989. Total investment in the region is also low, when compared to just about any other region in the world or even to Africa in the era before the imposition of sanctions against South Africa.

Moreover, while there may be hope for continued economic growth in Africa, and between African countries in the United States, there persist a number of constraints that threaten to hobble any sustained expansion of US/African relations. Efforts at capital formation in many of the countries have been stalled as investor confidence remains low and as economic reforms remain incomplete. While the rewards of doing business in Africa can be lucrative -- the Commerce Department estimates that US investments in Africa yield an average 30 percent return compared to worldwide returns of 11 percent -- the risks often frighten all but the most committed away. Moreover, the fragmentation of the continent into 48 national markets, the lack of solid commercial information, and the practice of servicing Africa from European subsidiaries further weakens the interest of US-based corporate planners.

The cumulative effect of this constraints is evident when the United States is compared with other major trading partners. At the end of 1994, the United States was the fifth largest supplier to Africa, trailing after Japan and three European countries. Without a determined effort

to change the way corporate America looks at Africa, US market share in Africa will continue to lag.

The US Government can play a vital role in redirecting interest to Africa. You and Congressman McDermott have already identified several important ways of raising the profile of Africa. You rightly identified the lack of finance as one of the biggest problems facing Africa, and proposed establishing several ways to enable African countries to gain access to private sector funds and government export guarantees or develop the export industries to earn more foreign exchange. You also focused on mechanisms to restrict those programs to the those countries that have undertaken economic reforms, including privatization; taken credible steps to reduce their debts to manageable levels; and established greater transparency. Taken together, your proposals lay a solid foundation for sorely-needed infrastructure improvements, enhanced regional integration, and trade based growth that are the hallmarks of sustained economic development.

But while the debate has thus far focused on the tangible role of the US government in stimulating capital formation, it has largely neglected the intangible roles -- such as the advisory and consultative services of the US Government -- that are often just as important. In fact, those roles have been largely neglected in Africa for several decades as other more priority regions of the world gain more resources and attention.

The best example of this is the lack of priority that the Foreign Commercial Service (FCS) places on Africa. The US Commerce Department staffs foreign commercial service posts in roughly 70 countries around the world, but staffs only four posts in sub-Saharan Africa. In fact, there are currently more commercial service posts in Germany, than in all Sub-Saharan Africa. This means that commercial functions in non-FCS posts are staffed by State Department officers, many of which are either not trained in commercial matters or are not interested.

The Administration's recently released Trade and Policy Development Report for Sub-Saharan Africa justifies the minimal foreign commercial presence by claiming that its FCS posts in Nairobi, Abidjan, and South Africa are "regional" posts. While this "regionalization" excuse confirms there is a problem with a lack of coverage, it does little to rectify it. FCS officers have a hard enough time developing the contacts and know-how to make them effective in one country or city. When they are required to spread themselves to an additional 12 to 15 countries, even with the support of the Embassy economic section in those countries, this level of commercial representation becomes token at best.

Not only does this pattern of post allocation send a clear message that US priorities are not in Africa, but it also hinders the ability of US firms to develop a presence in many African countries. FCS posts play an important role in providing information and in helping US firms introduce themselves to a new country. For a country like Germany, where sources of commercial information abound, such a service is hardly needed, and may crowd out similar private sector activity. For countries like Ghana or Guinea, where such information is scarce and where the business customs are less well-known, the presence of reliable commercial support from the US Embassy can be critical to getting a deal started and seeing it closed.

Unfortunately, this apparently lack of interest often goes to the top. The late Commerce Secretary Ron Brown made several trips to Africa to promote stronger US/African ties. Before that the previous Commerce Secretary to visit Africa was Malcom Baldridge, who visited Africa in the 1980's. At an even higher level, the trend becomes more pronounced. Aside from a visit by President George Bush to the US troops in Somalia during the lame duck period in his presidency, no sitting US president has gone to sub-Saharan Africa since President Jimmy Carter became the

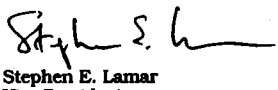
first US president to visit that region. To be fair, however, Africa does seem to be popular among Vice Presidents. Vice President Gore has made several trips to Africa, as did Vice Presidents Dan Quayle and George Bush.

Similarly, Congress is often an accomplice in this lack of attention in that it focuses insufficient resources to economic successes in Africa. All too often, Congressional hearings focus on the problems in Africa -- AIDS, underdevelopment, wars, poverty, or refugees -- without taking the time to tease out the good news from that continent. In the past five years, there have been dozens of hearings bemoaning the lack of democracy in Zaire or condemning the ethnic strife in Burundi and Rwanda, but there have been only a handful of hearings extolling the accomplishments of the private sector. In contrast to the endless parade of resolutions condemning the regimes in Nigeria and other less than democratic places, there have been few, if any, resolutions praising the sound economic stewardship of Botswana or Swaziland.

As you move forward on your plans to develop a comprehensive trade and investment strategy for Africa, I would encourage you to address some of the intangible aspects of that policy. ***At the very least, I would hope that additional FCS posts could be opened in Africa to expand the US Commerce Department presence there.*** It is vital that any policy in support of a US/African trade partnership be deployed through all available means while demonstrating the clear, and unambiguous, endorsement at all levels of government.

Thank you for considering these views.

Sincerely,



Stephen E. Lamar
Vice President

[BY PERMISSION OF THE CHAIRMAN]

EMBASSY OF THE REPUBLIC OF MADAGASCAR
2374 MASSACHUSETTS AVENUE, N.W.
WASHINGTON, D.C. 20008

TELEPHONE (202) 265-5525
FACSIMILE (202) 265-3034

WRITTEN STATEMENT BY THE ECONOMIC COMMITTEE OF THE AFRICAN AMBASSADORS GROUP TO THE HEARING ON U.S. TRADE WITH SUB-SAHARAN AFRICA SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS AUGUST 1st, 1996

AFRICAN AMBASSADORS PERSPECTIVE ON US/AFRICA TRADE RELATIONS

INTRODUCTION

As the world comes to the close of the first decade since the end of the Cold War, Africa finds itself in an extremely difficult situation as it struggles with changes taking place worldwide and within the continent itself. While the continent appears increasingly at the brink of being excluded from effective participation in international trade and global economy, facts suggest that today's world has become a small global village where mankind is closely interlinked by fate. The development of Africa's economy while essential for the future of the continent, will also have beneficial effects for the rest of the world.

The importance of Africa to the United States and to the world at large is founded on the following:

- Africa represents about 10 per cent of the world's population and 25 percent of its land mass. The socio-economic development of the continent, its environmental stability and the political developments therefore have bearing on the rest of the world.

- With a population of over 600 million and a GDP of about U.S. $ 443 Billion (1994), Africa has one of the largest concentration of consumers. It is therefore a large potential market, for the U.S. and for the rest of the world.

- Besides its manpower, the continent is endowed with vast resources which

include: tropical forests, rivers and lakes, oil and mineral deposits, attractive geophysical features and rare species of animal life. Africa's varied climate also makes it possible to cultivate a wide range of crops for the benefit of mankind.

It is now widely appreciated by Africans themselves, that solutions to the continent's development are primarily their responsabilities. In this regard many African countries have undergone considerable transformation in the last five years or so aimed at improving the business climate and attracting investment. Consequently, Africa is now really a kaleidoscope of many countries and regions, at different stages of development. It is no longer accurate to generalize when referring to Africa. Recent changes and developments in the continent include:

- Democratization
The process of democratization has taken root in Africa. At least 31 countries now have popularly elected governments and parliamentary democracies. The trend continues.

- Economic Reforms
Most countries have embarked on structural adjustment programs to make their economies more market oriented. Most countries have liberalized their trade and investment regimes to facilitate the flow of goods and investment resources in and out of their borders.

- Regional Co-operation and Integration
In line with the global trend, a renewed interest in regional economic co-operation in Africa can be seen.

- Privatization
The role of the private sector in economic development of the continent is being encouraged through creation of an enabling environment for private investment. Government participation in business activities is on the decline as many previously government owned enterprises are restructured or privatized.

- Public Sector Reform
African governments recognize that the era of big government is gone. Measures have been undertaken in several African countries to downsize the bureaucracy.

The above changes have not been without a social and economic cost. The structural adjustment process has opened African enterprises to competition and forced numerous manufacturers to close down leading to lay-offs and increased unemployment. This compounded with a heavy international debt has left Africa in a fragile situation and in need of fresh capital. But it is Africa's hope and expectation that out of the sacrifice made and suffering endured will sprout a new life of prosperity. Several countries in Africa have set a base for take-off to newly industrialized country status. How fast and smooth this can be done will depend on the international reaction to changes in Africa. Injection of new

investment capital is vital. The United States can make a major impact by encouraging direct investment in Africa.

THE CURRENT SITUATION OF US/AFRICA TRADE AND INVESTMENT RELATIONS

Since the winds of change that swept across Africa after the second world war, ushering in the independence of the majority of African countries , planting seeds of new nations, the United States has been a major participant in events that have shaped the continent.

Thanks to the variety of U.S. Foreign Assistance Programs, Sub-Saharan Africa, has benefited from a variety of socio-economic development schemes, humanitarian assistance programs and conflict resolution activities. Through the USAID, the Peace Corps movement and other targeted bilateral programs United States aid and technical assistance have helped development of the continent's agriculture, educational facilities, environment, industry, public health and manpower. The United States has equally been instrumental in the development of Africa through its contributions to multi-lateral organizations notably the United Nations, the World Bank, the African Development Bank and the IMF.

Despite all these efforts, U.S. assistance to Africa has fallen short of achieving the primary objective which is to reduce poverty and to improve the standard of living of the African people. U S.-African trade has notably remained dismal while U.S. investment in Africa has stagnated if not declined.

For example in 1995,total US exports were valued at US $582.1 billion , $5.4 billion (about 1 per cent) of which went to Africa. Total US imports in 1995 were US $ 743.5 billion, $12.7 billion (1.7 per cent) of which originated from Africa.

Although the U.S. has a negative trade balance with Africa, crude oil alone accounts for nearly 66% of Sub-Saharan Africa's exports to the U.S. There are only a few other notable exports from Africa to the U.S. such as semi-precious stones (3.1%), ferro-alloys (2.4%) and cotton and textile apparel (2.3%). Sub-Saharan African exports to the U.S. are predominantly raw materials with little value added. Only four countries: Nigeria, Angola, South Africa and Gabon account for 84% of Africa's exports to the United States with Nigeria alone accounting for over 30 per cent in 1995. Similarly, South Africa accounted for over 50 per cent of Africa's imports, from the U.S. in 1995. Both the structure and level of U.S.-Africa trade are therefore unsatisfactory.

The formulation of a Comprehensive Trade and Development Policy for the Countries of Africa , a report presented by President Clinton to the Congress, on February 5, 1996 pursuant to section 134 of the Uruguay Round Agreements Act, is a major step forward to an overall Trade and Investment Policy on Africa but it has come at a time when the U.S. is actively downsizing its financial commitments to Africa .

Within the context of the efforts by the U.S. Congress to balance the budget, the already small U.S. aid package to Africa has been cut back, putting into question even the existence of present projects. African countries believe that new initiatives should complement rather than replace existing bilateral technical assistance and aid programs.

The Generalized System of Preferences (GSP) which allows African exports into the US market under preferential tariff rates, was held in abeyance for almost a year. The consequence of this indecision was that many small and medium African and American companies which utilized the GSP scheme had to bear the burden of added tariff cost.

Moreover, efforts by budding African exporters of textile and related products to the United States have been checked by quantitative restrictions, in way of quotas, thus frustrating the industrialization process of these countries, and reducing their capacity to purchase more U.S. goods, and attract more American investors. This is a glaring contradiction in U.S development assistance objectives for Africa. An example at hand is the case of Kenya, which is currently limited by quotas to exportation of only 381,000 dozens of shirts and 1,378 thousand pairs of pillow cases to the U.S. each year. This quantity is a drop in the ocean and does not pose any danger of disruption to the U.S. domestic market.

The U.S ineffectiveness in Africa contrasts sharply with the relative success of the European countries. While colonial history links African and European countries, this relationship has been strengthened and maintained through a solid program of co-operation and assistance under the umbrella of the Lome Convention. This convention not only provides preferential access to the European Union market by products from Africa, Caribbean and Pacific (ACP) countries but also provides regional technical assistance programs in industrial development, agriculture, and infrastructure development. The U.S. does not have a comparable comprehensive scheme for Africa.

The emergence of Japan and east Asian countries as major exporters of manufactured products and their increasing share of the African market clearly dispel any supposition that Europe has a monopoly over African markets. Success of these countries is based on close support by the their Governments to the private sector when competing for markets in Africa, especially in infrastructure development , as well as their long term strategies. The bottom line is - if Japan can succeed in Africa, so can the U.S.

CHALLENGES OF US/AFRICA TRADE: ELEMENTS OF SOLUTION

While there still remain major challenges to the development of mutually beneficial trade relations between the US and Africa; they are however not insurmountable.

Media Coverage

Most American and American businesses continue to be misinformed about Africa by the American media. Both the electronic and print media continue to present an unbalanced image of Africa by focusing mostly on major trials and tribulations of a handful of countries

on a continent with more than fifty countries. These coverages are often inaccurate and inadequate, thereby rendering them overly negative and unrealistic.

Since the American business community in particular and public in general base their basic impressions of other parts of the world on media reports, a positive image of Africa in the US media is a crucial pre condition to the development of increased trade relations between Africa and the US. The economic potentials and opportunities offered by the African markets are seldom mentioned, but the woes of a handful of countries are generalized as reflecting the situation on the continent.

African-European Economic Relations

The US can follow Japan's example and begin to significantly increase its share of Africa's international trade. The US has to disabuse itself of the illusion that Africa is Europe's territory and live up to the words of the late Commerce Secretary, Hon. Ron Brown, "American will no longer concede the African market place to Europeans". The Europeans have welcome this American challenge.

From Aid to Trade

While it is realistic to focus on increased trade between Africa and the US, and not only on US foreign assistance to Africa; it is also fair to say that US foreign aid to Africa was also a domestic assistance for jobs creation in the US, i.e. American consultants contractors and suppliers are used in providing US foreign assistance to Africa.

The late Commerce Secretary, Hon. Ron Brown and the Republican controlled Congress made it very clear to Africa that the US was focusing on trade and not foreign aid. As Africa braces itself for this change, it must nonetheless be a gradual process.

Joint-ventures between African and American businesses must be encouraged. OPIC EXIMBANK and USAID rules should be modified to allow for more commercial investments in Africa. Other US financial institutions, should commence modifications that would reflect this change and create more opportunities for Africans in Africa.

Africa debts crisis

A major challenge to trade development between Africa and the US is Africa's indebtness reported to be US $ 223 billion last year. Africa spends 20% of her export earnings on average to service this debt. This definitely reduces or eliminates savings for economic growth and development. Hence, it is in the interest of both the US and African governments to seriously find ways and means to eliminate this indebtness so as to provide the necessary savings for trade and investments.

Multinational corporations

Many small and medium size US businesses seem to have conceded the African markets to the large multinationals. They have the misconception that investments into African markets are very costly and riskier than investments into other parts of the world. However, the fact of the matter is that investing in Africa is no more costly and riskier than investing in other parts of the developing world, such as Latin America, Asia, central and Eastern Europe.

Small and medium size businesses should be encouraged to use commercial investment information from the US Commerce Department, African embassies, as well as African students and professionals before forming opinions on trade and investments in Africa.

Africa is more than a source of raw materials

As mentioned earlier, more than 75% of US imports from Africa have been in raw materials such as crude oil and minerals, Africa must be seen as more than the provider of raw materials for US manufacturers. Though it represents a diverse set of countries, with incomes ranging from low to upper middle; the last 14 years , it has led the world in rates of return on investments by American multinational corporations. The African market is significant for the US because it represents a large and developing market for US goods and services.

Africa should also be viewed as a region that is increasingly becoming liberalized both politically and commercially. The past five years have witnessed political reformation towards democratization that is unprecedented. The current trend of political and economic reforms must be embraced, encouraged and supported by the US. Institution-building and sustaining mechanisms in support of these changes must be visibly and adequately supported by the US as part of its comprehensive national security strategy to create a friendly environment for investment and development.

As political stability is a prerequisite for economic development and economic development contributes towards the alleviation of poverty; hence eliminating the breeding ground for such ills as terrorism, refugee flows, narco-trafficking, environmental degradation, internal and regional conflicts .

To further strengthen these efforts the US should penalize those American businesses that continue to engage in illegal commercial activities with warring factions and war lords.

AFRICA AND THE WTO

During the negotiations leading up to the final Uruguay Round and the implementation of the new GATT/WTO, the ability of the Sub-Saharan African countries as a group to protect their interests and influence decisions was very limited due to a number of factors, e.g. most Sub-Saharan African countries had neither the financial nor technical capacity to participate actively in the negotiating process, even today few have delegations at the GATT/WTO headquarters.

The new GATT aims principally at lowering world trade tariff barriers. At present, according to the OECD, the majority of Sub-Saharan African countries face tariffs on their exports of less than 1%. Therefore they will not be beneficiaries from these tariff reductions. The Most Favoured Nation (MFN) tariff cuts in the new GATT will lead to an erosion in the preference margins that beneficiaries received under such schemes as the Generalized System of Preferences (GSP) and the Lome Convention.

For Sub-Saharan African countries to achieve sustainable growth, the development of a strong manufacturing sector is essential. It will be through manufacturing that employment can be created for the younger generation of Africans coming on to the job market each year. However, it is specifically those manufactured products, such as clothing and leather work, which are of potential interest to African countries that retain the highest tariffs - 10.2% for garments and textiles and 2.1% for leather goods.

It is the general consensus of the numerous studies assessing the probable effects of the Uruguay Round on Africa in particular that any benefit to the Sub-Saharan African countries will be small and indirect from the trickle down effect of the general increase in world trade.

The Uruguay Round also encompasses a number of service agreements. Commercial services account for 25% of world trade and grew at an annual rate of 7.7% between 1980 and 1993, while trade in goods grew at 4.9%. African countries are principally importers of services. The Sub-Saharan African countries will need help in ensuring that internal markets are not swamped by foreign companies as they open up their service sectors. They will also need technical assistance in setting up the legal and investment frameworks for these areas of development.

The WTO will become a major international organization influencing the world economic order. Since Sub-Saharan African countries have little experience in trade and commercial matters for the reasons stated above, they will find it difficult to play a full role in the WTO to successfully protect African interests. Furthermore the number of Africans who can participate in the structural organization of the WTO itself is also limited, doubly limiting the ability of the African countries to effectively work to ensure the full integration of Africa into the global economy.

In the light of the above conclusions concerning the effect of the Uruguay Round on Sub-Saharan African countries, some rethinking of the new GATT/WTO framework in respect of Africa is necessary. This must take into consideration the major historic disadvantages under which the African countries are seeking to reform and develop their economies, and the disadvantages that the present UR framework impose on the African countries.
The support of the United States, as well as other international partners, would be of the upmost importance.

NEW INITIATIVES FOR A UNITED STATES TRADE AND INVESTMENT POLICY TOWARD AFRICA

As noted by the U.S. Senate Committee on Appropriation in its 2nd session report of June 27, 1996, "... After years of substantial U.S. bilateral and multilateral aid and investment, economic and trade trends (in Africa) show little sign of improvement. It is clear that the administration has not yet developed a coherent strategy to match long term, declining resource trends with ever expanding requirements. No new targets of development opportunity have been defined nor have innovative approaches been tested...".

Considering the "limited" success of U.S. policy on aid and development in Africa, especially towards the eradication of poverty and the creation of an enabling environment for self-sustaining development, the time has come for a radical shift in policy to support a private sector and market incentives approach to stimulating economic growth and reducing poverty in Africa.

As has been noted by the African Ambassadors Economic Committee, the achievement of the above goal is primarily a question of approach.

The suggested approach should contain the following elements:

1. Countries that have suffered major internal conflicts and natural disasters should continue to receive traditional aid programs that provide humanitarian and reconstruction assistance.

For those countries whose levels of economic growth justify it, foreign assistance funding should be directed at creating seed capital and leverage in the financial markets

2.. Aid should be aimed at capacity and capability enhancement of African entrepreneurs, professionals and firms. Training programs should make African consultants and firms eligible for bids put out by the multilateral financial institutions. A portion of such contracts should be set aside for these African firms to give them the chance to grow and participate fully in the global economy.

3. The United States Government should develop a "Marshall Plan" for Africa, but this time, providing guarantees and incentives to the United States private sector to invest in Africa . American investors should be encouraged to process Africa's vast raw materials in Africa . Current policies such as that of the US EXIMBANK which requires African governments with fragile financial institutions to counter-guarantee loans for projects must be modified if the assistance package under these policies is to be meaningful to the African entrepreneurs.

4. The active support of the United States Government for the regional economic integration efforts in Africa is critical if African markets are to be developed to sufficiently attract U.S. private capital and entrepreneurship.

5. The science and technological know-how of the United States should be used to help Africa modernize its indigenous technologies for greater raw material processing. Agencies such as the Departments of Energy, Transportation, Agriculture, in conjunction with other US private sector research organisations and universities could liaise with African research organizations such as Ghana Centre of Scientific and Industrial Research (CSIR) to create new products from plants and other raw materials.

6. US Trade and development Policy for Africa should also incorporate an incentive scheme that will encourage the African professionals who have been trained in the United States or received higher training in the US to offer their services to African countries. Such a scheme that encourages these professionals to start up businesses in Africa with US technical support will appeal more directly to these professionals and intellectuals.

7. The new policy should allow easier access for African products to the US market. The acceptability of African products in US markets, and the desire of the general US citizenry to support assistance to Africa is critically dependent on the image of Africa projected in the minds and perceptions of the American public. US policy should use the expansive reach of the US agencies to present Africa in a positive light to the US public. For example, few Americans realize that each US dollar given as aid to Africa generates $20.00 for the American economy and that US firms on the average receive 30% return on their investments in Africa as compared to 12% in other developing countries and 5% in developed countries.

8. US technical assistance should encourage and support African governments to improve their abilities for superior policy analysis skills.

9. The US trade policy must seriously address Africa's overbearing debt-burden. Debt forgiveness for all of the debt should be a possibility, especially with strong US leadership.

CONCLUSION

The African countries welcome the publication of the US President's Comprehensive Trade and Development Policy for the Countries of Africa. It is a giant step in a very long, arduous struggle to gain improved trade preferences with the USA. The African countries certainly support all the initiatives included in President Clinton's Comprehensive Trade and Development Policy for the Countries of Africa, and urge their implementation as soon as possible.

Moreover, the African countries also support the initiatives of the House Bipartisan Africa Trade & Investment Caucus particularly:

US-Africa Free Trade Area, though the earlier the better
Creation of the US-Africa Economic Cooperation Forum
Freeing African textile and apparel exports from quota up to a level of $ 3.4 billion per year.

The African countries note with much satisfaction the unprecedented initiative of the House Ways and Means Subcommittee on Trade to organize this hearing which focuses on the promotion of better trade and investment relations between Sub-saharan Africa and the US.

The present statement is just a basic overview, to proceed further, a Summit between the President of the United States and the leaders of African Countries should be convened in order to hold a high level discussion on the formation of a US-Africa Trade and Investment Partnership.

The new partnership would include greater access to African and US markets as well as the establishment of an annual high level forum that will provide the opportunity to develop, evaluate and monitor the implementation of the elements of the partneship.

We can assure that the African Ambassadors to the US are fully committed to work closely with all US interested parties, to achieve these goals.

JOINT STATEMENT OF
MAURITIUS SUGAR SYNDICATE AND
MAURITIUS-U.S. BUSINESS ASSOCIATION, INC.

Before the

UNITED STATES HOUSE OF REPRESENTATIVES
BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Concerning U.S. Trade Policy with Africa

This statement is submitted on behalf of the Mauritius Sugar Syndicate ("MSS") and the Mauritius-U.S. Business Association, Inc. ("MUSBA") in connection with the Subcommittee's August 1, 1996 hearing on U.S.-Africa trade policy. The MSS is a private sector organization representing all sugar planters and millers in Mauritius. Working in close cooperation with the Government of Mauritius, the MSS is responsible for marketing all sugar produced in Mauritius, including sales to the United States under the U.S. tariff rate quota. I am legal counsel to the MSS in the United States.

MUSBA is a non-profit corporation dedicated to enhancing the opportunities for mutually beneficial trade between Mauritius and the United States. MUSBA's membership is drawn from the private sectors of both Mauritius and the United States and consists primarily of companies and individuals who are engaged in importing and exporting goods and services between both countries. I am the current president of MUSBA.

Introduction

In December 1994, Congress passed the Uruguay Round Implementing Act, Pub. L. 103-465, 108 Stat. 4809 (Dec. 8, 1994). Section 134 of that Act called upon the President to "develop and implement a comprehensive trade and development policy for Africa." In February, the President issued his first report to Congress on this subject. While the President's recommendations represent a positive step, particularly by recognizing the need and opportunities for improving trade between the United States and Africa, we do not believe those recommendations go far enough.

During its hearing on August 1, the Subcommittee received a variety of proposals for more aggressive and ambitious action to increase trade with Africa and to encourage investment to facilitate Africa's continuing economic development. In particular, Rep. McDermott presented testimony calling for an immediate increase in access for African-origin textile and apparel products and for the creation of (1) a U.S.-Africa Free Trade Area; (2) a U.S.-Africa Economic Cooperation Forum; and (3) a Trade and Investment Partnership. MUSBA and the MSS support these proposals.

To illustrate the need for these steps, my statement addresses the threats to existing trade in the two export products of greatest importance to Mauritius — *i.e.*, sugar and apparel. This statement also analyzes the potentially negative impact on Mauritius' exports of the Uruguay Round and the growing emphasis on Western Hemisphere regionalism in U.S. trade policy. While the following comments focus on the importance of maintaining and expanding U.S.-Mauritius trade, these comments are in many respects relevant to trade with the African region generally.

I. THE IMPORTANCE FOR MAURITIUS OF TRADE WITH THE UNITED STATES.

A. Sugar Exports: The Cornerstone of the Mauritian Economy.

Until relatively recently, the Mauritian economy was almost completely dependent upon one product—sugar. With few natural resources, Mauritius has for more than 200 years relied upon the production and export of sugar for its livelihood. Until the mid-1980's, the sugar industry was by far the largest private sector employer, and sugar exports accounted for nearly 90 percent of Mauritius' total export revenues. Mauritius' dependence on sugar is due to its particular climatic conditions. Sugar cane is one of the very few crops that can withstand the tropical cyclones that frequently hit the island. As a

result, sugar cane is grown on over 90 percent of the arable land on the island. Despite its small size, Mauritius is the third largest producer of sugar in the African region and among the top ten sugar exporters in the world.

Over the past 15 years, Mauritius has undergone a successful economic diversification program, primarily due to the encouragement of apparel manufacturing in the Export Processing Zone. Despite the success in developing the apparel industry, the sugar industry remains the cornerstone of the Mauritian economy. Today, the sugar industry is the second largest employer. Sugar exports now account for roughly 30 percent of gross export revenues and about 50 percent of net export revenues, as the materials and equipment for the apparel industry must be imported.

Approximately 40,000 people out of a total working population of roughly 500,000 are directly employed in the sugar industry. In addition, other industries that support the sugar industry provide further employment. The Mauritian sugar sector is not dominated by a few large corporate farms. Nearly half of the sugar is produced on approximately 35,000 small-to medium-sized farms—most of which are family owned. In addition, no government subsidies are provided to the Mauritian sugar industry.

For decades, the United States has been one of Mauritius' important trading partners and an essential market for its sugar exports. Before the imposition of the U.S. sugar quota in 1982, Mauritius exported as much as 100,000 tons of sugar per year to the United States. In the intervening years since 1982, the U.S. sugar quota has gradually declined, and Mauritius' access to the U.S. sugar market has been reduced commensurately.[1] As a result of the Uruguay Round, the United States has now "bound" the minimum level of the tariff rate quota at 1.1 million tons. Mauritius' first-tier allocation of this minimum quota amounts to approximately 15,000 tons.

Despite the reductions in Mauritius' access to the U.S. market since 1982, the United States remains Mauritius' second largest export market for sugar.[2] Should Mauritius' or the other African sugar exporters' access to the U.S. market be further reduced, the only alternative market for their sugar exports would be the so-called "world market," where spot prices are extremely volatile and frequently do not even cover the cost of production.

The benefits received from stable access to the U.S. sugar market at reasonable prices are widely distributed throughout the economy of Mauritius. As noted above, 40,000 workers are directly employed in the production of sugar. These employees are unionized and engage in collective bargaining regarding wages and benefits. The right to collective bargaining is guaranteed by legislation in Mauritius, and working conditions are regulated by government agencies. Sugar industry wages have generally increased faster than the rate of inflation and are comparable with wages in the industrial sector of Mauritius. Moreover, 35,000 small farmers earn their livelihoods or supplement their incomes by growing sugar. As members of the MSS, these small growers share directly in the proceeds received from sales to the U.S. market.

---

1 The percentage allocation of the U.S. sugar quota assigned to Mauritius—1.2 percent—does not accurately reflect Mauritius' traditional share of the U.S. market due to the unprecedented coincidence of several *force majeure* events during the 1975-1981 base period used to calculate the quota allocations. Mauritius' share of the U.S. quota would have been greater if a more representative base period had been used. Despite repeated requests by the MSS, the U.S. Administration has not adjusted Mauritius' quota allocation to account for this anomaly in its base period exports.

2 The same is true for most of the other African sugar-exporting nations. Ten developing African countries hold allocations under the U.S. sugar quota: Congo, Côte d'Ivoire, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe. The United States has traditionally been the largest or second largest market for sugar exports for most of these countries. The most recent data published by the International Sugar Organization reports that over the past five years 100 percent of the sugar exported by Mozambique and Gabon went to the United States, and approximately 50 percent of the sugar exported by South Africa since economic sanctions were lifted has been sold to the United States. For most of the remaining African quota holders, sugar exports to the United States constitute approximately 25 percent of their total sugar exports.

In addition to these direct benefits, revenues earned on sugar exports to the United States are reinvested in Mauritius and have served as an important source of funds for economic development and diversification, including the development of the apparel industry. Mauritius has also enjoyed a sugar-based industrial development in which many local businesses have been established over the years to meet the needs of the sugar industry. For example, businesses have been created to manufacture fertilizer, lime, factory equipment, and other products required to produce sugar. Distilleries have been established to produce rum and perfume from the by-products of the sugar industry. Bagasse, the dried residue from crushed cane, is used in generating electricity for the national grid, replacing non-renewable energy imports such as oil. These new economic developments have provided significant additional employment opportunities as a result of the "multiplier effect" of each dollar earned from the sale of sugar.

For all these reasons, it is of vital importance that Mauritius maintain at least its current level of access to the U.S. sugar market at fair and remunerative prices. Any erosion in the U.S. price or in Mauritius' access to the U.S. sugar market would affect not only the sugar industry, but also Mauritius' ability to plan and to execute future economic development in other sectors.

B. The Mauritian Apparel Industry: Continued Success Depends Upon Market Access.

At its independence in 1968, Mauritius had essentially no industrial base and very little foreign investment. By 1982, the economic outlook was further complicated by a catastrophic unemployment rate of 20 percent, which only threatened to worsen if the population continued to grow at the then-current rate. Based on the advice of the World Bank, in 1982 the Government of Mauritius embarked upon a bold program of fiscal austerity and economic development and diversification. Building upon the foundation of the Export Processing Zone and adding incentives designed to attract foreign investment, Mauritius took the first steps toward a diversified economy.

The development and diversification program has been a remarkable success. In less than 15 years, the apparel manufacturing industry has become the largest employer in Mauritius, and apparel exports now constitute nearly 60 percent of Mauritius' gross export revenues and 40 percent of net export revenues. In addition, the tourism industry has also grown to the point that it is now the third largest source of employment and foreign revenue. The process of diversification is still ongoing, and Mauritius is currently expanding into other types of light manufacturing, information services and financial services.

The continuation of these export-driven successes, however, is dependent upon Mauritius' ability to maintain access to its major markets for its two main export products, *i.e.*, sugar and apparel. Because the United States is an essential market—indeed, Mauritius' second largest market, behind only the European Union—for both of these products, Mauritius' economic stability and continued development will depend to a large degree on its ability to maintain and hopefully expand its access to the U.S. market for its most important export products. Unfortunately, both the Uruguay Round Agreement and the increasing emphasis on the Western Hemisphere in U.S. trade policy threaten Mauritius' current success and its prospects for future development.

II. THE URUGUAY ROUND AGREEMENT CREATES SPECIAL RISKS FOR AFRICAN EXPORTERS.

Although the successful conclusion of the Uruguay Round was a tremendous accomplishment, a consensus has emerged that the Uruguay Round Agreement provides relatively few benefits for developing countries generally and for the countries of Africa in particular. Indeed, it appears that the Uruguay Round Agreement actually raises new risks for African exporters. This is especially true in the case of Mauritius' exports of sugar and apparel.

A. The Effect of the Uruguay Round on Sugar Exports.

The United States has determined that the Uruguay Round Agriculture Agreement requires no changes to the basic structure of the U.S. sugar program.[3] Indeed, the only significant change to the U.S. sugar program that has resulted from the Uruguay Round is the binding of the minimum access level under the U.S. tariff rate quota.[4] Even that development, however, is not an unmitigated blessing, as the United States has retained the right to modify or even rescind the basic country allocation system that has determined access to the U.S. sugar market since 1982.

Indeed, in the context of the Federal Agriculture Improvement and Reform Act of 1996, Pub. L. No. 104-127, 110 Stat. 888 (Apr. 4, 1996) (the "Farm Bill"), the United States has already this year considered the possibility of rescinding the country allocations and "globalizing" the sugar quota so that future access would be on a first-come, first-served basis. Fortunately, the final version of the Farm Bill rejected the concept of globalization and continued the basic structure of the current U.S. sugar import program for another seven years. If the U.S. quota were globalized in the future, however, there is a serious risk that the entire quota would be captured by a handful of the world's largest sugar producers to the exclusion of Mauritius and other African exporters that have traditionally relied on access to the U.S. sugar market. If Mauritius and the other African quota holders are to retain meaningful access to the U.S. sugar market, it is essential that the current country allocations be maintained.

In addition, at the same time that the United States bound the minimum quota, it modified the U.S. Harmonized Tariff Schedule to include sugar imports from Mexico pursuant to the North American Free Trade Agreement ("NAFTA") within the first tier of the tariff rate quota. This development further jeopardizes access to the U.S. sugar market by Mauritius and the other African quota holders by creating the risk that increased sugar imports from Mexico in the future could displace imports from other traditional suppliers.

B. The Effect of the Uruguay Round on Apparel Exports.

The Uruguay Round Agreement also poses great risks for Mauritius' apparel exports to the United States. The gradual phasing out of country quotas under the Multifiber Arrangement will certainly result in a more market-oriented approach to apparel imports. On the other hand, it is virtually certain that intense competition for access to the U.S. market will result, and it remains to be seen whether relatively small producers like Mauritius and the other African countries can retain market share once the quotas are lifted on such low-cost producers as China. This threat is especially severe for those African countries that are only now beginning to develop apparel industries. Under the Uruguay Round regime, they may never be able to obtain meaningful access to the U.S. market.

---

3 The Uruguay Round Agriculture Agreement requirements fall into three main categories: (1) market access: tariffication of non-tariff barriers and 36 percent average (15 percent minimum) reduction in tariffs over six years; (2) domestic supports: 20 percent reduction in aggregate of trade distorting domestic subsidies; and (3) export subsidies: 21 percent reduction in volume and 36 percent reduction in amount of export subsidies.

4 The United States will also reduce its second-tier duty on sugar by the minimum 15 percent. That change is unlikely to affect access to the U.S. sugar market, however, because even the reduced duty will still pose a prohibitive barrier, absent dramatic changes in the U.S. and/or world sugar markets.

III. THE GROWING EMPHASIS ON WESTERN HEMISPHERE REGIONALISM IN U.S. TRADE POLICY JEOPARDIZES CONTINUED ACCESS FOR MAURITIUS' EXPORTS TO THE UNITED STATES.

Even before the Uruguay Round was completed, U.S. trade policy had begun to focus primarily on expanding trade within the Americas and the Caribbean, to the potential detriment of the United States' other developing-world trading partners. This policy shift in favor of Western Hemisphere regionalism was most clearly exemplified by the conclusion of NAFTA, the efforts to create a Free Trade Area of the Americas ("FTAA"), and proposals to expand the trade preferences accorded to beneficiary countries under the Caribbean Basin Initiative ("CBI") (*see* Caribbean Basin Trade Security Act, H.R. 553, S. 529).

While expanding free trade within the Western Hemisphere is certainly laudable, Congress should not lose sight of those countries whose trade opportunities would be diminished by the creation of such a trade bloc. While trade will no doubt continue to flourish between the United States and the other countries of NAFTA, the CBI, or a prospective FTAA, we must recognize that some of the growth in Western Hemisphere trade will come at the expense of existing or potential trade relationships with the countries of Africa, which are excluded from the terms of the Western Hemisphere free trade regimes. There is a real risk that further expansion of Western Hemisphere trade preferences may curtail commerce between the United States and Africa unless steps are taken to provide similar trade opportunities for those countries. This is especially true in the case of two products that are at the heart of the U.S.-Mauritius trading relationship — sugar and apparel.

In the case of sugar, NAFTA provides Mexico with an opportunity and a strong incentive to expand its sugar exports to the United States from their current level of 8,000 tons per year to 250,000 tons per year during the transition period, provided Mexico becomes a net exporter of sugar. Thereafter, Mexico will have unlimited, duty-free access to the U.S. sugar market.

Mexico's preferential access to the U.S. sugar market under NAFTA is already a threat to future access by Mauritius and the other African nations. If comparable terms are extended to the other countries of the Americas in the FTAA negotiations or to the CBI countries, there is a very real risk that Mauritius and the other African sugar exporters will lose all access to the U.S. sugar market.

Similarly, NAFTA grants Mexico preferential access—in terms of both quotas and duties—for its apparel exports to the United States. Such preferential access for Mexican apparel products is especially problematic for Mauritius because Mauritius and Mexico export many of the same apparel products to the United States, and Mexico already enjoys obvious advantages due to its close proximity to the U.S. market.

Under the Uruguay Round Agreement, U.S. quotas on Mauritian apparel exports will be phased out over ten years. Under NAFTA, however, U.S. quotas on Mexican apparel products that meet NAFTA's "yarn-forward" rule of origin were eliminated January 1, 1994, and U.S. quotas on non-originating Mexican apparel products will be phased out more quickly than under the Uruguay Round, with most such quotas to be eliminated by 2001.

Equally important, Mexican apparel products have a permanent duty advantage as a result of NAFTA. Under the Uruguay Round Agreement, U.S. tariffs on Mauritian apparel exports will be reduced—*but not eliminated*—over ten years. In contrast, under NAFTA, U.S. tariffs on qualifying Mexican apparel products were reduced effective January 1, 1994, to lower than MFN levels and will be eliminated completely by 1999-2003. Non-originating Mexican apparel products are subject to preferential duty rates under tariff-rate quotas. As illustrated by the following table, Mauritius' apparel products are at a substantial duty disadvantage compared to the same products imported from Mexico.

		Imported From Mauritius Under GATT		Imported from Mexico Under NAFTA	
HTS No./ Category	Product	1995 Duty	Reduced Duty by 2004	Current Duty	Reduced Duty
6205.20.20 340	Men's/boys' cotton shirts	21.0%	19.7%	16.5%	0% (1999)
6203.42.40 347	Men's/boys' cotton trousers	17.7%	16.6%	14.5%	0% (1999)
6204.62.40 348	Women's/girls' cotton trousers	17.7%	16.6%	14.5%	0% (1999)
6110.20.20 345	Knit cotton sweaters	20.7%	16.5%	18.6%	0% (2003)
6206.30.30 341	Women's/girls' cotton blouses	16.4%	15.4%	0%	0%
6108.21.00 352	Women's/girls' cotton panties	8.1%	7.6%	0 %	0%

From the foregoing, it is obvious that as a result of NAFTA apparel products from Mauritius and other African exporters are already at a serious competitive disadvantage *vis-à-vis* the same products coming from Mexico. Of course, the African nations are not the only apparel exporters prejudiced by the preferences granted to Mexico in NAFTA. Indeed, recognizing that NAFTA creates the risk of transferring trade opportunities from other developing countries to Mexico, Congress has considered the Caribbean Basin Trade Security Act. The core provisions of that bill would, if enacted, extend to the CBI beneficiary countries many of the same apparel trade preferences now enjoyed by Mexico under NAFTA. Such a step, however, would only further compound the disadvantages already facing Mauritius and the other African apparel exporters.

IV. CONCLUSIONS AND RECOMMENDATIONS.

When the provisions of the Uruguay Round Agreement are considered in conjunction with NAFTA and other Western Hemisphere trade preferences being considered by the United States, it becomes apparent that U.S. trade policy at best ignores Africa, and at worst adversely affects the economic development of Africa by transferring trade opportunities to developing countries in other regions.

One of the appropriate means of reversing this trend and actively encouraging trade with Africa would be, as Rep. McDermott has suggested, for Congress to authorize negotiations with appropriate African countries aimed at creating a U.S.-Africa Free Trade Agreement. Such an approach would ensure meaningful future access to the United States for those products that are most important to Africa, including sugar and apparel. Such access should be provided on terms at least as beneficial as those provided to developing countries in other regions, including Mexico and the CBI beneficiary countries.

We suggest, however, that a U.S.-Africa Free Trade Agreement can and should become a reality on a much shorter schedule than has been suggested. While some countries in Africa may not yet be ready to participate in an FTA with the United States, a number of African countries are currently at a sufficient level of economic development and have demonstrated their commitment to free and open trade to warrant initiating free trade negotiations in the short term future. The member nations of the Southern African Development Community (SADC), including Mauritius, would be a logical starting point for such free trade negotiations. Moreover, an appropriate schedule for such negotiations would be to aim for the conclusion of an FTA with appropriate African countries by the year 2005, the same target as is included in the FTAA proposal.

Recognizing that such negotiations, even if started immediately, would be unlikely to be concluded before Mauritius and other African apparel exporters feel the brunt of the apparel provisions of NAFTA and the Uruguay Round, which threaten to reduce their access to the U.S. market, Rep. McDermott's proposal for an immediate increase in duty-free and quota-free access for African-origin products is an excellent and practical way of bridging the gap until an FTA can be completed. By thus reducing the threats currently facing African apparel exports, developing African apparel industries can continue to grow until more permanent arrangements for trade in these products can be established. Of all the recommendations currently before the Subcommittee, only this proposal would provide an immediate solution to a current problem. Accordingly, we strongly encourage the Subcommittee to implement this proposal on an expedited basis while it continues to consider other recommendations for encouraging trade with Africa in the future.

Rep. McDermott's remaining proposals for creation of a U.S.-Africa Economic Cooperation Forum and Trade and Investment Partnership represent sound and practical means of ensuring that U.S. trade and development policy in the future does not continue to ignore Africa.

Finally, we applaud Congress' recent renewal of the GSP program, which is an important means of encouraging trade with Africa. We regret, however, that Congress was unable to renew the GSP program beyond May 1997, and we encourage the Subcommittee to make long-term renewal of the GSP program a high priority.

In closing, let me thank the Subcommittee for the opportunity to present the views of the MSS and MUSBA concerning U.S.-Africa trade policy.

Testimony of John F. Hicks
Assistant Administrator for Africa
U.S. Agency for International Development
Before the Trade Subcommittee
of the Committee on Ways and Means

Washington, D.C.

Thank you for the opportunity to submit testimony on behalf of the U.S. Agency for International Development (USAID). Trade, investment and development in Africa are clearly issues that deserve heightened attention.

Mr. Chairman, I believe there is much that we can agree upon. It is in the national interests of the United States to promote stable, democratic and dynamic trading partners in Africa. Economic growth on that continent ultimately will serve to reduce the need for foreign assistance and provide an expanding market for America's goods and services. America needs coordinated policies and diplomatic strategies to help secure the advance of free markets in Africa.

Unfortunately, U.S. efforts to promote free markets in Africa are being starved by a lack of resources. This year the United States will commit less to promoting development than Japan, Germany or France. This comes despite the fact that our economy is one and one-half the size of Japan's, four times the size of Germany's and almost six times that of France. This disturbing trend comes at a time when exports are increasingly important to our domestic economy and when exports to the developing world represent our fastest growing market sector. It is difficult to view such a policy as anything but penny-wise and pound foolish.

The Business Alliance for International Economic Development, a coalition of prominent American businesses, recently noted, "If we decide that the American

economy is doing just fine without the stimulus provided by economic assistance abroad, we will be stunting the economic prospects for our children and their children after them."

It is my sincere hope that the members of this Committee will make their voices heard in the debate about resources and the need for U.S. leadership in promoting economic growth at home and abroad.

The economic record in Africa is a mixed one. Much of the continent has suffered under years of civil strife, corruption and bad economic policy, including a failure to invest wisely in building human capital. However, it would be unfair and inaccurate to paint the broad variety of African nations with a simplistic brush of widespread economic failure. In fact, the situation in much of Africa is increasingly hopeful.

Consider that, in 1995, the median rate of economic growth for sub-Saharan Africa as a whole reached 4.5 percent. Excluding South Africa, sub-Saharan exports grew by 10.4 percent in 1995, while imports grew by 10.5 percent. U.S. merchandise exports to sub-Saharan Africa jumped by a billion dollars, from $4.4 billion to $5.4 billion in 1995 -- an impressive increase of 22.7 percent. It is too easy to allow the horrors of Liberia and Rwanda to define our images of Africa. In fact, Africa is a much more peaceful continent today than it was ten years ago. An increasing number of nations in Africa have been willing to embrace the long, patient work of economic and political change.

After a decade of slow and halting economic and political liberalization, African economies seem to be finally turning the corner.

I know that this Committee has been considering draft legislation, the "African Growth and Opportunity" act. We at USAID welcome the increased attention being given to the importance of development and trade in Africa. Obviously, we have yet to see a more final version of this Committee's legislation. My comments are a based on that preliminary material that has been provided to us, and I will do my best to provide USAID's view based on this still moving target.

The central feature of this proposal would appear to be an effort to create two large, 20-year, Trade and Development Authority (TDA)-managed, infrastructure and equity funds to help attract American investors to Africa. These funds would be financed, in their first three years, by $100 million from USAID's development assistance accounts. While USAID strongly supports a number of provisions within this proposal, particularly the development of the Africa Trade and Economic Cooperation Forum, its support for the Development Fund for Africa, and efforts to reduce trade barriers between the United States and Africa, we have real concerns about the basic strategy underlying this proposal. In addition, the transfer of tens of millions from our development assistance accounts would severely interrupt vital programs currently being carried out at a time when the agency is already under unprecedented financial duress.

The greatest challenge to achieving broad and dynamic economic growth in Africa is *not* a lack of American private capital. The greatest challenge to Africa's economies is creating an economic environment where American and African private capital is willing to invest -- and to invest without fear that they will receive unfair treatment.

Around the world, time and time again, we have been given ample proof that

private investment will flow into nations that embrace sound economic policies, the rule of law and free trade. *In short, investments and private capital flow abundantly into sound economic environments.* Unfortunately, the proposal -- as currently structured -- tries to reverse that formula, offering public financing for investment, but cutting programs that address the underlying obstacles to establishing a sound economic environment in Africa. Creating that sound economic environment is exactly what USAID's programs are about.

The key constraints to accelerated private investment and growth in Africa are policies and regulations that make investment risky and unprofitable -- not a lack of funding for private investors.

Harvard economist Jeffry Sachs argued in a recent article in *The Economist,* that there are three important characteristics that determine a country's economic progress: its openness to the world economy; its dependence on markets; and its level of saving. Sachs, in fact says "Remedies that have worked in East Asia can also work, with suitable modification, in Africa." He demonstrates that structural issues, such as poverty, natural resource levels, and being land-locked are not responsible for Africa's slow growth. Rather it is policies that have over-regulated markets and created government enterprises that have made international trade difficult and expensive and crowded out private investment to pay for subsidies and public sector white elephants.

In its 1995 report, *Building the Private Sector in Africa,* the International Finance Corporation of the World Bank Group described the constraints to private sector development in Africa. They listed three tiers of constraints: (1) development constraints such as a relatively unskilled labor force and a weak infrastructure base;

(2) macroeconomic constraints, particularly lax fiscal policy; and (3) legal, regulatory and judicial constraints. The legal, regulatory and judicial constraints were further divided into seven groups:

1) Legal and regulatory constraints such as price controls, restrictive labor codes, slow and uneven investment licensing, etc.;

2) Problems with the financial system, including crowding out of private investment, direct credit controls, and lack of financial instruments;

3) The structure and administration of taxes, including high marginal rates, widespread exemptions and evasion, poor and uneven administration;

4) The dominance of the public enterprise sector, particularly in industries, such as banking and transportation, which provide key services to other sectors;

5) Restrictions on foreign direct investment, including restrictions on remission of profits, restrictions on land ownership, and restrictions on employment of expatriates;

6) Widespread corruption; and

7) The public sector's poor understanding of, and dialogue with, the private sector.

In looking at these barriers to economic growth, we see a list of factors that USAID's programs are very well positioned to address. Clearly, the greatest

constraints lie in the need for economic policy reform and the need to invest in the human capital that will attract investors.

USAID's role is to act as a catalyst in assisting Africans to reform and strengthen the institutions of economic governance. Our programs provide practical knowledge on the prudential regulation of banks, the establishment of export finance mechanisms, the collection of taxes, and all the many institutions necessary to a modern economy.

The bottom line is that across Africa USAID is doing very important, very innovative work that is creating the environment in which private business can thrive and grow. Africans, presented the opportunity, will save and work to create their own wealth and bring themselves from poverty to prosperity. I want to emphasize the breadth of USAID's work in financial markets which has resulted in the creation of tens of thousands of new jobs.

In Cote d'Ivoire, Uganda and Swaziland, USAID is providing technical assistance to develop securities markets. In Tanzania, Senegal and Swaziland, we are supporting banking reform and privatization. USAID is helping establish venture capital firms in Ghana, Tanzania, and Kenya. We are strengthening credit unions in Mali, Niger, Togo, Cameroon, and Malawi. In Zimbabwe and South Africa we are helping reform mortgage finance. We have established the Southern Africa Enterprise Development Fund, and smaller national funds in South Africa and Zimbabwe. We are also strengthening small businesses through microenterprise lending programs in Guinea, Mali, Zimbabwe, Senegal, Niger, Kenya, South Africa, and Uganda.

USAID's work in non-traditional exports, centering on deregulation and

technical support, is leading to growth of these exports in excess of 25 percent per year in countries such as Ghana and Uganda. USAID's work in agricultural market liberalization is creating tens of thousands of new firms in agricultural processing and transport, reducing food prices for the poor, and resulting in improved food security in countries such as Zimbabwe, Kenya, Guinea Bissau, Mali, and Senegal.

USAID's support of business associations throughout Africa is establishing these groups as legitimate spokesmen of business interests and as an important force for deregulation. Our support of agricultural technology development institutions is resulting in higher productivity in key food crops such as corn, potatoes, rice, cassava and beans and is critical to improving food security in Africa. USAID's work in transportation and communications infrastructure is linking farms to markets, and African businesses to the world.

Private investor interest in Africa is growing. Foreign direct investment in sub-Saharan Africa increased from only $144 million in 1980, to $3.19 billion in 1994. Recent political and economic reforms, many assisted by USAID, have made these countries more attractive to foreign private investors. During the 1990s, U.S. direct foreign investment in Africa has earned higher rates of profits than any other region in the world. Portfolio investment is expanding rapidly, although starting from modest levels. *The Wall Street Journal* reports that African investment funds had the highest rate of return in 1995 of any region of the world.

Similarly, African capital which had sought the security of European banks is now coming back to Africa. From 1985-1989 private transfers to Africa have averaged $230 million per year; since 1990, these transfers have been growing by 45.5% per year, reaching $3.1 billion in 1995. U.S. investment is on the rise in

sectors such as petroleum, fertilizers, mining and minerals, food processing, and consumer goods.

U.S. firms in South Africa, for example, have returned to the country in unprecedented numbers since the period of disinvestment ended in 1991. An average of 5 new and/or returning U.S. firms opened offices or established subsidiaries in the country each month during 1995. McDonald's, for example, announced a $5.5 million franchise network. Ford Motor Corporation has a 45 percent stake in the South African Motor Company, SAMCOR. And Levi Strauss opened a $9 million jeans manufacturing facility outside of Cape Town.

Elsewhere in the region, Coca-Cola has set up soft drink bottling facilities in Ghana. Citibank operates banking subsidiaries in Tanzania. Chevron is active in Angola, Congo, Namibia, Nigeria, and Zaire. Enron Corporation signed a gas project in Mozambique to create a pipeline linking that country with South Africa. Kaiser Aluminum has an important processing plant in Ghana. The Owens-Corning plant in Botswana recently doubled its productive capacity, won a $75 million contract to provide materials for the north-south carrier project, and is supplying technology, generating employment, and will create exports for Botswana.

In the coming years, American foreign aid will be less the provider of financial resources and more the catalyst for partnerships between the private sectors of Africa and the United States.

We must remember that trade does not just happen. Free markets do not just come into existence. The enabling environment must be right before capital will begin to flow. That is why USAID is helping nations liberalize their markets. That is why

we have launched initiatives to remove institutional and legal barriers to trade. That is why we are fostering trading cultures that are receptive to foreign investment. And that is why we are supporting programs that create broad-based economic growth in Africa.

That is also why we work in partnership to improve human resources. This means increasing economic productivity, and investing in people through programs in education, health care, family planning and child survival. It also means helping nations manage their natural resource base soundly so that economic growth can endure. All these endeavors help create markets that have the desire and the capital to engage in trade and investment.

This is a critical time for Africa. As the Economic Communique of the Lyon Summit declared, "Economic growth and progress in today's world is bound up with the process of globalization." It is the time for Africa to link up to a booming world economy.

The money to invest in Africa is already available, billions and billions of dollars of potential African savings, African flight capital and foreign investment. The only reason they are not flowing into African investments is the fact that African economies remain more risky and less profitable than alternative uses.

But Africa is turning around. Africans now realize they are in charge of their own destiny. Throughout Africa people are organizing themselves into groups and associations to enable themselves to control and influence economic and social policy and the allocation of resources. Whether it is farmers' cooperatives or women's groups or human rights associations, Africans are taking upon themselves the

responsibility for development.

In Africa we are seeing a remarkable growth of a literate, educated population. This is the foundation of a sound economy. And this progress offers a powerful rebuke to those who would suggest that economic development and social development can be isolated from one another. African literacy rates have increased from 21 percent in 1970 to 57 percent in 1995, a growth in literate adults of 7.5 per year. When economists and development specialists look back at the birth of the Asian economic tigers, they almost unanimously identify the growth of an educated population as a centerpiece of these nations' economic explosion.

In Africa, we are also seeing an equally important rise in highly educated people. Despite concerns of the "brain drain," the number of highly educated, experienced, self-confident African scientists, entrepreneurs and technocrats has been increasing very quickly. For example, in the area of agricultural science, in 1991 there were in 8,000 African scientists -- 50 percent of whom had advanced degrees. In 1960, there were a paltry 152 such scientists.

With the fall of communism, the choices for Africa have been presented in stark terms. Africans can look at two competing sets of experiences: those of the Asian miracles who have transformed poor, illiterate societies into modern, rapidly growing economic powerhouses on one hand, and on the other hand, the experience of failed socialist states who have transformed modern industrial societies into economic ruin. The choice is not a difficult one.

From South Asia to Central Europe to Africa, we have seen again and again that a wise investment in foreign assistance programs paves the way for American

business, beneficial trade and democracy. We should not abandon our efforts in Africa at a time when they are begin to provide historic returns. We still face real challenges, but democracy and free markets are taking hold like never before. USAID's programs have played an important role in these developments.

I thank the Committee for raising these important issues, and I look forward to working with you to continue to advance America's interest in the region.

-- end --

○

WORLD TRADE ORGANIZATION SINGAPORE MINISTERIAL MEETING

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

SEPTEMBER 11, 1996

Serial 104–92

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

44–568 CC WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-056104-3

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, New York

PHILLIP D. MOSELEY, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON TRADE

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California
E. CLAY SHAW, JR., Florida
AMO HOUGHTON, New York
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JENNIFER DUNN, Washington

CHARLES B. RANGEL, New York
SAM M. GIBBONS, Florida
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts

CONTENTS

	Page
Advisories announcing the hearing	2

WITNESSES

Office of the U.S. Trade Representive, Hon. Charlene Barshefsky, Acting United States Trade Representative	19
Aitken, Bruce, Pro Trade Group, Inc.	156
American Forest and Paper Association, W. Henson Moore	88
American Textile Manufacturers Institute, Carlos Moore	124
Bergsten, C. Fred, Institute for International Economics	62
Corning-Asahi Video Products, Inc., Corning, NY, Timothy Regan	167
Digital Equipment Corp., and Information Technology Agreement Coalition, Thomas A. Ehrgood, Jr	76
Florida Sugar Cane League, Dalton Yancey	135
Gorlin, Jacques J., Intellectual Property Committee	96
Grocery Manufacturers of America, Inc., Elizabeth H.A. Seiler	149
Hughes, Julia K., U.S. Association of Importers of Textiles and Apparel	115
Information Technology Agreement Coalition, Thomas A. Ehrgood, Jr	76
Institute for International Economics, C. Fred Bergsten	62
Intellectual Property Committee, Jacques J. Gorlin	96
International Intellectual Property Alliance, Eric H. Smith	105
Krajeck, Richard, U.S. Feed Grains Council	130
Labor/Industry Coalition for International Trade, Howard Samuel	166
Moore, Carlos, American Textile Manufacturers Institute	124
Moore, W. Henson, American Forest and Paper Association	88
Pro Trade Group, Inc., Bruce Aitken	156
Regan, Timothy, Corning-Asahi Video Products, Inc., Corning, NY	167
Rio Grande Valley Sugar Growers, Dalton Yancey	135
Romig, Keith D., Jr., United Paperworkers International Union	93
Samuel, Howard, Labor/Industry Coalition for International Trade	166
Seiler, Elizabeth H.A., Grocery Manufacturers of America, Inc	149
Smith, Eric H., International Intellectual Property Alliance	105
Spratt, Hon. John M., Jr., a Representative in Congress from the State of South Carolina	6
United Paperworkers International Union, Keith D. Romig, Jr.	93
U.S. Association of Importers of Textiles and Apparel, Julia K. Hughes	115
U.S. Feed Grains Council, Richard Krajeck	130
Yancey, Dalton, Florida Sugar Cane League and Rio Grande Valley Sugar Growers	135

Page

SUBMISSIONS FOR THE RECORD

U.S. General Accounting Office, Jayetta Z. Hecker, Associate Director, International Relations and Trade Issues, National Security and International Affairs Division, statement 176

American Apparel Manufacturers Association, Arlington, VA, statement 188
Distilled Spirits Council of the United States, Inc., Fred A. Meister, statement 189
National Association of Manufacturers, statement 193
Polaroid Corporation, Cambridge, MA, statement 196
Pro Trade Group, Bruce Aitken, statement 199
Stewart, Terence P., letter 210
U.S. Integrated Carbon Steel Producers, statement 215
UNITE, New York, NY, Jay Mazur, letter and attachment 218

WORLD TRADE ORGANIZATION SINGAPORE MINISTERIAL MEETING

WEDNESDAY, SEPTEMBER 11, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:08 p.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
August 13, 1996
No. TR-30

CONTACT: (202) 225-6649

Crane Announces Hearing on World Trade Organization Singapore Ministerial Meeting

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the World Trade Organization (WTO) Singapore ministerial meeting. **The hearing will take place on Tuesday, September 10, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

Oral testimony at the hearings will be heard from both invited and public witnesses.

BACKGROUND:

The Uruguay Round agreements were approved by Congress in late 1994 and entered into effect on January 1, 1995. The agreements established the WTO as the successor organization to the General Agreement on Tariffs and Trade to implement the agreements internationally, resolve disputes, and conduct future negotiations. Since the WTO went into effect, there have been continuing negotiations on certain services negotiations under the auspices of the WTO, including financial services, basic telecommunications services, and maritime services.

Trade ministers from WTO member countries will meet in Singapore in December to assess the status of world trade under the WTO. Specifically, they will address the progress made in implementing the Uruguay Round agreements in the 2 years of operation of the WTO; the "built-in agenda" of 74 issues listed in the WTO that members have committed to review or negotiate by 2000; further market access liberalization in selected areas such as the information technology industry; the working party report on trade and the environment; the extended negotiations in services; and possible new issues for further negotiation.

In announcing the hearing, Crane said: "The WTO meeting of trade ministers in Singapore is a significant opportunity for us to assess how the WTO Agreements have been functioning. It also provides the occasion to look to the future, laying the groundwork for further negotiations on tariffs, services, and the built-in agenda. However, we should also assure that any new issues suggested for negotiation are appropriate to the mandate and competence of the WTO."

FOCUS OF THE HEARING:

The hearing will examine, in the context of the Singapore Ministerial meeting, the implementation of the Uruguay Round agreements and the WTO and the progress made thus far in their nearly two years of operation. In addition, the hearing will address the goals and prospects for the Ministerial, including the "built-in agenda" already set for further negotiation, further market access liberalization in selected areas, the working party report on trade and the environment, the extended negotiations in services, and potential new issues for further negotiation.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than close of business, Friday, August 30, 1996.

(MORE)

The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 2:00 p.m. on Friday, September 6, 1996.** Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Tuesday, September 24, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

NOTICE -- CHANGE IN DATE

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
September 6, 1996
No. TR-30-Revised

CONTACT: (202) 225-6649

Change in Date for Subcommittee Hearing on the World Trade Organization Singapore Ministerial Meeting

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee hearing on the World Trade Organization Singapore Ministerial Meeting scheduled for Tuesday, September 10, 1996, at 2:00 p.m., in the main Committee hearing room, 1100 Longworth House Office Building, **will be held instead on Wednesday, September 11**.

All other details for the hearing remain the same. (See Subcommittee press release No. TR-30, dated August 13, 1996.)

*****

Chairman CRANE. Good afternoon, and welcome to the hearing of the Subcommittee on Trade concerning the first Ministerial Meeting of the WTO, World Trade Organization, to be held December 9–13, in Singapore.

Ambassador Charlene Barshefsky will join us in examining the implementation of the WTO Agreements and the progress made thus far in their nearly 2 years of operation in the context of the Singapore meeting. In addition, we will discuss the goals and prospects for the meeting, including the built-in agenda already set for further negotiation, further market access, liberalization in selected areas, the Working Party Report on Trade and the Environment, the extended negotiations on services, and potential new issues for further negotiation.

As you know, I am strongly committed to the effective working of the WTO. A WTO that works properly will ensure that job-creating U.S. exports receive fair access to 122 nations around the world. Our economy is strengthened, and more jobs are created when we have fair rules promoted by an institution with the moral authority to safeguard that they are followed.

Our participation in a smoothly functioning trading system requires that we play by the same fair rules we insist that our trading partners adopt. I am convinced that Americans instinctively understand the principles of fair play and will accept occasional adverse dispute settlement decisions in stride. The simple fact is that we use the WTO dispute settlement procedure successfully against our trading partners to force open markets far more often than they are used against us.

The Singapore Ministerial is a significant opportunity for us to assess how the WTO Agreements have been functioning and provides the occasion to look to the future, laying the groundwork for further negotiations. However, we should assure that any new issues suggested for negotiation are appropriate to the mandate and competence of the WTO.

In this regard, I have some concerns over whether it is appropriate to include issues relating to labor and the environment under the aegis of the WTO. We should not move forward on these issues without having a clear consensus both within the United States and with our key trading partners on these issues.

At this point, I would like to yield to our distinguished colleague Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Chairman, Mr. Rangel is delayed on the floor, and I would ask unanimous consent that his statement be included in the record.

Chairman CRANE. Without objection, so ordered.

[The opening statements follow:]

OPENING STATEMENT OF HON. CHARLES B. RANGEL

Mr. Chairman, I commend you for holding this hearing today in advance of the first ministerial meeting of the World Trade Organization, to be held in Singapore in December. This meeting will review the implementation of the Uruguay round agreements and seek agreement on some trade liberalizing initiatives and the future WTO agenda.

It is unrealistic to expect, only 2 years after completion of the most comprehensive trade negotiations in history, that major trade initiatives will result from this first WTO ministerial. Full and proper implementation by countries of commitments

made under the Uruguay round agreements should be a primary focus of the ministers to ensure that the benefits can be realized and that the WTO is responsive to U.S. interests. The meeting should also demonstrate ongoing progress toward further trade liberalization by building on the existing agreements and agreeing to a work program to discuss some new issues.

I strongly support continued U.S. efforts—conducted by both Republican and Democratic administrations—to seek agreement on establishment of a working party in the WTO to examine the relationship between trade and core labor standards. Such a group should work closely with the ILO and conduct a constructive dialogue on positive ways to promote labor standards through increased trade and to ensure that workers receive the benefits of trade liberalization.

Regular review and oversight by this Subcommittee of the operation and functioning of the WTO is essential to ensure that the intent of Congress in approving implementing Legislation for the Uruguay round agreements is fulfilled. Active engagement by this Subcommittee in overseeing the future agenda and activities of the WTO is also necessary to ensure that Congress continues to be an equal partner with the Executive Branch during the course of future WTO negotiations that may involve changes in U.S. Law or Domestic Policy. So again, Mr. Chairman, I thank you for holding this hearing and look forward, as always, to working with you on a bipartisan basis to help ensure the success of our trade agreements program.

I welcome Ambassador Barshefsky back to the Subcommittee and look forward to hearing the views of all witnesses regarding Uruguay round implementation and prospects for the Singapore Ministerial.

OPENING STATEMENT OF HON. JIM RAMSTAD

Mr. Chairman, thank you for calling this hearing today to discuss the upcoming World Trade Organizing (WTO) Singapore Ministerial Meeting.

As we all know, international trade and exports are critical to our economy. With only 4 percent of the world's population, slow population growth, and an economy that is growing at an anemic rate of slightly over 2 percent annually, our continued economic prosperity and growth depend on access to markets outside our borders.

In my home state of Minnesota, we rely on exports. Minnesota accounts for 4.5 percent of total U.S. agriculture commodity exports and our service exports are estimated to be several billion dollars annually.

Between 1992 and 1995, our manufacturing exports increased 23 percent. All this translates into more and better paying jobs for Minnesotans.

The Uruguay Round Agreements have already helped cut tariffs around the world by one-third and reduced a number of non-tariff barriers. In addition, because of WTO commitments, world income is expected to rise by over $500 billion annually by 2005.

We must continue to work hard to ensure that these agreements are being met by all member countries. The Singapore Ministerial Meeting will provide us with an excellent opportunity to review the progress of the WTO and lead the way in pushing for continued negotiations and further market access liberalization.

Mr. Chairman, thanks again for calling this hearing. I look forward to listening to the testimony of today's witnesses and learning more about the expectations for the December meeting.

Chairman CRANE. Today we will hear from a number of distinguished witnesses. In the interest of time, I ask that you keep your oral testimony to 5 minutes, and we will include longer written statements in the record.

Our first witness is our colleague, Hon. John Spratt of South Carolina, if he would come forward to the dais.

STATEMENT OF HON. JOHN M. SPRATT, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. SPRATT. Mr. Chairman, thank you for the opportunity to testify today. I commend you and Mr. Rangel and your Subcommittee for holding a hearing on the WTO ministerial meeting to be held in Singapore.

Although few Americans have heard of these Singapore talks, these discussions could have broad implications for millions of American workers and the industries that employ them.

Today most of my testimony will touch on the Singapore talks as they relate to textile and apparel imports, and I would like to end with a few words about high and discriminatory tariffs that are still imposed on the exports of one industry in which we have a clear competitive advantage—the paper and wood products industry.

I represent a textile district, so I voted against the Uruguay round implementing legislation because I believed it would lead to more textile imports and fewer textile jobs, and so far, I am sorry to say that my fears are being realized. But I recognized that I was in the minority in Congress and that the United States, along with 122 other nations, has to comply with the rules of the WTO.

By the same token, I believe that what the United States should do now is see to it that foreign countries meet their obligations under the WTO. The director general of the WTO recently said that a major purpose of the Singapore talks is to review the full and prompt implementation of commitments in the WTO Agreement. If such a review is made, it should cover the obligations of all signatories including the textile-exporting countries.

A fair review will show that we have met our obligations under the ATC, Agreement on Textiles and Clothing, and a fair review will also show that major textile-exporting nations like India and Pakistan have failed to meet theirs. Since June, the exporting nations led by Pakistan have mounted a campaign to have the United States and the world community reopen the ATC agreement, reopen the negotiations and speed up the elimination of quotas. They accuse the United States of failing to fulfill the spirit of the ATC.

At the same time, these same countries flout their obligations under the ATC, and yet they seek to change the agreement and impose even greater demands upon us. Maybe they hope their campaign will divert attention from their noncompliance, but it should not.

Look first at the U.S. record of implementation. Under the ATC, we agreed to phase out the textile quota system by the year 2005, and we are doing so. We compiled and released to the public a 10-year integration schedule. No other nation went as far as we did in listing products to be integrated back into the General Agreement on Trade and Tariffs, and no other nation operated with more transparency. We did so to give ample notice to the exporting countries, to our own domestic industry, and to domestic retailers. We have already eliminated quotas on 16 percent of the products listed on the annex, as the ATC requires, and we will be allowing growth on growth. In addition, we have begun to cut tariffs.

Now look at the record of the exporting countries. They made two promises under the ATC, neither of which has been kept. First, they promised to open their domestic markets to our textile imports so that American firms would have the same right to sell products to them as they have the right to sell to us. That is free trade; that is reciprocity.

But the export countries do not practice what they preach. They lecture us about our markets being closed to their textile and ap-

parel products, while keeping barriers within their own markets that bar U.S. textile firms from selling there.

Consider just two statistics to make my point. In 1995, the United States imported more than $1.5 billion in Indian textile goods while India purchased from the United States only $21 million—$1.5 billion in imports from India, $21 billion in sales from the United States to India. Pakistan sold us $768 million in textile goods that same year, and they purchased in return $10 million of textile imports.

Rather than open its markets to U.S. products, India is actually closing its markets, shutting them further to us. Recently, India imposed supplementary tariffs on top of already steep tariffs. In the case of floor covering, for example, India now levies a tariff of 95 percent, a totally prohibitive tariff.

Second, the exporting countries under article 5 of the ATC promised to bear down on illegal transshipments, rerouting, false declarations and other means of quota evasion. In a nutshell, this meant that the exporting countries promised to comply with quotas and stop quota circumvention. But since the ATC went into effect, our Customs Service has found increasing cases of quota evasion. Although for the most part, the most persistent violator is China, not a WTO member, there are member states like Hong Kong which are implicated; in fact, Customs is having a lot of resistance out of Hong Kong right now, trying to obtain its help to investigate very, very probable cases of transshipment which involve the city of Hong Kong.

I would like to submit a letter that Congressman Coble and I have sent to the President for the record about this matter.

Chairman CRANE. Without objection.

[The following was subsequently received:]

Congress of the United States
Washington, DC 20515

July 30, 1996

The Honorable William Jefferson Clinton
President of the United States
The White House
Washington, D.C.

Dear Mr. President:

As the leaders of the Congressional Textile Caucus, we are writing to express our serious concerns with the World Trade Organization Ministerial in Singapore this December. We understand that representatives of apparel and textile exporting countries want the meeting to address the subject of the Agreement on Textiles and Apparel (ATC). Specifically, they have suggested that the phase-out of quotas should be expedited and that the phased integration of products should be altered.

We believe the United States should vigorously reject this effort. The United States apparel and textile industries still are denied effective market access to many countries around the world. They also are plagued with quota avoidance through transshipments and with counterfeiting of U.S. brand names and designs in other countries. Also, many different kinds of subsidies remain in effect around the world which convey unfair advantages to foreign exporters.

The United States should insist that, if textiles and apparel are to be on the agenda for the Singapore Ministerial, the meeting should be devoted to an assessment of the performance of all countries in opening their markets and preventing fraud, circumvention, and counterfeiting that is common in the world today. Representatives of the apparel and textile industries in the European Community and the United States recently met and issued a joint statement calling for the Singapore Ministerial to focus on such an assessment. We are including for your information a copy of the joint press release issued by the industries.

The United States has fully met the requirements of the ATC and the rest of the Uruguay Round agreement. Our tariffs and quotas are being phased down according to schedule, the first round of apparel and textile integration has been completed and the subsequent two rounds have been announced.

The Uruguay Round went into effect only 19 months ago. Any attempts by the textile exporting countries to change the terms of the agreement reached after seven painful years of negotiation are unjustified, unnecessary and potentially damaging to U.S. workers and production. There is no doubt the U.S. has and will continue to honor its WTO commitments; the complaining countries should do the same.

Respectfully,

John Spratt

John M. Spratt, Jr.
Member of Congress

Howard Coble

Howard Coble
Member of Congress

Mr. SPRATT. We are pleased that the Clinton administration is bearing down on it and is sympathetic to our concerns, but we need to address these topics in Singapore, as our government has said.

The Uruguay round took effect less than 2 years ago. Despite our objective in these negotiations, which was to seek balance in every sector so that there would be trade gains to offset the trade losses, I think everybody would have to agree that the textile and apparel industry came out a net loser. This was a donor industry; there were concessions made out of this sector to pay for gains in other sectors. We are now paying daily for those. The textile and apparel trade deficit with WTO members was $34 billion in 1994; last year, it was $35.8 billion.

I was in Geneva as the Uruguay round neared its conclusion, and I presented to the USTR the industry's last plea. At the very least, the industry asked, make our obligation to open our markets to each exporting country contingent on its opening its markets to U.S. textiles and apparel.

Our negotiators made such a proposal, but the negotiations ended before it was made explicit enough in the agreement. It was understood, nevertheless, that reciprocal access was implicit in the ATC. The exporting countries charge that we are not abiding by the spirit of the ATC, but this was the spirit of the ATC, and they are not keeping pace with it.

The textile-exporting countries seek to change the terms of an agreement that is already heavily balanced in their favor. It is absurd of them, Mr. Chairman, to ask that we tilt this agreement even more to their advantage; it is outrageous that they make this demand when they have not upheld their minimal obligations to open their markets to our textile and apparel goods. We have kept our obligations under the ATC. What we should discuss in Singapore is why the exporting countries have not met theirs and what the WTO should do in return about it.

If I could have just a minute to turn to another topic, the paper and wood products industry. Today, you will hear from four witnesses who represent the American Forest and Paper Association and the United Paper Workers International Union. They will be urging that the Clinton administration push the EU, European Union, in Singapore to drop its steep tariffs on U.S. paper and wood products. What they seek is zero-zero by 1998—free trade between Europe and the United States in paper and wood products, and no tariffs on products on either side of the Atlantic within 3 years.

I strongly support their position. I have written Ambassador Barshefsky to urge our government to join Canada, which also supports it. I would like to submit that letter also with my testimony.

Chairman CRANE. Without objection, so ordered.

[The following was subsequently received:]

Congress of the United States
House of Representatives
Washington, D.C. 20515

June 5, 1996

The Honorable Charlene Barshefsky
United States Trade Representative
600 17th Street, NW
Washington, D.C. 20506

Dear Ambassador Barshefsky:

I am writing to express my interest in the tariff discussions which took place at the April 19-20 Quad meeting of trade ministers. In particular, I am interested in the Canadian proposal to eliminate tariffs on paper and wood products. The largest cash crop in my state is timber and I support efforts to encourage increased exports of U.S. forest products since greater exports will lead to more jobs in my district.

At the Quad meeting, I understand that the Canadian Government offered to apply the final Uruguay Round rate in zero-for-zero sectors as of January 1, 1998. For the U.S. forest products industry, and for the workers they employ in my Congressional district, this would mean an end to almost 20 years of tariff inequity. Its adoption would help enable our highly competitive suppliers to sell in Europe. For the nation as a whole, it has been estimated that early implementation of paper tariff cuts would produce additional exports of approximately $1 billion between 1998-2000, rising to over $2 billion by 2004. Equally important, each $1 billion additional exports in this industry is associated with 9,000 high-paying U.S. manufacturing jobs.

The Uruguay Round Implementing Act provides the authority and the mandate to negotiate additional tariff cuts in zero-for-zero sectors, including paper and wood. I hope you will use that authority to maximum effectiveness in this case. In particular, I urge you to consider making the Canadian initiative a U.S. negotiating objective for the Singapore Ministerial meeting in December.

Thank you for your consideration.

Respectfully,

John M. Spratt, Jr.
Member of Congress

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20508

AUG 6 1996

The Honorable John M. Spratt, Jr.
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Spratt:

Thank you for your recent letter concerning a tariff reduction package for the WTO Singapore Ministerial that includes paper and wood products.

I share your interest in providing export opportunities for U.S. firms and workers in the paper and wood industries. Last year, as countries began to implement the results of the Uruguay Round, U.S. exports of paper and paper products grew by 41 percent to all WTO members (excluding Canada and Mexico) and by 47 percent to the European Union. On wood, where we did not succeed in a duty-elimination agreement (but did reduce tariffs), exports to WTO members grew by 7.2 percent last year.

Despite these positive results, the Administration continues its commitments in the Statement of Administrative Action of the Uruguay Round Agreements Act to seek accelerated staging of Europe's duty reductions on paper products and to push for multilateral elimination of tariffs on wood and wood products. On paper, we achieved an agreement to eliminate duties over a ten year period. This concession was hard fought in the Uruguay Round. We also pressed this in our compensation negotiations with the European Union (EU) when it enlarged to include Finland, Sweden and Austria. On wood, the opposition to further liberalization is primarily from Japan. I raised these issues with the EU and our other Quad partners at our recent meeting in Kobe, Japan. We instructed our officials to explore more fully the issues of tariff acceleration and further tariff reductions and to report to us at the earliest opportunity.

I appreciate your interest in the WTO Singapore Ministerial and, particularly, further market access liberalization and the development of a market access package. I will keep you informed of our progress on this issue.

Sincerely,

Charlene Barshefsky by m

Charlene Barshefsky
Acting United States Trade Representative

Mr. SPRATT. Today, tariffs on U.S. paper products going to Europe are more than triple the tariffs that we impose on European paper products coming into our country.

I have several papermills in my district, one of which makes coded paper and newsprint. Right now, Europe is sending us coded paper and displacing jobs in my very back yard, and they are taking advantage of this very advantageous situation because of the differential in tariffs between us.

This Subcommittee included in the Uruguay round implementing legislation a mandate that the administration treat zero tariffs on paper and wood products as a negotiating priority. I hope that this Subcommittee will bear down on the administration and on the delegation that we are sending to Singapore and insist that they follow through and accomplish this agreement with the Europeans.

Thank you very much, Mr. Chairman, for this time. The director general has called upon us to review compliance with the WTO. Let us take him at his word and make Singapore a venue where our government presses our trading partners to meet their WTO obligations so that U.S. companies and American workers can finally get a fair shake in world markets.

Thank you very much.

[The prepared statement follows:]

Congressman John M. Spratt, Jr. (D-S.C.)
House Ways and Means Subcommittee On Trade
September 11, 1996

Thank you for the opportunity to testify today. I commend your subcommittee for holding a hearing on the WTO Ministerial Meeting to be held in Singapore. Although few Americans have heard of the Singapore talks, these discussions could have broad implications for millions of American workers and the industries that employ them. Today, most of my testimony will focus on the Singapore talks as they relate to textile and apparel imports. But I would like to end with a few words about high and discriminatory tariffs imposed on our exports of paper and wood products.

I represent a textile district, and I voted against the Uruguay Round implementing legislation because I believed it would lead to more textile imports and fewer textile jobs. So far, I am sorry to say, my fears are being realized. But I recognize that I was in the minority in Congress, and the United States, along with 122 other nations, must comply with the rules of the WTO. By the same token, I believe that what the United States should now do is ensure that foreign countries meet their obligations under the WTO.

The Director General of the WTO said recently that a major purpose of the Singapore Talks is to review "the full and prompt implementation of commitments" in the WTO agreement. If such a review is made, it should cover the obligations of <u>all</u> signatories, including the textile exporting nations.

A fair review will show that we have met our obligations under the Agreement on Textiles and Clothing. A fair review will also show that major textile exporting nations, like Pakistan and India, have failed to meet theirs. Since June, the exporting nations, led by Pakistan, have a mounted campaign to have the United States and the world community reopen the ATC negotiations and speed up the elimination of quotas. They accuse the United States of failing to fulfill the "spirit" of the ATC. At the same time that countries like these flout their obligations under the ATC, they seek to change the agreement and impose even greater demands on us. Maybe they hope that their campaign will divert attention from their record of non-compliance. But it should not.

Let's look first at the U.S. record of implementation. Under the ATC, we agreed to phase-out the textile quota system by 2005, and we are doing so. We compiled and released to the public a ten-year integration schedule, listing exactly when quotas on all products will be lifted. No other nation went so far; and no other nation operated with more transparency in its integration process. The U.S. did so to give ample notice to exporting countries, the U.S. industry, and domestic retailers. We have already eliminated quotas on 16% of the products listed on the annex, as the ATC requires, and we are allowing imports to increase as authorized by the "growth on growth" provisions of the ATC. In addition, we have

begun to cut tariffs on a variety of products. By 2005, the tariffs on some will drop by as much as 30%.

Now let's look at the record of textile exporting countries. They made two promises under the ATC, neither of which has been kept. First, they promised to open their domestic markets to textile imports, so that American firms would have the same right to sell our products to them as they sell to us. That is free trade and reciprocity. But the exporting countries don't practice what they preach. They lecture us about our markets being closed to their textile products while keeping barriers within their own markets that bar U.S. textile firms from selling there.

Consider just two statistics to make my point. In 1995, the United States imported more than $1.5 billion in Indian textile goods while India purchased from the U.S. only $21 million---let me repeat, $21 million---in U.S. textile products. The same year, Pakistan sold us $768 million in textile goods, while buying from us only $10 million in imports. Rather than open its markets to U.S. products, India is closing its markets even tighter. Recently, India imposed supplementary tariffs on top of already steep tariffs. In the case of floor covering, for example, this means that Indian tariffs are 95%.

Second, exporting nations under Article 5 of the ATC promised to bear down on illegal transshipments, re-routing and false declarations concerning country of origin. In a nutshell, this means that exporting countries promised to comply with quotas and stop quota circumvention. But since the ATC went into effect, our Customs Service has found increasing cases of quota evasion. Although the most persistent violator is China, which is not a WTO member, member states like Hong Kong, are also implicated. In fact, for the past several months, Customs has met enormous resistance from Hong Kong as it has tried to obtain Hong Kong's help in investigating goods made in China but shipped under Hong Kong labels to use Hong Kong's excess quotas.

I would like to submit a letter that Congressman Coble and I sent the President last July, in which we expressed concerns about the Singapore talks and textiles. I am pleased that the Clinton Administration understands and is sympathetic to the concerns we have raised. On July 17, our government issued a paper urging the Committee on Trade in Goods, an arm of the WTO, to examine the problems of compliance with the market access and transshipment sections of the ATC. Those are precisely the topics we should take up in Singapore.

The Uruguay Round took effect less than two years ago. Despite our objective, which was to seek a balance of trade gains and losses within each sector, the textile and apparel industry came out a net loser. This was a donor industry where concessions were given up for the sake of gains in other sectors. This industry is now paying dearly for those concessions. Our overall trade deficit in textiles and apparel with the world was $34 billion in 1994, the

year before the WTO became effective; last year, the textile/apparel trade deficit was $35.8 billion, which represents an increase of more than 5%. If you look at imports just from WTO countries, the figures are particularly revealing about the price we are paying for GATT. Our textile/apparel trade deficit with WTO countries increased in 1995 over 1994 by almost 11%.

I was in Geneva as the Uruguay Round neared its conclusion, and I presented U.S.T.R. with the industry's one last plea. "At the very least," the industry asked, "make our obligation to open our markets to each exporting country contingent on its opening of its markets to U.S. textiles and apparel." Our negotiators made such a proposal, but the negotiations ended before it was made explicit enough in the agreement. It was understood, nevertheless, that reciprocal access was implicit in the ATC. The exporting countries charge that we are not abiding by "the spirit of the ATC," but this was the "spirit of the ATC."

The textile exporting countries seek to change the terms of an agreement already balanced heavily in their favor. It is absurd of them to ask that we tilt this agreement even more to their advantage. It is outrageous to make this demand when they have not upheld their obligations to open their markets to our textile and apparel goods.

We have kept our obligations under the ATC. What we should discuss in Singapore is why the exporting countries have not met theirs, and what the WTO should do about it.

Let me turn from textiles to another major employer both nationally and in South Carolina, the paper and wood products industry. Later today, you will hear from witnesses who represent both the American Forest and Paper Association and the United Paperworkers International Union. They will be urging the Clinton Administration to push the EU in Singapore to drop its steep tariffs on U.S. paper and wood products. What they seek is "zero for zero" by 1998: no tariffs on paper and paper products on either side of the Atlantic by 1998. I strongly support their position and I have written to Ambassador Barshefsky to urge our government to join Canada which already supports it. I would like to submit my letter with my testimony.

Today, tariffs on U.S. paper products going to Europe are more than triple the tariffs that we impose on European paper products. That is neither free nor fair trade. As a result of these high and discriminatory tariffs, European exports to the United States have surged while our exports to Europe remain flat. High European tariffs deny American paper companies sales they have earned by their competitive advantage, and they deny good-paying jobs to American paper workers.

The Ways and Means Committee included in the Uruguay Round implementing legislation a mandate that the Administration treat zero tariffs on paper and wood products as a negotiating priority.

This committee and the Congress wisely recognized the importance of this issue for our economy and our workers. I know that the Clinton Administration also sees the importance of "zero for zero" and has been working hard to achieve it.

If there are to be talks in Singapore, let's not waste them on rhetoric about free trade; let's go prepared to talk about sectors like paper and forest products, where U.S. firms have a competitive advantage but cannot use it.

The Director General has called us to review compliance with the WTO. Let's take Mr. Ruggiero at his word and make Singapore a venue where our government presses our trading partners to meet their WTO obligations so that U.S. companies and American workers can finally get a fair shake in world markets.

Chairman CRANE. Thank you, John.

Mr. Coyne.

Mr. COYNE. No questions, Mr. Chairman.

Chairman CRANE. Mr. Matsui.

Mr. MATSUI. I thank the Chairman.

I would like to thank the gentleman from South Carolina for his testimony. John, actually, I have been asked to ask you this question by L.F. Payne, who is a Member of this Subcommittee but was not able to attend.

You have introduced your legislation, which you spoke about, and you have identified certain problems with the WTO. Would you briefly describe in what way your legislation, if it should be enacted into law, would give assistance to the textile industry?

Mr. SPRATT. First of all, we want to see the rules that we have strictly enforced, and we want stiffer sanctions when we apprehend countries that are violating the quota system that we still have for these few remaining years—for example, transshipment, quota evasion, and mislabeling. It is still an epidemic problem, and it is still a problem estimated by Customs itself to be of the magnitude of $2 to $4 billion involving China alone.

So, we are saying let us stiffen the sanctions because we have found that detection is extremely difficult. It involves a lot of manpower and effort. You catch them mostly by chance. If we can increase the penalties, we can rely more upon deterrence to stop this practice. We have a list of additional sanctions included in the bill.

Second, we are saying let us condition the opening of our markets further with countries that are in the WTO or those outside the WTO, like China, that still have not joined, and we still have more negotiating leverage with them, upon their opening their markets on a reciprocal basis to us. That is free and fair trade.

So, we are trying to lay that down as a working principle of our trade relations with our trading partners like China, who enjoy liberal access to our markets. But China, Pakistan, India, and Bangladesh, which have enormous capacity, already ship tremendously to us, but simply do not buy anything in return. That is not just because we do not make products that will be attractive to them because they have such a low wage advantage. We make a lot of cloth, a lot of yarn, a lot of basic textile products that they could probably use and buy from us if there were only a free and open opportunity to do so.

We also make some end products that would probably sell in the Indian market, for example, where there is a substantial middle class—sheets and towels and things like that. If we had the opportunity to access their markets, we could probably be selling in return to make up for the displacement in our markets of their substantial imports to us.

Our bill seeks these two things—enforcement of the rules of trade that we have now, with tougher sanctions on the violators, and reciprocity, market opening for those countries that enjoy liberal access to our markets.

Mr. MATSUI. Thank you. No further questions, Mr. Chairman.

Chairman CRANE. Thank you.

Ms. Dunn.

Ms. DUNN. No questions, Mr. Chairman.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. No questions, Mr. Chairman.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. No questions.

Chairman CRANE. With that, we thank you very much, John, for your testimony.

Mr. SPRATT. Thank you, Mr. Chairman. I appreciate this opportunity.

Chairman CRANE. Our next witness is Hon. Charlene Barshefsky, Acting U.S. Trade Representative.

STATEMENT OF HON. CHARLENE BARSHEFSKY, ACTING UNITED STATES TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you, Mr. Chairman.

I would ask that my full statement be submitted for the record.

Chairman CRANE. It most assuredly will be.

Ms. BARSHEFSKY. Thank you.

It is a pleasure to see you, of course, and the Members of the Subcommittee, and it is a pleasure to be before you today to discuss the WTO Singapore Ministerial Meeting.

It goes without saying, Mr. Chairman, that your Subcommittee has played a vital leadership role with respect to the passage of the Uruguay round and with respect to making the WTO a reality. I believe that trade policy works best when it is bipartisan. That is the way we have always operated, and I think the statistics show that that is the best way for the country to operate.

Trade of course matters because of its ability to enhance domestic economic opportunity and to increase high-wage jobs in America. We do not negotiate trade agreements to get the agreements; we negotiate them to get the jobs they produce. They serve as a tool for economic prosperity.

This view of trade is fundamental to this Subcommittee, and it is fundamental to the President of the United States. That is why trade policy has played such a fundamental and important role in U.S. economic prosperity and growth these past 4 years. Let us take a moment to look at the record.

We are currently in the fifth year of economic expansion, with low inflation, strong industrial production, and very good prospects for continued job and output growth. Over 10 million net new jobs have been created, and these jobs are geared toward higher wage endeavors.

For the third year in a row, the United States has been cited as the world's most competitive major economy by the World Economic Forum.

Trade has been one tool to accomplish these successes through the negotiation of new trade agreements, enforcing compliance with current agreements, and pursuing new expansion opportunities in Asia, Latin America, Europe, and Africa.

Export growth has accounted for one-fifth of the overall growth of our economy since 1992. About 1.5 million new jobs are supported by this increase in exports. Overall, about 11.5 million jobs are supported by exports, and these jobs are good-paying jobs.

Trade in goods and services has risen from a value equal to 25 percent of U.S. GDP to just about 30 percent of GDP, or $2 trillion.

This Subcommittee has every reason to be proud of America's economic record as this administration is proud of America's economic record. In the last 3 1/2 years, U.S. exports in goods and services have grown by 37 percent; our manufactured product exports are 42 percent higher now than in 1992; our exports of advanced technology products have grown by 49 percent; the value of our agricultural exports is at a record high—it was a record last year, and we are going to break that record and start to create another record this year. Our commercial service exports are up 28 percent.

Our goods trade deficit with Japan has reached its lowest level in 4 years. Our goods exports to Japan have grown 47 percent since 1992 even though the Japanese economy was in severe recession. I think our market opening agreements with Japan have paid off. As you know, in those sectors in which we have concluded agreements, U.S. export growth has been on average 85 percent. That is three times higher the overall rate of export growth to Japan. This is quite evident indeed in the auto sector, both for vehicles and for auto parts.

Exports to our NAFTA partners are up. Indeed, exports to Mexico are now up 34 percent, much higher than the pre-NAFTA level, and this in the face of the worst economic downturn in Mexico in recent history. And of course, our exports generally to Latin America and to the Pacific rim countries are also up.

Our exports to China have also grown, but Mr. Chairman, as this Subcommittee is well aware, we are concerned about the trade figures with respect to China and intend to continue aggressively to pursue market access and agreements compliance with China.

Prospects for U.S. trade growth are likewise strong as we look ahead, particularly in the emerging markets of the world, where 85 percent of the world's consumers reside. We are very well-positioned to capture a portion of that growth, and we look forward to doing just that.

Of course, locking those countries into a system of rules is critical for us to achieve the kind of economic performance we would like, and that is where the WTO comes into play. As you know, the GATT system of trade rules has played a critical role in making markets more open and more fair, in creating rules and transparency and trade regimes that formerly were opaque. It has also been the foundation of our agreements in many other sectors, such as NAFTA, the FTAA and APEC, all of which draw on fundamental WTO principles as their core.

Of course, now we turn to the first trade ministerial meeting of the WTO in Singapore in December. I would like to simply outline quickly for you what we would like to accomplish.

First, we are most proud of the dispute settlement mechanism in the WTO, and we want to be sure that that mechanism is adhered to fully. We have brought more cases than any other country in the world—17 now. We just won our first case on distilled spirits against Japan. We settled one, and we are about to settle three others because countries prefer not to go through the system if they can avoid it.

We have a number of pending cases, however, including against Canada's unfair barriers to American print publications, EU re-

striction on bananas, and Japan's distribution system which inhibits sales for imported film and photographic paper.

Second, Mr. Chairman, I would like to comment briefly on sovereignty, and I would like to answer directly some questions that have been raised on occasion about whether the WTO impinges on the sovereignty of the United States. Unequivocally, the answer is no.

First, the WTO operates by consensus only. This rule is now enshrined in the WTO, and as the world's most major single trading nation, what we say carries a lot of sway.

Second, no substantive right or obligation of the United States can be altered or changed without our consent.

Third, the WTO cannot change our laws or our environmental, health, or safety standards. Only Congress can do that.

Fourth, we maintain the right to use all of our trade laws. And of course, this administration has been very aggressive, having brought 42 enforcement actions in 44 months under our trade laws.

And last, of course, as you know, the WTO is not a treaty. It is a contract. And although I would hate to see this ever happen, were it to come to it, we could withdraw from the WTO.

As we look ahead to Singapore, apart from dispute resolution, I would like to talk about several areas. First, of course, as Mr. Spratt said, we are looking to ensure full implementation by our trading partners of the commitments they made in the WTO. That is absolutely critical. We are doing it in the textiles sector; we will ensure full implementation in every sector.

Second, we need to ensure that the "built-in agenda," that is, the agenda of work that was created at the end of the Uruguay round, continues fully in every aspect. Whether it is standards, investment, agriculture, rules of origin, Customs, or government procurement, the current work program of increased transparency, of notification, must continue, and we must ensure that it does.

In this same connection, we would like to see countries come forward with improved offers in basic telecommunications services, to try to conclude that agreement by mid-February. We are working closely with Europe on it, but improved European offers, while necessary, are not sufficient. If Asia does not move forward and improve its offers, no agreement will be possible.

Also in this vein, with respect to the "built-in agenda," we need to ensure that the existing Subcommittees on Trade and Environment moves forward, making recommendations that are consensus in nature.

Third, we would like to see the WTO move toward continued market access. In this regard, we are pushing the ITA, Information Technology Agreement, very hard, under which we and our trading partners would go to zero tariffs by the year 2000 in products critical to the information superhighway, from cellular phones to high-end computers to local area networks and telephone switching equipment. This is a critical area for us. Tens of billions of dollars are at stake. We are pushing this in APEC, where we have received a very good reception. We have some concern about whether the European Community has the necessary mandate from its member states to move forward.

Fourth, of course, we need to agree on new directions for trade policy. The WTO must continue to remain relevant to today's concerns. Nowhere is this more important than with respect to the work on trade and labor. As you know, Mr. Chairman, section 131 of the Uruguay round implementing legislation charges the President with pursuing this issue in the WTO. We must find a way to address the question of labor and trade so that we can ensure that our workers can compete on the basis of fair play rather than unfair advantage. Dealing with this issue in the WTO is part of our effort to make sure the playingfield is level.

As you know, Mr. Chairman, more and more, people in this country and in other countries question whether trade agreements are good for them, question whether trade agreements in fact create jobs. We must find a way of reassuring them that trade liberalization and market access are job-creating, and indeed for this country are necessary if we are to maintain our standards of living and increase economic opportunity for ourselves and for our children.

Our proposal in the WTO seeks to give expression to the relevance that open markets and a rules-based trading regime have for improving the welfare of workers and to demonstrate that workers have a stake in continued trade liberalization.

Of course, we do not want to prejudge the outcome of these talks or suggest a particular set of disciplines or particular prescriptions. I agree with you, Mr. Chairman, we must work together to come to consensus within our own country before we get too far ahead of ourselves. But as the implementing legislation directs and as the President has committed, we will begin the dialog on this issue in the WTO.

Additional matters to keep the WTO relevant include issues of competition policy and trade and investment. These are very complicated areas. They are, even within our own business community, somewhat controversial. Here again, we believe the beginning of the dialog in the WTO makes sense, but we want to work with the Subcommittee to ensure that we move cautiously so that all of the U.S. interests and rights are preserved, particularly our antitrust laws and our antidumping laws.

Finally, Mr. Chairman, as you know, this administration has gone to great lengths to combat bribery and corruption. We look at the WTO to make the contribution in this area. You know that in the OECD, there is a political commitment now to condemn the tax deductibility of bribes and to criminalize bribery and corruption. The contribution the WTO Singapore meeting can make is to achieve consensus on an interim transparency agreement in government procurement. It is particularly in the government procurement area that bribery and corruption are most serious. If we can achieve greater transparency in public procurement processes, greater due process, and rights of appeal, we feel that this will have indirectly an important impact on the bribery and corruption question.

In conclusion, Mr. Chairman, we believe the WTO Singapore meeting should be treated like a board of directors meeting, setting the pace and the tone, ensuring that existing commitments are fulfilled, keeping the organization relevant. And as we look toward the Singapore meeting, we look forward to working with you and

Members of the Subcommittee so that we can, in the bipartisan fashion that has been so critical, continue the tremendous job of economic growth for the United States on which we have embarked together.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY·
ACTING UNITED STATES TRADE REPRESENTATIVE

before the

Subcommittee on Trade of the
Committee on Ways and Means
U.S. House of Representatives

September 11, 1996

Mr. Chairman and members of the Committee, thank you for inviting me to speak with you today about the WTO and the preparations now under way for its first ministerial conference, which will be held in Singapore on December 9-13 of this year. This Committee played a most important role in providing the necessary leadership to make the WTO a reality by taking the lead in assuring passage of the Uruguay Round Agreements Act. Your continued leadership in the development of U.S. policy for the WTO is a strong sign of U.S. commitment to use trade as an engine for sustainable growth.

The Administration, with the bipartisan cooperation and support of Congress, has always sought to achieve enhanced opportunities to sell U.S. goods and services in foreign markets. This Administration has entered into agreements which open new markets to U.S. exports; and then monitored and enforced those agreements, utilizing U.S. trade laws where necessary.

When then-USTR Kantor appeared before you just six months ago, he reported that the WTO was already beginning to contribute to a fairer and more predictable trading environment in which to generate additional jobs and growth in the United States. Today, I can confirm that this continues to be the case. U.S. growth and prosperity are increasingly linked to and dependent on the global economy. Our commercial, financial and political stakes in the well-being and prosperity of the rest of the world increase steadily with each passing day. While the close of the Cold War era has resulted in our Nation's holding an unparalleled position of power and leadership, it is a supremacy sustained by an appreciation that the inexorable determinants of the modern world are the dynamism of market competition and the reality of economic interdependence. To ignore these facts would be to act irresponsibly with respect to our obligations both to the American public and to America's friends and allies abroad.

U.S. commercial policy has traditionally been focused on Canada, Europe and Japan. While these markets will continue to be large trade markets in terms of size, the emerging markets of Asia, Latin America and elsewhere hold much more promise in terms of large gains for U.S. exports.

- Some 96 percent of the world's population lies outside the United States and roughly 85 percent of total world population is found in low or middle income countries.
- Low and middle income countries are already importing more than $1 trillion a year from high income industrialized countries.
- More than 40 percent of U.S. exports currently go to these increasingly lucrative destinations.

Over the last ten years, many of these countries began to adopt much more market-oriented internal policies and to reduce trade barriers at the border. Because of the adoption of more market-oriented policies, many of these countries are experiencing, or are poised to experience, very rapid rates of growth -- in the range of 5 to 6 percent a year or better.

A group of 12 large emerging markets, dubbed the "Big Emerging Markets" (BEMs), has been identified on the basis of their sizable populations and considerable and rapidly growing markets for a wide range of products. (The BEMs, with nearly half the world's population or 2.8 billion

people, are Argentina, Brazil, China, Hong Kong, Taiwan, India, Indonesia, Mexico, Poland, South Africa, South Korea and Turkey.)

- Overall, GDP in the BEMs is expected to grow an average of 6.3 percent annually from 1996-2000, compared with an average of 2.9 percent among the industrialized countries.

- BEMs' imports of goods and services could increase by 75 percent by 2000.

- What is happening in the BEMs is happening elsewhere in the emerging market world. In fact, low and middle income countries are expected to account for roughly three-quarters of the total increase in global imports outside our borders in coming years.

The United States is particularly well-placed economically to serve the emerging markets in Asia, Latin America and elsewhere with exports. The traditional strength of the United States in world trade has been the tools of development--capital goods. Nowhere is there more demand for these goods -- such as telecommunications and aircraft, industrial scientific instruments and construction equipment, and agricultural and data processing machinery -- than in the fast growing emerging markets. Added to the advantages of the United States in the capital goods area are our strengths in agriculture, food and some U.S. branded consumer goods and commercial services. For all these sectors, the emergence of new middle classes in low and middle income countries will create major new opportunities for U.S. exports.

The movement of low and middle income countries toward freer markets and faster growth presents the U.S. economy and U.S. workers with a unique opportunity. By rapidly increasing our exports to these markets, we expand demand for the goods and services from our most productive industries -- ones that offer more productive, higher wage U.S. jobs. Expanding trade with emerging markets will help us work better, work smarter and grow faster. The resulting improved performance of the U.S. economy will assist us in dealing with all those domestic economic issues that can be more easily dealt with when growth is faster. It will, for example, be easier to eliminate fully the federal budget deficit and support economically the retirement of the large baby boom generation with the type of stronger economic growth that exporting to emerging country markets can help us achieve. Expanding trade with these countries presents a challenge for us, but an even greater opportunity.

One of the principal trade (and economic) policy issues before us is how the United States can best position itself to help keep these countries on the right economic course with increasingly open markets to U.S. and global trade, and how the United States best benefits from serving the rapidly growing needs of the new emerging markets. The WTO can be a tremendous tool in our efforts to meet the challenge of securing access to these important markets, which is why it is especially important that we pay careful attention to the full implementation of the WTO as it gets on its feet -- and set a course for the organization to continue to play a vital role in the expansion and guaranty of market access in the years to come.

Before assessing implementation and the status of preparations for the WTO Ministerial, it may be helpful to first address two issues that will help to put our objectives for Singapore in the proper context. We need to knock down two misconceptions. First, that trade agreements like the WTO are bad for U.S. workers and economic growth, and the second that the WTO erodes U.S. sovereignty. Neither of these contentions is true.

Performance of the U.S. Economy

Four years ago, President Clinton pledged to pursue policies to help restore jobs, growth and economic opportunity in America. Since that time, the President has followed through on his promise -- which included an activist foreign trade policy -- and the economy has responded.

The budget deficit has been cut every year during this Administration and now stands at half of the dollar value it was in 1992. The budget deficit last year was smaller as a percent of GDP, at 2.3 percent, than was the case for any other major world economy. The budget deficit this fiscal

year (ending September 30, 1996) is expected be roughly $117 billion--the lowest budget deficit in fifteen years (and roughly 1.6 percent of GDP).

Evidence of the current strength of the American economy is abundant.

- We are in the 5th year of economic recovery with good prospects for continued growth. (Unusual for this late in a recovery, inflation is low, our ability to expand industrial production is not currently constrained by a lack of available production capacity and prospects for business investment and job growth remain good.) Last quarter, the economy grew at an annual rate of 4.8 percent (though growth is expected to moderate from here forward).

- In the second quarter of 1996, U.S. GDP was running at an annual rate of $630 billion constant dollars higher than in 1992. From full year 1992 to the second quarter of 1996, real GDP has been growing at an average annual rate of 2.6 percent Annual disposable income is now more than $1,000 (constant 1992 dollars) higher than in 1992 on average for every man, woman and child in the country.

- Since the beginning of 1993, over ten million net new jobs have been created, causing unemployment to stay at a level below 6 percent since late 1994. The current unemployment rate (August) is 5.1 percent. Evidence suggests that job creation has been geared toward higher-wage jobs. A recent CEA study concluded that 68 percent of net job creation in the period from February 1994 to February 1996 was for jobs paying above-median wages.

Part of the President's plan for economic prosperity has been the expansion of trade, in part through the negotiation of new trade agreements, enforcing compliance with current agreements and pursuing regional trade expansion in Asia, South America and Europe. Trade (exports plus imports) in goods and services (including earnings on foreign investment) has risen from a value equal to 25 percent of GDP in 1992 to one equal to nearly 30 percent of GDP in 1995, from $1.6 trillion to $2.1 trillion.

The expansion of U.S. exports has been impressive. From the fourth quarter of 1992 to the second quarter of 1996 (three and one half years):

- the value of U.S. merchandise exports to the **world** has grown by 35 percent;

- U.S. exports to **Japan** have grown by 47 percent, despite the Japanese economy's being at or near recession throughout the period;

- U.S. exports to the rapidly growing **Asian Pacific Rim** countries, excluding Japan and China, have likewise grown by 47 percent;

- U.S. exports to NAFTA partner **Canada** are up by 51 percent and to **Mexico** by 34 percent;

- the increase to **Mexico** is particularly remarkable in light of that country's severe recession, which lowered Mexican GDP by 7 percent in 1995. U.S. exports to Mexico fell by 9 percent, but recovery (to which NAFTA had contributed) has been rapid. U.S. exports to Mexico in the first six months of 1996 rose nearly 19 percent from a year earlier;

- U.S. exports to other markets in **Latin America** were up by nearly 32 percent over the three and one half year period; while to the **European Union** (experiencing only modest economic recovery over the period) U.S. exports were up by 24 percent.

Also,

- U.S. exports of **manufactured products** are currently running at an annual rate of $525 billion so far in 1996, or 42 percent higher than in 1992.

- U.S. exports of **advanced technology products** (a sub-part of manufactured products) have grown even faster. They are running at a rate of $160 billion so far this year, some 49 percent higher than in 1992. The United States also enjoyed a trade surplus in advanced technology products of $13.6 billion in 1995. The surplus in the first 6 months of 1996 is a third higher than in the comparable period of 1995.

- The value of U.S. **agricultural** exports, after a number of years of slow growth, have increased sharply in the last year and a half. They were up by 22 percent in 1995 to a level of $56 billion. In the first 6 months of 1996, agricultural exports are up by another 13 percent relative to a year earlier.

- U.S. **commercial service exports** are currently running at an annual rate of $227 billion, up 28 percent from 1992.

The President has emphasized the reduction of barriers to and the expansion of U.S. trade as a tool for creating greater economic opportunity for U.S. citizens. U.S. exports generally represent the output of some of America's most advanced and productive industries -- industries where both labor productivity and wages are higher than the U.S. national average.

- Estimates place the wages paid for U.S. jobs supported by U.S. goods exports at some 13 percent to 16 percent above the U.S. national average wage.

Thus, agreements to lower barriers to U.S. trade over time help shift the composition of U.S. employment growth toward higher productivity, higher paying jobs, also helping to raise U.S. living standards.

The growth of U.S. jobs supported by exports has, in fact, been significant under the Clinton Administration.

- Since 1992, jobs supported by exports rose by 1.5 million to an estimated level of 11.4 million in 1996.

- Of those 11.4 million jobs, an estimated 7.7 million were supported by goods exports, including 950,000 jobs attributable to agricultural goods exports.

Export-supported jobs have risen significantly, in part because of the underlying strong growth in U.S. exports. Goods and services exports so far in 1996 (based on the first 6 months) are running at an annual rate of $848 billion, some 37% or $230 billion higher than in 1992.

Why have exports grown so much?

- Some improvements in foreign growth have recently helped U.S. exports, as has a competitively valued dollar (though the dollar has been appreciating for a number of months now).

- The Administration has achieved a great deal of foreign market opening through the negotiation of over 200 trade agreements, including the WTO Agreement, NAFTA and a number of bilateral agreements with Japan.

- In addition, thanks to an activist trade policy, U.S. business understands better than ever that, if it makes an effort to export but encounters foreign government barriers, the Administration, backed by a supportive Congress, will be ready to help. The

commitment of the President to open markets has thus made it more worthwhile for business to make the effort to export even in restricted market environments.

Trade Balance Not the Measure of Our Trade Competitiveness or Economic Success

For the past three years the United States has been ranked as the world's most competitive major economy by the World Economic Forum. In agricultural, manufacturing and service sectors, the U.S. produces some the world's best products and some of the best value for the price. Our exports, as noted earlier, have accordingly grown rapidly. Especially noteworthy was the record $56 billion in agricultural exports last year. The $26 billion trade surplus in agriculture in 1995 was the second highest ever. Since the beginning of the Administration, the expansion of goods and services exports has accounted for about a fifth of the increase in our GDP.

The United States has enjoyed a sustained period of healthy growth, rising employment, falling unemployment and moderate inflation. The rise in our trade deficit earlier in the Administration was, in fact, related to the favorable performance of the U.S. economy. The U.S. economy began to recover earlier than other countries from the global recession of the early 1990s and to grow faster than the markets of many of our major trading partners. As a result, our demand for imports rose at a time when foreign demand for U.S. exports was dampened by lack of growth in foreign purchasing power. The Japanese economy, for example, is just now emerging from a long recession during which it experienced very little growth for 4 years.

No previous Administration has made a greater effort, or had more success, in reducing barriers to U.S. trade. Foreign trade barriers influence the trade balance, and we address these barriers vigorously. However, more recent increases in the deficit largely reflect the superior performance of the U.S. economy. The figures tell the story.

- Even as our trade deficit has risen, U.S. industrial production has grown nearly 17 percent in real terms over the last three and one half years. In contrast, the level of industrial production in Japan -- a country with which we still have a large deficit -- is currently slightly below where it was three and one half years ago. In Germany, another country with which we run a deficit, industrial production is currently 4 percent below where it was three and one half years ago.

- Similarly for employment. The 10.5 million job growth since the President took office stands in sharp contrast to a near zero job growth in the other high income, large industrial economies of the G-7. In the United States, the unemployment rate is currently 5.1 percent compared to an average rate in the vicinity of 10 percent for France, Germany and the United Kingdom.

My point is not to criticize our foreign trade partners, but only to provide some context for the rise in the U.S. trade deficit, a context that is reassuring with regard to the relative U.S. economic performance over the last three and half years.

Although the trade deficit did rise earlier in the Administration, we are seeing progress now.

- The U.S. export growth rate accelerated in 1993, 1994 and 1995. So far in 1996, exports are about 8 percent above the same period of 1995.

- Starting in July of 1995, the growth of U.S. exports exceeded the import growth rate. We have just completed the 12th consecutive month in which export growth has exceeded import growth.

- As a result, it appears that the U.S. trade deficit has peaked and begun to fall. In the first 6 months of 1996, the goods trade deficit was 3.5 percent below the deficit of a year earlier, while the goods and services trade deficit was 14.2 percent below a year earlier.

Even at its recent peaks, the trade deficit, as a share of U.S. GDP, is well below the heights it reached in the mid 1980s.

- On a goods and services basis, the trade deficit equaled 1.5 percent of GDP in 1995 and an estimated 1.2 percent of GDP in the first half of 1996. This compares to the previous peak in the goods and services trade deficit equal to 3.3 percent of GDP in 1987.

- For goods trade alone, the deficit represented 2.4 percent of GDP in 1995 and estimated 2.2 percent in the first half of 1996. This compares to the previous peak of 3.2 percent of GDP in 1987.

The evidence of an improvement in the U.S. trade balance is nowhere greater than with Japan.

- In 1995, our exports to Japan were up by 20 percent while imports from Japan were up by less than 4 percent. As a result, the deficit fell from over $65 billion in 1994 to $59 billion in 1995.

- In the first 6 months of this year, exports were up by over 11 percent while imports have fallen by 10 percent, and the deficit is running at a rate 31 percent below a year earlier.

Many factors account for these recent improvements. However, the Administration's aggressive trade policy vis a vis Japan has played an important role in expanding U.S. exports.

- A recent study by the Council of Economic Advisors has shown that in goods sectors where we have reached trade agreements with Japan under the WTO, the Framework Agreement and other bilateral initiatives, U.S. exports have grown by 85 percent since the Administration took office -- or three times faster than the overall growth of exports to Japan.

In the automotive sector, where we reached agreement last year, the changes in the trade figures have been particularly promising.

- In the first 6 months of 1996, U.S. exports of vehicles and parts to Japan were up by over 18 percent, while imports were down by almost 20 percent.

- The 6-month deficit fell from $19.1 billion in 1995 to $14.5 billion in 1996 (a 24 percent decrease).

As the deficit with Japan, though still large, has receded, legitimate concerns have grown about the increase in the U.S. trade deficit with China. Though the rate of increase has clearly slowed, the deficit with China was running at an annual rate of $36 billion in the first half of 1996. We are particularly concerned in light of Chinese restrictions on market access for U.S. exports. We have targeted such Chinese practices as well as sought vigorous enforcement by China of existing bilateral trade agreements. U.S. exports to China grew by 57 percent between 1992 and 1995, though the rate of export expansion slowed sharply in at least the first half of 1996.

While our deficit with China is large, the composition of our trade with China has favorable aspects.

- U.S. exports to China are heavily weighted toward higher valued capital goods such as aircraft (43 percent of total U.S. exports to China) and industrial supplies (37 percent of total).

- Imports from China are dominated by consumer goods, such as apparel, toys and consumer electronics (71 percent to total U.S. imports from China). The increase in such imports from China tends less to displace U.S. production than it does U.S. imports of such items from now higher cost foreign producers in Asia and elsewhere.

The WTO is Good for American Interests

Despite the numerous benefits of trade liberalization and expansion, concerns are still raised about the Uruguay Round Agreements and the creation of the WTO. Some fear that the WTO Agreements have caused American jobs to go abroad. The evidence, however, suggests that the United States is benefiting in many ways, including job growth.

Trade agreements that permanently change the rules and structure of trade, like the WTO Agreement, are really investments in long term growth.

- At the time of its consideration by Congress, the Administration estimated that the Uruguay Round could result in a U.S. economy $100 to $200 billion (constant dollars) larger, after ten years, than it would have been without the Agreement.

- This would be the equivalent of increasing the U.S. average GDP growth rate by as much as 0.3 percent a year for a decade.

The WTO Agreement only entered into force on January 1, 1995, but we are already seeing impressive growth in sectors that are critical to the U.S. economy and sectors where we fought hard to open markets.

For agriculture, U.S. exports to WTO Members grew by 28 percent in the first year of the WTO's operation, and continued to grow at a healthy pace in the first six months of 1996. Countries that heretofore had banned imports of U.S. products, such as rice and apples, were required to open their markets. As stunning as the numbers are, the pressure on countries to faithfully implement the Agreement has probably been an even greater accomplishment. We're making sure the Committee on Agriculture is viewed by all WTO members as a forum where detailed scrutiny is given to each and every country's progress in adhering to commitments on domestic support, import performance under tariff rate quotas and export subsidies.

For industrial goods -- where we obtained substantial market opening through the so-called "zero-zero initiatives" and chemical harmonization -- U.S. exports to WTO Members of products covered by these initiatives grew nearly 30 percent in 1995 and continued to expand in the first six months of 1996, growing by 15 percent over the levels achieved in the first half of 1995.

- In 1995, exports of paper grew more than 40 percent; construction equipment by nearly 30 percent; chemicals and agricultural equipment by over 25 percent; and export growth in steel nearly doubled.

The WTO Does Not Challenge U.S. Sovereignty

Members of this Committee know well that none of the gains realized by establishing the WTO have come at the expense of U.S. sovereignty. The WTO retains many of the strengths and traditions of the General Agreement on Tariffs and Trade (GATT). It is a member-driven organization, continuing the nearly fifty-year practice of decision making by consensus.

As the world's largest economy, the United States has a major voice in making any decisions, and no substantive right or obligation of the United States can be altered or changed without our consent. The WTO cannot force the United States to repeal or amend any provision of federal or state law or to apply or enforce our law in any particular manner. Only the U.S. Congress, along with state and local governments, can change federal, state or local laws or regulations. Neither can the WTO dictate to us our environmental or health standards. In the WTO panel decision on reformulated gas, the panel itself noted that it was not its task to examine the desirability or necessity of the environmental objectives of the Clean Air Act.

We maintain the right to use our trade laws -- and this Administration is committed to using those laws to ensure other countries live up to their obligations. The WTO Agreements contain tougher dispute settlement rules which are already serving U.S. interests, but they are not our only tool to open foreign markets. We have used -- and will continue to use -- all of our trade laws to stand up for the interests of American workers and firms.

Making Use of Stronger Enforcement and Dispute Settlement Mechanisms

Much of our activity since the WTO entered into force has focused on enforcement and implementation of the results of the Agreements. For the multilateral system to remain credible, the Agreements already in hand, as well as the current work before the WTO, must be fully implemented. Effective enforcement depends on strong implementation of the Agreements internationally -- this has been our top priority over the past year and as we look to Singapore.

The WTO dispute settlement mechanism is proving to be a very effective tool to open other nations' markets. The United States insisted on tough new dispute settlement rules because we bring -- and win -- a significant number of cases before dispute settlement panels. And we settle a lot of disputes by initiating the dispute settlement process -- indeed, enforceability of the dispute settlement rules has made settlement of disputes a much more frequent, speedy and useful outcome. Before the WTO, the global trading rules did less to benefit American workers.

The United States has invoked formal procedures under the new WTO dispute settlement mechanism in 17 cases -- far more than any other country in the world. Eleven new cases have been launched since January 1996 when the USTR Monitoring and Enforcement Unit was created.

The process is certainly working to our benefit already: we won the first case that we took to the WTO, involving Japan's taxes on liquor imports; we have signed a settlement agreement in one case, involving EU imports of grains; and we are working towards settlement on at least 3 others (Japan sound recordings, Portugal patent term, Turkey box office tax.) Among some of the other important cases which we are vigorously pursuing are:

- **Canada - magazine imports.** The United States invoked WTO procedures in March 1996 to challenge Canada's discriminatory practices that protect its domestic magazine industry, and the matter was referred to a WTO dispute settlement panel in June 1996. The panel's report is expected by February 1997.

- **EU - banana imports.** After holding consultations with the EU under WTO dispute settlement procedures in 1995, the United States, Guatemala, Honduras and Mexico were joined by Ecuador in February 1996 in challenging the EU's practices relating to the importation, sale and distribution of bananas. A dispute settlement panel was established in May 1996, and its report is expected to be issued by January 1997.

- **Japan - distribution services.** In June 1996, the United States initiated WTO dispute settlement proceedings regarding measures affecting market access for distribution services applied by the Government of Japan pursuant to or in connection with Japan's Large Scale Retail Stores Law.

- **Japan - photographic film and paper.** In June 1996, the United States initiated WTO dispute settlement proceedings to address various laws, regulations and requirements of the Government of Japan affecting the distribution, offering for sale and internal sale of imported consumer photographic film and paper. The measures include a number of laws, regulations and administrative actions, originating in Japan's strategy of liberalization countermeasures in this sector, and inhibiting sales of imported film and paper. Japan's photographic film and paper market is valued at about $2.8 billion per year.

Let me also cite some specific examples of the results we have achieved from focusing on implementation of new obligations assumed in the WTO:

- **TRIPs.** During the past 6 months we have invoked dispute settlement procedures in 4 cases to enforce other countries' obligations under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement):

  -- **Japan - sound recordings.** In February, the United States initiated WTO dispute settlement proceedings against Japan for denying protection to hundreds of millions of dollars' worth of U.S. sound recordings made between 1946 and 1971. Japan subsequently agreed to change its law, and consultations are continuing on Japan's plans for implementing such a change.

  -- **Portugal - patent protection.** In April, the United States invoked WTO dispute settlement procedures to challenge Portugal's patent law, which fails to provide the required minimum twenty years of patent protection to all patents still in effect on January 1 of this year. As a direct result of the U.S. challenge, Portugal announced a series of changes to its system to implement its obligations.

  -- **India - patent protection.** In July, the United States invoked WTO dispute settlement procedures to challenge India's failure to establish a "mailbox" mechanism for patent applications for pharmaceuticals and agricultural chemicals, and a system of granting exclusive marketing rights in such products. Both are clear TRIPs Agreement obligations.

  -- **Pakistan - patent protection.** The United States is also using the WTO dispute settlement mechanism to enforce Pakistan's obligation under TRIPs to establish the "mailbox" and exclusive marketing rights systems. In July, after our consultations with Pakistan failed to produce concrete results, the United States requested that the matter be referred to a panel.

  We will continue on an ongoing basis to monitor the steps countries have taken -- or failed to take -- to implement their TRIPs obligations.

- **TRIMs.** We are currently undertaking a similar initiative with respect to the WTO Agreement on Trade-Related Investment Measures (TRIMs), which prohibits WTO members from imposing on foreign investors certain performance requirements or linking the receipt of incentives (e.g., tax benefits, tariff reductions, etc.) to certain performance requirements. Such measures are applied in some sectors of importance to U.S. firms and workers -- especially in the auto sector -- and we expect to use WTO procedures to ensure strict adherence to the TRIMs Agreement to prevent the proliferation of such measures that can be so harmful to U.S. interests.

- **Agriculture.** We have been examining closely how countries are implementing the market access, domestic support and export subsidy commitments that they made under the WTO Agriculture agreement, and we have already used WTO procedures to address problems in that area as well as other barriers facing agricultural exports:

  -- **EU - grain imports.** In July 1995, the United States invoked WTO dispute settlement procedures to enforce the EU's WTO obligations on imports of grains. Last September we requested that a dispute settlement panel be established to review our complaint, but before a panel was established a settlement was reached. The settlement ensures implementation of the EU's Uruguay Round market access commitments on grains, reduces import charges on rice and provides for consultations on the EU's "reference price system."

- **Hungary - agricultural export subsidies.** In March 1996, the United States, joined by Argentina, Australia, Canada, New Zealand and Thailand, began a process of consultations with Hungary under WTO dispute settlement procedures concerning Hungary's lack of compliance with its scheduled commitments on agricultural export subsidies.

- **Korea - meat imports.** The United States and Korea consulted under WTO procedures and reached a settlement in July 1995 concerning Korea's food regulations, which contained arbitrary shelf-life restrictions that were a barrier to U.S. exports of many agricultural products. Under the terms of the settlement, Korea agreed to convert to a manufacturer-determined shelf-life system for U.S. beef, pork, poultry and other foods. Manufacturer-determined shelf-life systems are used throughout the world. Korea also agreed to remove other barriers to U.S. agricultural exports.

- **EU - meat imports.** In January the United States invoked WTO dispute settlement procedures to challenge the EU's restrictions on imports of meat from animals treated with growth hormones. In May a panel was established to review the U.S. complaint, and its report is expected by February 1997.

- **Australia - salmon imports.** Australia bans imports of untreated fresh, chilled or frozen salmon from the United States and Canada, allegedly for sanitary reasons, even though a draft risk assessment found in 1995 that imports of eviscerated fish are not a basis for concern about the transmission of fish diseases to Australia's fish stocks. In November 1995 the United States invoked WTO dispute settlement procedures and consulted with Australia on these restrictions. The Australian government is in the process of reconsidering the scientific basis for the restrictions.

Dispute settlement is not the only WTO forum used by the United States to ensure that other countries' obligations are met. For example, when the European Communities expanded to include Austria, Finland and Sweden, we obtained compensation valued at over $4 billion and which included substantial reductions in Europe's semiconductor tariffs. These negotiations were conducted under WTO rules.

Transparency remains a fundamental issue for the WTO. As this Committee may recall, the Uruguay Round Agreements Act mandated the United States to move the WTO ahead in this critical area. We are continuing to pursue every avenue to make the WTO and its proceedings more open and transparent, particularly with respect to dispute settlement. In July, we reached an agreement that advanced this important objective and the system will be much improved as a result. We obtained much needed improvements in the system by, among other things, assuring the prompt derestriction of dispute settlement panel reports when they are circulated to the members.

I am also pleased to report to you that the WTO has finally entered the Information Age and, like many other organizations, has put itself on the Information Superhighway. One can access the WTO home page (including via the USTR home page) and stay current on the variety of issues before the Organization. This transparency is welcome. At the same time, the WTO is looking to build bridges with non-governmental organizations (NGOs). NGOs will be able to attend the Singapore Ministerial meeting. These are important improvements that should further strengthen understanding of the WTO.

Looking Ahead to Singapore

The WTO Agreement mandated that the WTO meet at ministerial-level at least every two years. Preparations for the meeting in December in Singapore are under way in Geneva, primarily in the respective Committees responsible for implementing the respective Agreements, and under the direction of the Chairman of the General Council, Ambassador Rossier of Switzerland, and

Director General Ruggiero.. At Singapore, Ministers will have before them a series of reports and decisions covering the broad range of issues before the WTO and its future course.

You may recall that in the GATT, Contracting Parties met once a year, but traditionally the meetings were not at ministerial level unless an extraordinary event was planned like the launch or conclusion of a new round of trade negotiations. With trade so vital to our economic interests, we made the decision that more regular involvement of Ministers should take place in the WTO. Singapore, as the first of such meetings, will undoubtedly set precedents for the future. This is one of the reasons why we have argued that the first conference be realistic in its aspirations.

A second important difference about this meeting, as compared to previous GATT Ministerial meetings, is that the WTO already has a substantial forward-looking agenda in terms of the mandates that are reflected in many of the Uruguay Round Agreements. In some areas, such as services and rules of origin, substantial negotiations were mandated.

The Singapore meeting will not call for the launch of a new trade round, or the establishment of targets for free trade in the future. What it will do, and we hope effectively and efficiently, is: review how far the WTO has come with respect to its present agenda; expand market access opportunities; and determine what areas the WTO must address to stay on the cutting edge of trade policy and to maintain the widespread consensus for free and fair trade around the globe. Essentially, this meeting should be seen as the first meeting of the WTO's Board of Directors. It will be an important test of the WTO's credibility as a forum for continuous consultation, negotiation and liberalization.

I will touch upon some of the highlights for the Committee in terms of what is already required of the WTO.

IMPLEMENTATION AND THE BUILT-IN AGENDA

I spoke earlier about the priority this Administration attaches to implementation of the WTO Agreements. Like many other countries, we believe that this must be given substantial priority. It is clear that the American people will not support new agreements if current agreements are not enforced. I should note that in its report to the President in March, the Advisory Committee for Trade Policy and Negotiation (ACTPN) indicated the importance that it attached to this aspect of the agenda. Thus, one of the most important tasks we have this Fall is to assure that the committees administering the respective WTO Agreements report on the state of implementation, the problems and successes and how we should proceed in the future. All WTO committees and other subsidiary bodies are currently drafting reports on their activities and the status of implementation of their respective Agreements. Final reports are expected to be submitted to the General Council by late October or early November so that it may adopt its own consolidated report to Ministers well in advance of the Singapore meeting.

There is a broad consensus that implementation -- including the built-in agenda -- must be an important focus of the Ministerial. The WTO work program presents an ambitious set of obligations and initiatives, the full and timely implementation of which is critical to the credibility of the WTO and to gaining full advantage of all the benefits of the WTO Agreements. While our objectives and preparations for this aspect of the Ministerial may not enjoy as much visibility as for some of the other Singapore agenda items under discussion, we attach immense importance to achieving a successful outcome in this fundamental area of the WTO's work. We have argued that there is nothing mundane about such critical matters as the progress being made, for example, in implementing agricultural support reduction commitments or in putting in place the necessary mechanisms for the protection of pharmaceutical patents.

"Implementation" is the functional equivalent of "enforcement." This Administration has devoted a tremendous amount of attention and resources to monitoring and ensuring that the several hundred trade agreements which we have negotiated are honored faithfully, and our attention to this aspect of the Singapore agenda is a leading example. But enforcement is not the only consideration. Through our review of how the Agreements are working in practice, we may

identify areas where adjustments in certain provisions are warranted or the streamlining of certain obligations -- such as in the case of notifications of laws and practices -- might make the system work better overall. Obviously, these sorts of questions need to be approached on a case-by-case basis, but the basic emphasis should be on how to ensure or improve compliance with substantive obligations while avoiding an over-bureaucratization which impedes compliance by smaller countries and detracts from the usefulness and efficiency of the organization generally.

Developing countries, in particular, have signalled an interest in focusing the Ministerial on implementation questions. This is, in part, due to their reluctance to see the WTO take up new issues and take on new obligations -- but it also reflects a genuine concern that they may need help of some kind in digesting all that they have already committed to taking on. While we may not wholly accept their rationales, we are eager to face squarely the implementation issues and to look for constructive ways to further implementation without undermining the basic principle of mutual obligation.

The review and assessment of implementation matters leads naturally into a discussion of fulfilling the "built-in agenda" and, in many ways, the two areas are broadly synonymous with the idea of simply executing the WTO's present work program. Full and timely implementation of existing obligations is often the necessary prerequisite for moving on to the next stage of liberalization that may be contemplated by the built-in agenda. If problems are being experienced in assuming the obligations already agreed to, this can both impair the WTO's ability to meet prescribed deadlines for initiating subsequent stages of negotiation and alter the scope and nature of issues which will be negotiated. As a result, in conjunction with a stocktaking of implementation, the United States and a number of other countries have insisted that Ministers take a close look at the depth and breadth of built-in agenda timetables and commitments in order to be able to properly coordinate the progression of how and when we move from implementation, to preparing for reviews and negotiations, and on eventually to the negotiations themselves.

Services

As the Committee knows well, the Uruguay Round created an entirely new body of rules to govern trade in services. The General Agreement on Trade in Services (GATS) is the first multilateral, legally enforceable agreement covering trade and investment in the services sector. It is designed to reduce or eliminate governmental measures that prevent services from being freely provided across national borders or that discriminate against locally-established service firms with foreign ownership. The agreement includes specific commitments by WTO member countries to restrict their use of barriers in important sectors in which the U.S. is competitive, including professional services, computer services, environmental services, and value-added telecom services. The agreement also provides a legal framework for addressing barriers to trade and investment in services and provides a forum for further negotiations to open services markets around the world.

This was one of the most difficult negotiations, and one where the most additional negotiation and work was mandated at the conclusion of the Uruguay Round. I want to take this opportunity to bring you up to date on the negotiations thus far and the extensive program of work already under way and envisioned for the future.

Basic Telecommunications

Obtaining market-opening commitments in the critical area of basic telecommunication services remains a top priority for us. The United States claims the largest single part of the $500 billion global market, in large part because we have fostered the most competition in the world. The U.S. information industries are poised to take great advantage of a truly market-opening agreement.

We have offered to open our telecom services market *if other nations open theirs.* At the original deadline for these talks, April 30, we had eleven offers from developed countries that matched the United States' offer. Several nations in Eastern Europe and in Latin America made offers that matched that of the United States in openness after a time lag of one to five years.

However, too many important trading partners sought to keep protectionist policies indefinitely. Rather than accept a bad deal -- or walk away from the good offers -- the United States won support for an extension of the talks until February 15, 1997. More and better offers are necessary for us to succeed this time around. Foreign investment restrictions, for example, are blatantly protectionist and they can and should be eliminated among developed countries. Other countries -- including some in Asia that have enjoyed outstanding economic growth under the open multilateral trading system -- have made nominal offers or none at all. We will not conclude any agreement until more of these nations make offers to phase in open-market policies over fixed and reasonable periods of time.

Financial Services

Negotiations in financial services are expected to resume in the first half of 1997. Because important countries in Asia and Latin America were not willing to provide sufficient market-opening commitments in the extended negotiations on financial services, in July 1995 we committed only to protect the *existing* investments of foreign financial service providers in the United States. We have reserved the right to provide differing levels of treatment with respect to any expanded and new activities by these financial service providers, or with respect to entirely new entrants to the U.S. financial market. We are now beginning to prepare for these talks, focusing again on obtaining meaningful commitments that remove barriers facing U.S.financial services providers.

Maritime Services

In another negotiation extended beyond the end of the Uruguay Round, on maritime services, the Administration demonstrated its resolve not to buy into a bad deal, one that would not serve the interests of U.S. industry or labor. This negotiation ended on June 28 of this year, and further discussions in this sector are suspended until 2000, when all services sectors are subject to further negotiation.

Almost without exception, no participant offered to remove restrictions so as to approach current U.S. openness in this area. Consequently, we undertook no commitments in this sector. While 36 WTO Members have scheduled commitments in this sector, by and large the commitments are from countries that either are consumers of shipping services (i.e., they have no domestic shipping industry), or they have small domestic markets and their commitments hold limited value.

Further Negotiations in Services

The GATS calls for a new round of negotiations of multi-sectoral market opening commitments every five years, with the first such round to begin in 2000. Accordingly, an important aspect of the work under way in Geneva is to lay the groundwork for those negotiations. Technical work is under way to help ensure clarity and accuracy in scheduling of commitments, and to expand coverage to include new and emerging technologies.

In addition to the negotiations on new sectoral commitments, the GATS mandated work in "rules" issues such as subsidies, safeguards and procurement. The Administration has been participating actively in these discussions. The discussions on procurement are important because it is the first time in the WTO that all WTO members are focusing on government procurement rather than the selected number of countries that currently adhere to the plurilateral agreement on government procurement.

Finally, part of the on-going work deals with licensing and other barriers in the area of professional services, a sector in which U.S. companies are very competitive. With the strong support of our private sector, the U.S. is actively working to ensure that measures relating to qualifications, technical standards, and licensing requirements in the field of professional services do not constitute unnecessary barriers to trade. The WTO Working Party on Professional Services is now focusing on accounting services, and we hope to expand the work program next year to other professions, such as engineering and architecture.

In sum, across the range of services sectors, the objectives which we are pursuing for Singapore which we are pursuing in the various committees are to: seek the much needed improvements in basic telecom offers to assure success in early 1997; agree to pursue significant, market-opening results from all participants in next year's financial services negotiations; agree to strengthen and expand the work program on professional services; and begin the preparations for securing higher levels of commitments in all sectors as part of the next round of multi-sectoral services negotiations in 2000. Our actions in these negotiations provide ample evidence that the Administration has been aggressive in pursuing America's interests, but that we will not sacrifice substantive, market opening commitments for the sake of securing an agreement.

Market Access Issues

As I noted previously, the tariff liberalization we achieved in the Uruguay Round has led to impressive growth in U.S. exports. But, as any exporter knows, lower tariff rates are only one element in achieving "real" market access liberalization and export growth. For example, exporters want information on the tariff structure in potential markets. In the WTO Market Access Committee, we are working to revamp the WTO database on tariffs and trade information so that more countries supply this information and the WTO makes it available on a timely basis. Likewise, exporters want assurance that any changes to the Harmonized System Nomenclature do not result in increases in tariff bindings -- that is why the review of 1996 updates to the Harmonized System Nomenclature through the Market Access Committee is so important. We are also using the new WTO rules on pre-shipment inspection and the broadened obligations on customs valuation to address U.S. exporters' concerns in these areas.

Import and export practices of state trading enterprises can and, at times, do operate in ways that distort trade, particularly in agriculture. As a result of our efforts and those of some of our trading partners during the Uruguay Round, there is now an official working definition of state trading enterprises and a separate WTO Working Party on State Trading. All agricultural imports are subject to the new rules on agriculture, including commodities imported by state trading enterprises, and quantitative and budgetary limits are established on agricultural export subsidies, including subsidies provided by state trading enterprises, regardless of their specific governmental relationship. These Uruguay Round results are positive steps that help lay the foundation for further progress on this issue.

However, a key problem with state trading -- and perhaps the largest obstacle we currently face -- is that the activities of state trading enterprises are not sufficiently transparent to determine whether WTO rules and commitments are being violated. We are working to remedy this situation , and I am convinced that we are making progress. Part of the problem in years past was the lack of serious attention to the activities of state trading enterprises. With the new WTO Working Party and persistent U.S. pressures within the WTO and elsewhere, high-level attention to this issue is no longer in question. Within the Working Party, we have taken the lead in the development of a new notification format that will improve reporting requirements and are developing an illustrative list of what constitutes a state trading enterprise based on its activities, mechanisms and privileges. We are also addressing some of the concerns about state trading with those countries seeking entry into the WTO, including China and the countries of the former Soviet Union.

On another front, the WTO Balance of Payments (BOP) Committee has used the strengthened WTO rules to move countries away from reliance on BOP measures and, when implemented, toward more transparent price-based measures rather than quotas. Since January 1995, seven

countries committed to disinvoke long-standing BOP arrangements by no later than the end of the year (Poland, Slovakia, Turkey, Philippines, Israel, South Africa and Egypt). As a result, exporters to Poland, for example, no longer face the 10 percent BOP surcharge that existed on nearly all items; the remaining 3 percent surcharge will be eliminated at the end of this year. Likewise, South Africa will eliminate its 15 percent BOP surcharge on key household appliances and its 40 percent BOP surcharge on luxury goods by the end of this year.

Another area that has important implications for the conditions of market access is the ongoing work by the WTO Committee on Rules of Origin. The WTO Agreement on Rules of Origin mandates a three-year work program designed to lead to the multilateral harmonization of non-preferential rules of origin. Throughout the Uruguay Round negotiations, which led to the Origin Agreement, we received important guidance from U.S. exporters concerning the market access barriers they experienced as a result of various origin practices of our trading partners. In the same way, we will continue to work with the private sector as we proceed under the Origin Agreement's harmonization work program.

The U.S. proposals for the rule of origin work program are being carefully developed with industry input on a sector-by-sector basis, under the auspices of a Section 332 study being done at USTR's request by the International Trade Commission. Our guiding principles for the harmonization work program are that the rules must provide certainty, and must have a sound basis that reflects today's complex commercial and trading environment. Combined with our efforts to enforce full implementation of the significant procedural disciplines that already exist under the Origin Agreement, the results of the harmonization work program will serve to diminish -- if not eliminate -- abuses of discretion being experienced by our exporters at the borders of our trading partners whenever the origin of a product is at issue. This will greatly advance predictability, transparency, and uniformity for U.S. trade and investment interests.

Trade and the Environment

Another significant feature of the built-in agenda item will be the report of the WTO Committee on Trade and Environment (CTE), the establishment of which was one of the key achievements of the Marrakesh Ministerial meeting. This Committee has played an invaluable role in helping to develop an understanding of the complex relationship between trade and environment policies. An important part of this analysis has been an examination of the extent to which the rules of the trading system provide adequate flexibility for governments to adopt sound environmental policies, while at the same time ensuring that trade rules guard against protectionist trade measures.

The Committee is now in the process of developing a report to Ministers on the long list of issues that it has been reviewing. While work on the report has just begun, and it would be premature to try to forecast its exact content, we are confident that the report will serve to sharpen the focus of further work on this multifaceted and complex issue. We are also cautiously hopeful that the report will include a number of specific recommendations or conclusions for Ministers.

To provide you with a flavor of the work of the Committee, let me describe a number of the key areas of work.

Multilateral Environmental Agreements

The CTE has spent quite a bit of time discussing the relationship between trade measures in multilateral environmental agreements - MEAs for short - and the WTO. I should note from the outset that there has never been a dispute under the WTO, or the GATT before it, involving trade measures required by MEAs. Nevertheless, there has been a great deal of interest in clarifying the legal relationship between trade measures taken pursuant to MEAs and the WTO.

There have been quite a number of proposals in the Committee, ranging from a suggestion that Ministers endorse the legal status quo to proposals to amend the GATT to ensure that there is flexibility in the rules for trade measures taken pursuant to MEAs. Among those who favor

flexibility, there is also a range of views as to the nature and stringency of criteria that must be met as a condition of such flexibility.

Despite these differences of view, we think that there are a number of common threads that have come out of the discussion thus far. For instance, we see broad agreement on the importance of international cooperation in dealing with environmental challenges. We also sense that there is a broad appreciation that trade measures can play an important role in MEAs, although, like any tool, they must be used judiciously. In addition, I think that there is a growing appreciation that disagreements are least likely to occur between countries that are parties to both the WTO and an MEA. Finally, there is a strongly felt need to ensure that trade and environment officials work closely together in the negotiation of MEAs, as well as trade agreements.

Ecolabeling

Ecolabeling is another of the issues that has received a great deal of attention in the CTE. Ecolabeling can be an important market-based instrument for pursuing environmental objectives. At the same time, there is concern among many members of the CTE, as well as U.S. firms, that ecolabeling may be used as a disguised form of protectionism. Against this backdrop, there has been discussion within the CTE of the extent to which ecolabeling is covered by existing WTO disciplines and whether additional disciplines and/or flexibilities should apply.

A key point of discussion has been whether all forms of ecolabeling are covered by the Agreement on Technical Barriers to Trade - or TBT Agreement - which provides important safeguards against discrimination, including requirements for transparency and public participation in standards making. The United States has taken a firm view that the TBT Agreement applies to all forms of ecolabeling and a number of other countries share this view. We also believe that the TBT Agreement affords broad flexibility for countries to implement innovative environmental measures, subject to appropriate disciplines. Other countries, however, have expressed doubts as to whether all forms of ecolabeling are covered by the TBT Agreement and the discussion of this issue will likely extend beyond Singapore.

Looking ahead, we have proposed to increase disciplines on ecolabeling programs with respect to transparency and public participation. While the TBT Agreement provides important and valuable rules in this area, our proposal seeks to ensure that there is reasonable access to the process of creating ecolabels at the earliest possible time in their development.

As many of you are aware, there have been suggestions that we should go even further and propose additional substantive guidance in this area. However, after talking with many of you and interested parties in the business, environmental and labor communities, we believe that considerable further analysis and dialogue will be necessary before any additional proposals can be considered. Given the substantial international interest in this issue, you can be sure that it will be front and center in the future work of the CTE.

The Environment & Market Access

Another valuable aspect of the CTE's work has been its thoughtful analysis of the relationship between trade liberalization and the environment. While there is no automatic relationship between trade liberalization and environmental benefits, a broad view has developed that the agriculture sector has great potential for win-win results. This bodes well for the WTO's future work in this sector. Beyond agriculture, there appears to be substantial agreement that the CTE should seek to identify other win-win possibilities.

Looking to ensure that these win-win possibilities blossom into realities, we have proposed that the Singapore Ministerial endorse the concept that countries should perform environmental reviews of trade agreements with potential for significant environmental effects.

In short, we expect that the CTE will produce an extensive report which conveys a substantial record of accomplishment insofar as its analysis of the many intricate relationships between trade and environment issues is concerned. While it would be ideal to deliver some concrete results, perhaps the best result to be claimed is that this process has succeeded in getting both trade and environment officials with policymaking responsibilities not only talking, but *listening*, to one another. The CTE has established itself as an integral aspect of the WTO's work, with contributions to provide over the long term -- rather than exclusively for this initial ministerial meeting.

If I were to try to summarize the "built-in agenda" and what it stands for, it is clear that we had our eye on the next century and the need for the Agreements to remain dynamic in order to sustain the relevance and vitality of the WTO. The juxtaposition of various negotiating initiatives under this agenda essentially provides the components for substantial negotiations in many areas when the results in key areas such as agriculture and services are implemented. The next phase of agricultural negotiations is scheduled to commence in 1999, while another round of general services negotiations begins in 2000. The most innovative and controversial elements of WTO subsidy rules must be reviewed for possible extension or renegotiation by the end of 1999. Part of our goal at Singapore is to prepare now for those discussions. While no one could reasonably object to being "prepared," there will undoubtedly be some differences of view as to how much advance work is appropriate.

FURTHER LIBERALIZATION AND THE INFORMATION TECHNOLOGY AGREEMENT

One area that did not receive attention as an item for a "built-in agenda" was further tariff liberalization -- although some agreements, like the zero-for-zero on pharmaceuticals, did provide for expansion. Nevertheless, we think it should be possible and desirable to secure an agreement for a modest package of market openings at Singapore. Clearly, further liberalization need not wait the launching of a comprehensive negotiation -- a message worth sending in order to illustrate the dynamic yet permanent nature of the WTO's role in facilitating continual market access. To this end, we have already been working with our major trading partners to craft a tariff package consistent with the existing, residual tariff-cutting authority provided by the Congress through the Uruguay Round Agreements Act.

Working first with our fellow "Quad" countries (Japan, Canada and the European Union), and then seeking broader participation among other important players -- such as our APEC partners -- our efforts have focused on building a tariff package around an Information Technology Agreement, or "ITA". The ITA would provide for staged duty reductions beginning in 1997 down to zero by the year 2000 on a variety of state-of-the-art information technology products, such as multimedia personal computers, LAN equipment, supercomputers and semiconductors. Given the significant market growth for these products, and the critical role they play in establishing the necessary infrastructure for participation in the Information Age, an ITA would be a boon to both producers and consumers in countries across the globe. And, given our industries' competitive edge, the United States would be one of its prime beneficiaries.

Our interests in a tariff package are not limited to information technology, however. The Statement of Administrative Action of the Uruguay Round Agreements Act specifically mentions such items as wood products, white distilled spirits, non-ferrous metals, oilseeds and oilseed products as sectors where obtaining further reductions in and elimination of duties is a priority. During the Uruguay Round, we also were not able to achieve our objectives to eliminate duties on certain other goods like scientific equipment, certain chemicals and allied products and fish and fish products. To advance our efforts in these areas, our Singapore market access objectives include:

- Seeking additions to the Uruguay Round pharmaceutical zero/zero package. Participants in this package have completed the technical work, and it is clear that agreement will be reached to add 300 to 400 new items to the existing agreement.

- Seeking expanded participation in the Uruguay Round sectoral initiatives, particularly chemical harmonization.

- Pursuing zero tariff deals in certain sectors that were attempted unsuccessfully during the Uruguay Round, like oilseeds and oilseed products and white distilled spirits.

- Pursuing acceleration of staged tariff reductions in paper, and perhaps other sectors if acceleration would encourage new participants in sectoral initiatives.

There is, naturally, no assurance that we will achieve all the goals that we set out for ourselves. All the ingredients are present for an important, even if limited, market access package, but there is a lot more work left for us to do in building the necessary international consensus. Ideally, this means we'll realize an ITA. I am very much encouraged by our Asian partners' enthusiasm and hopeful that the European Community will exercise leadership and join the emerging consensus. I can assure you, however, that we will continue to work intensively with our trading partners in an effort to develop more market access opportunities for U.S. exporters, both at Singapore and beyond. Market access is the leading priority of this Administration in the WTO and in all of our trade agreements. We will take advantage of every opportunity to continue to make gains on this front.

ADDING TO THE WTO'S AGENDA

The last, and arguably most controversial, area to be considered at Singapore is the question of adding "new" issues to the agenda of the WTO. This is an important consideration for the WTO, as it goes to the heart of how the organization can be made continually relevant to the ever-changing nature of international trade and the global economy. Under the GATT, we progressed from an exclusively tariff-based regime to one which included rules dealing with a variety of non-tariff issues, such as standards, subsidies, customs valuation, import licensing and government procurement practices. As a result of the Uruguay Round, we added such issues as services, trade-related investment measures, trade-related aspects of intellectual property rights and the relationship between trade and the environment.

Now that the WTO is up and running, we must face whether, when and how to take up the next generation of trade issues. There are a variety of ways in which to do this -- ranging from negotiations to work or study programs -- but the particular approach for each issue must be tailored and timed according to both the preparedness of the issue for consideration in a trade context and the preparedness of the WTO membership to take on any such issue in a substantively and politically meaningful way. In short, it involves striking a balance.

Director General Ruggiero personally is leading the consultations on the development of this agenda item, exploring with delegations the potential list of issues that will expand the WTO's program of work.

Some suggestions were eventually referred for consideration to existing WTO bodies which have competence for the relevant subject matter. For example, the Committee on Regional Trading Arrangements is examining certain ideas put forth to conduct a comprehensive review of the role and relationship of regional agreements to the multilateral system. Of the remaining issues, four appear to have attracted the most attention: These are government procurement, trade and labor standards, investment and competition policy. No consensus has yet emerged on these issues but an active process is under way in Geneva. A consensus is necessary before work can be added to the WTO's agenda. I will briefly review the issues for you.

Interim Agreement on Government Procurement

Effectively, what the United States has proposed is that Ministers endorse the negotiation of an interim arrangement on procurement which would extend to all the Members of the WTO, not merely those which are signatories to the Government Procurement Agreement. This interim arrangement would establish disciplines on transparency, openness and due process in procurement practices, such that suppliers from all WTO Members would have equal access to information on procurements, the procurement process and to bid challenge mechanisms. Our interest in procurement reform arose out of a number of objectives, including our desire to identify opportunities for addressing the pervasive problem of bribery and corruption affecting international commercial transactions. While this is not, *per se*, an "anti-bribery" initiative, if successful, it will go a long way toward discouraging such practices in international procurements.

We see this as a first step toward eventual negotiations aimed at reducing and even eliminating domestic preferences. Ideally, over time, a single multilateral agreement on government procurement would emerge -- incorporating transparency, openness and due process, on the one hand, and non-discriminatory treatment on the other. However, recognizing that not all WTO Members are prepared to or capable of assuming all of these disciplines immediately, we believe an interim arrangement would be reasonably achievable and of benefit to all participants. Notwithstanding some caution displayed by our trading partners, I have been gratified by the generally positive receptiveness which other countries have shown in respect to this proposal.

Trade and Labor Standards

Let me be very precise and direct. This is a priority for the Administration as we approach the Singapore meeting. I started my remarks today by calling attention to two important points: first, this Administration cares deeply about securing better and expanded market access around the globe for our goods and services because economic growth means jobs here at home. We negotiate trade agreements not for the sake of negotiating agreements, but because they are an important tool to building a better future for our country and a path to more, higher paying jobs for American workers.

Second, our economic well-being, prosperity and standard of living are linked to those of our partners, particularly those in the big emerging markets. This is the same reason why the preamble to the Agreement establishing the WTO states clearly that "relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of goods and services." And, it is the same reason why the GATT had nearly identical language in its preamble.

Trade and labor standards is not a new issue on the trade agenda. We must find a way to address this question so that we can move forward and ensure that our workers can compete on the basis of fair play rather than unfair advantage. Dealing with this issue in the WTO is part and parcel of our effort to make sure we compete on a level playing field.

Section 131 of the Uruguay Round Agreements Act mandates that the President seek the establishment of a working party in the WTO to examine the relationship between trade and labor standards. Consistent with this mandate, we have proposed that Ministers at Singapore establish a working party to begin such an examination. We do not have a consensus yet, but we have made our priorities well known.

As I have said in my discussions with my counterparts in Asia and Latin America and Europe, we do not want to prejudge the outcome or suggest a particular set of disciplines or prescriptions. What we want to pursue are core standards -- (1) freedom of association; (2) the right to organize and bargain collectively; (3) an end to child labor exploitation; (4) prohibition of forced labor; and (5) non-discrimination in employment -- which virtually all Members of the WTO have already endorsed in the United Nations and other institutions. What we are talking about is

seeing whether we can reinforce the work of the International Labor Organization (ILO) by ensuring that improving market access around the world helps to realize these labor standards.

In pressing to begin WTO work in this area we have tried to make clear that we are not talking about negotiating wage rates, harmonizing labor costs, or seeking justification for the imposition of protectionist measures. Work completed in the OECD and other fora has confirmed that there is a mutually reinforcing relationship between core labor standards and trade liberalization. We believe that it is important for the WTO to openly acknowledge this relationship, and from that to begin a dialogue.

More and more, the working people of America -- and, in fact, other countries -- question whether trade agreements are good for their interests. We have to find ways to reassure them that trade liberalization is integral to the fulfillment of their own interests and well-being. Our proposal in the WTO, therefore, seeks to give expression to the relevance open markets and a strong rules-based trading regime have for improving the welfare of workers, and to demonstrate the very real stake which workers have in the further expansion of the multilateral trading system.

Competition

Some of our trading partners, in particular the European Commuity, have suggested that competition be added to the WTO's work program. We consider the issue of competition to be important. Moreover, we believe that government actions which enable private companies to do things which undermine the benefits of negotiated trade concessions are currently fully actionable in the WTO.

However, the broader issue of competition is not ripe for any kind of negotiation in the WTO to establish a comprehensive new framework of rules. This is an extremely complicated and multi-faceted issue, which encompasses a broad range of questions relating to both private company and governmental actions. We have looked at these questions carefully, working closely with our interagency colleagues from the Department of Justice, the Federal Trade Commission and the Department of Commerce, in particular. The fact of the matter is that an extraordinary amount of work and study remains to be done in this area -- in conjunction with further consultation with the Congress and the private sector -- to determine whether any sort of negotiating program in the WTO is appropriate. Some work is already under way in the OECD. At Singapore, we may want to consider joining a consensus to agree to begin a limited, educational program within the WTO. However, any such WTO work program would have to be modest and cautious, and done in careful coordination with other agencies, especially the Departments of Commerce and Justice and the Federal Trade Commission. In no such work would we alter our antitrust or our antidumping laws.

It bears noting that selective aspects of the competition question have already been taken up in the WTO. A leading example is the negotiation on basic telecommunications services, in which we have been seeking the full adoption by others of a body of pro-competitive regulatory principles. To date, only 31countries have agreed to adopt these principles, which in themselves represent an important element of assuring greater access to telecommunications markets. Perhaps such tangible, practical efforts to address competition questions are the most appropriate starting point for the WTO to involve itself in this issue.

Investment

The U.S. priority in the investment area is the conclusion of a Multilateral Agreement on Investment in the OECD. We are pursuing these negotiations with the aim of securing non-discriminatory investment treatment for U.S. companies with effective dispute settlement procedures. We have a commitment from our trading partners to complete these negotiations by May of next year.

Given the priority we are attaching to the negotiations in the OECD, we are not in a position to support investment negotiations in the WTO. However, we believe that some work on investment in the WTO could be useful provided it is modest in scope and educational in nature. We are now working with our trading partners to develop a post-Singapore WTO work program on investment that would not include negotiations, but would focus on open and sound investment policies and their related benefits. At present, there is resistance from some developing country WTO members to even such a limited work program.

OTHER SINGAPORE MINISTERIAL ISSUES

Accessions

Although the topic of accessions has not specifically been identified as a Singapore Ministerial agenda item, Ministers are expected to review and discuss the broad range of accession applications -- rather than singling out any one or several applicants for particular attention. The United States supports accession to the WTO of countries capable and willing of undertaking WTO obligations and of providing commercially viable market access commitments for goods and services. Currently, there are 31 countries whose application for accession have been accepted. Active work is under way on approximately 20 of them, including China, Taiwan, Russia, Ukraine and Saudi Arabia. The accession negotiations of Latvia, Estonia, and to a lesser extent Lithuania and Armenia, are now well advanced.

Since entry into force of the WTO, four countries have completed their negotiations to accede to the WTO. These are: Ecuador, which became a member in January 1996; Mongolia, whose accession was approved by the WTO in June 1996; and Bulgaria and Panama where approval of the accession packages completed in July is expected this Fall. In all four cases, the commitments and concessions in both goods and services market access and in implementation schedules for the WTO Agreements exceeded those generally accepted by countries with similar economies in the Uruguay Round -- particularly in respect to market access for goods and services and the implementation of WTO commitments on an accelerated basis. In particular, these countries agreed to:

- Full binding of all tariff lines, industrial as well as agricultural, including full or partial acceptance of chemical harmonization.

- Elimination upon date of accession of most existing practices inconsistent with GATT 1994 or other WTO Agreements, including: minimum import valuation; nontariff taxes and charges on imports, customs charges, or internal taxes also applied to similar domestic goods; and several categories of restrictions on imports, including quotas, minimum import prices, and restrictive licensing schemes.

- Broad initial commitments to market access and national treatment for foreign service providers in key sectors of interest to the United States, including value-added telecommunications and a wide range of financial services (including insurance), as well as in accounting, management consulting, construction, engineering, wholesale distribution, and hotel services and tourism.

- Commitments for early implementation of TRIPs and the Agreements on Sanitary and Phytosanitary Measures and Technical Barriers to Trade, without recourse to transitions.

- Immediate implementation of the Customs Valuation Agreement (Mongolia, Panama, Bulgaria).

- Commitments from Mongolia and Bulgaria (the first transforming economies to complete accession to the WTO) that the state foreign trade monopoly was abolished and to provide additional periodic reports on privatization and reforms and enhanced transparency for remaining price controls.

The Least Developed Countries

One aspect of the WTO's work that has recently been given some attention is the plight of the least developed countries. I know that this Committee recently held hearings on Africa, where many of these poorest countries are located. In the President's report on a Comprehensive Trade and Development Policy for the Countries of Africa, which was mandated by the Uruguay Round Agreements Act, the Administration took a close look at how best to assist the people and leaders of Africa in their pursuit of sustainable development and increased trade and investment in order to become fully integrated into the global economy. The report focused in particular on: trade liberalization and promotion; investment liberalization and promotion; development of the private sector; infrastructure enhancement; and economic and regulatory reform. The roles of the IMF, IBRD and WTO are all addressed in this report.

The report found that several conditions are essential to meeting the goals of economic development and integration. First, responsibility rests firmly with the least developed countries of Africa and elsewhere to make the right political and economic policy choices. Everything else hinges on this. However, the fact that so many countries are pursuing critical structural adjustment policies is clearly a basis for optimism. Second, to be successful, the development strategy must be trade-led and market-oriented. Countries need to adopt policies and regulatory frameworks that foster openness, entrepreneurial creativity, private investment and a legal system that protects property and other basic rights. Third, given the decline in official development assistance from both bilateral and multilateral donors, the capital to finance development in the least developed economies must come increasingly from private sources and/or increased savings -- underscoring the importance of creating a more hospitable environment for private investment. The WTO is helping least developed countries to take better advantage of the opportunities presented by the Uruguay Round, but there are limits to what can be done in the trade context alone. Providing enhanced commercial opportunities is only part of the solution, and it will be most beneficial only for those countries which have first undertaken the necessary economic and policy reforms. It is up to the least developed countries themselves to seize the moment and take the steps necessary to participate fully in today's global economy.

Conclusion

This statement was not intended to review each and every issue at stake in the WTO and the preparations for Singapore. I have, instead, tried to illustrate the strength and credibility of the WTO as a force for continued consultation, negotiation and liberalization of international trade. It is an important tool in our arsenal to open markets. In the next century, we will face new challenges. The rules-based system of the WTO and its expanded membership should position America to take full advantage of opportunities in emerging markets with certainty and predictability.

Chairman CRANE. Thank you, Ms. Barshefsky.

One of the goals of the Uruguay round was to liberalize trade in textiles by phasing out quotas for this industry over 10 years; yet under the WTO textile agreement, the United States sought to establish a significant number of new quotas. In light of the fact that no other country has even approached this level of calls, this seems to me to be an abuse of the safeguard provision in the textile agreement.

Could you please comment?

Ms. BARSHEFSKY. I am happy to, Mr. Chairman.

The total number of calls is actually lower than it had been in the years 1991–1994. When the GATT system became the WTO, a number of countries insisted that a call that was made under the GATT system be transferred as a call under the WTO, this caused a major increase in the WTO call total in 1995. That increased significantly the number of calls under the first year of operation of the WTO, when in fact, had those calls not been transferred to WTO—that is, had those countries not been insistent—the number of calls would have been quite low.

There has only been two calls the first 6 months of this year, relative to over 20 in the preceding year. So, we are satisfied that we are not being unduly harsh in this sense, but of course, we do want to protect our interests.

Chairman CRANE. As you know, I am working with my colleague Congressman McDermott to develop legislation to expand trade with Sub-Saharan Africa, and one concern is that the textile quota in the Uruguay round was divided in such a way as to leave these countries with a very small piece of the pie.

Given that textile manufacturing is often a critical first step leading to economic and industrial development, how do you suggest we alleviate this problem, because doing nothing, expanding the level of imports permitted in the United States, or giving Africa more quota to the detriment of other trading partners, creates potential problems beyond what we have.

Also, do you expect the issue of trade with the least developing countries to come up at the Singapore meeting?

Ms. BARSHEFSKY. Mr. Chairman, with respect to the textile issue, there are actually very few countries in Sub-Saharan Africa that operate under quota. You may know that the administration provided Congress a report with respect to Africa. It is a report that indicated the range of problems confronting this continent—everything from lack of education, lack of proper sanitation, lack of economic growth, relatively small markets that cannot capitalize on economies of scale, terrible employment problems, of course, and poor policy choices on the part of many of the African governments.

We have identified a range of problems, and we have proposed to look at some possible solutions to them, including redirecting the resources of the multilateral banks and the regional banks to projects that would promote education, promote health and promote infrastructure development, and second, to begin to look at ways in which we can create programs to attract heavy private investment in Sub-Saharan Africa.

You may know, if you look at expenditures by the World Bank and the regional banks to Africa, the expenditures have fallen off

pretty consistently year after year. There is less and less money. The administration is looking at whether we can promote initiatives to encourage more private investment in Sub-Saharan Africa.

This range of problems, including the textile issue you mention, is one that we are going to have to take a very close additional look at because the economic progress or promise of that subcontinent is not being met, very clearly.

I do expect the issue of the least developed developing countries to come up in Singapore. Of course, as you may know, the United States itself takes more than half of all the manufactured goods made by middle and lowest income countries. We take 51 percent of everything they export. The Quad countries and everyone else in the world take the other 49 percent.

If we look at countries whose income per capita is less than $1,000, we take more of those goods than Japan or the entirety of the European Union or Canada. So, we are very receptive to the goods of these countries.

But, I believe there is more that we can do. One thing that the administration has previously indicated is that we would like to redirect the GSP Program from those countries which, frankly, no longer need the benefits—for example, Malaysia, which now takes one-quarter of program benefits—to those countries who could use these benefits, which would be Sub-Saharan Africa, principally.

This is one suggestion, and we will be working with your staffs to see how we can reallocate these GSP benefits now that the program has been renewed. There are other areas that we will need to look at, but we do expect this issue to come up in Singapore.

Chairman CRANE. I have one more quick question for you. Can you provide us with an update on the information technology agreement, specifically, what is the status of negotiations with the EU and other countries, and what is the chance of concluding any agreement by the Singapore ministerial?

Ms. BARSHEFSKY. Mr. Chairman, we have been pursuing this idea quite vigorously with the European Union, with our Quad countries, with the Asian countries in the APEC context and elsewhere. We have received from the Quad a general endorsement for the ITA. Canada and Japan are largely ready to move forward immediately as is the United States.

The difficulty, Mr. Chairman, is that the European Union does not seem to have a full mandate from its member states to move forward. That is very unfortunate, particularly unfortunate because European tariffs in information technology products are high.

A number of Asian countries are very interested in the initiative, and we have gotten good feedback from Singapore and Hong Kong, the Philippines, Indonesia, and indeed, most recently from Malaysia. We will continue to pursue this very vigorously, but certainly if the European Union cannot come forward, it would be virtually impossible to conclude an ITA because we will not let Europe free-ride on tariff reductions by other countries.

Chairman CRANE. Ms. Barshefsky, I appreciate your testimony and your response to my questions, but I know you are aware that the bells have gone off for a recorded vote. Virtually everybody on the Subcommittee has questions for you, so if you would be kind

enough to let us take a break here while we run over and vote, we shall reconvene very shortly after this vote.

The Subcommittee stands in recess.

[The Subcommittee recessed from 2:44 p.m. until 3:53 p.m.]

Chairman CRANE. The Subcommittee will reconvene.

Ms. Barshefsky, I know you have a speech at 4 o'clock with the Business Roundtable, and I monopolized your time. It has been an important enough presentation, and since we will have an executive session with you in the library before this session adjourns, I am asking my colleagues to reserve their questions for you for that time. They can submit all questions for the record, and you can examine those questions and respond accordingly. But we apologize for this interruption, and we will excuse you, Ms. Barshefsky, and thank you so much for coming.

Ms. BARSHEFSKY. Thank you very much, Mr. Chairman. You are very kind and gracious. Thank you.

Chairman CRANE. You are more than welcome.

[The following was subsequently received:]

Questions Submitted by Chairman Crane

Question 1:

The extended developments in the services area have proven to be quite difficult. In addition, the WTO's "built-in" agenda sets forth more issues for further negotiation. Do you feel that the WTO system can make significant progress at trade liberalization without the pressure and balance of concessions that is available in a large trade round, encompassing a wide range of sectors?

Answer 1:

The "built-in" agenda, together with other trade liberalization initiatives that the Ministers might agree to at Singapore will provide an ambitious and extensive work program. The WTO should establish itself as a forum for continuous consultation, negotiation, and trade liberalization. Our efforts leading to Singapore will emphasize this approach.

Question 2:

I understand the United States has been roundly criticized for its unwillingness to participate in the ongoing WTO maritime services negotiations. I am concerned that this lack of participation may affect our ability to obtain successful agreements in other areas important to the United States, such as basic telecommunications services. How has the refusal to participate in the maritime services negotiations and our unwillingness to accept full deals in the financial services and telecommunications negotiations affected our leadership in the WTO?

Answer 2:

The WTO's first major negotiating task was to complete the unfinished business of the services negotiations -- financial services, basic telecommunications and maritime transport. Each of these three negotiations is unique. But we have not yet -- and I emphasize the word "yet" -- successfully concluded them for the same reason: other nations have not been willing to open their markets in a comparable manner to the United States. The United States will not accept a deal for the sake of a deal, nor will we accept a deal where other countries expect something for nothing. If trade agreements do not serve to reduce trade barriers, and offer equal access on equal terms, we -- as the world's most open market -- lose. At the same time, the WTO loses credibility and is *weakened* by agreements that aim too low. The Clinton Administration remains absolutely committed to the WTO, and to ensuring that it fulfills its potential.

TELECOM: The United States is working hard to ensure that the WTO does succeed. For example, it was U.S. leadership which led to an extension of the original deadline for negotiations on telecommunication services to provide opportunities for participants to

reevaluate their offers. We sought a caesura -- not a cessation -- in these negotiations, and it is working. A better deal already is in sight while the U.S. offer remains on the table.

FINANCIAL SERVICES: We remain dissatisfied with financial services commitments from a number of our important trading partners. That was the reason we scaled back our offer in the negotiations that ended in July 1995. We remain committed to a successful negotiation on financial services by the end of 1997.

MARITIME: As we demonstrated in the maritime services negotiations, the Administration will not buy into a bad deal, one that does not serve the interests of our private sector. The U.S. market is largely open in this sector, but almost without exception our important trading partners showed no willingness to open their markets and remove restrictions. To the contrary, they wanted to use the negotiation to legitimize their restrictions by binding them in the GATS.

Question 3:

You have fought the EU hard on its trade restrictive eco-seals, but so far without success for U.S. business. What can you do now that would be effective? Will you support WTO panel challenges?

Answer 3:

Since a number of U.S. industry associations brought to our attention their concerns with the EU program we have been actively working with the EU on this issue. We have been quite concerned that the EU program is not as transparent as it should be, in terms of opportunities for U.S. industry to have meaningful input into the creation of labeling criteria. We have also discussed specific concerns of U.S. industry with respect to particular labeling criteria. We have made some progress with the EU on the transparency front but not as much as we would like to see.

Our efforts are continuing. We and the EU have agreed to look at the issues that have arisen in the context of ecolabeling under the trans-Atlantic initiative. As part of this process, our respective environment agencies (EPA and DG11) will be meeting in the near future to discuss how ecolabeling is conducted both in the EU and the United States. The United States has also put forward a proposal in the WTO Committee on Trade and Environment aimed at increasing the transparency of and ability of foreign producers to comment on ecolabeling programs as they are being developed.

We have not been asked by any U.S. firm or industry group to initiate a WTO panel challenge. If such a request were received, we would carefully evaluate its merits based on the information and argumentation provided.

Question 4:

You recently announced your intention to take trade actions against countries that permit bribery and corruption. The new Government Procurement Agreement has rules that permit fairer competition and transparency in government procurement, but it was only signed by 20 countries. How do we encourage more countries to sign this agreement?

Answer 4:

We are pursuing government procurement initiatives in the WTO to complement anti-corruption work in other fora, including the OECD, OAS and the multilateral development banks. Specifically, we are pressing more countries to join the WTO Government Procurement Agreement (GPA) and have proposed a Singapore Ministerial initiative. Our Singapore initiative calls for the negotiation of an Interim Agreement on transparency, openness and due process in government procurement practices of all WTO Members. This would serve as a launching pad for further WTO-wide negotiations on government procurement, including the possibility of a full multilateralization of the GPA under the WTO. While our efforts in the WTO are not focussed explicitly on bribery and corruption, as they are in the OECD, we see transparency, openness and due process in government procurement as being an important guarantor against bribery and corruption in foreign procurement markets.

Questions Submitted by Congressman Amo Houghton

Question 1:

I understand that the goal of this agreement is to bring tariffs for computer products to zero on a world-wide basis. *While I support that goal, I think we must be careful in defining computer products to avoid incorporating products where zero duty treatment could be extremely damaging.* For example, I have in my office computers that can display broadcast television signals -- C-Span and CNN -- as well as perform computing functions like word processing, data-based management, etc. Will the monitor on this device be considered a computer or a television set?

The answer makes a huge difference. If the monitor is a computer part, then the tariffs go to zero. On the other hand, if it's a television set, it's excluded from the ITA and the prevailing tariffs will apply. The Tariffs on television sets and tubes are rather significant because the industry has been found to be import sensitive and hence excluded from past tariff negotiations.

I know you are aware of the fact that the American television industry has gone through tremendous adjustment over the past 25 years. Import competition has been intense. But, the industry is adjusting. I fear that the elimination of tariffs on monitors that perform television functions would cause serious harm to the television industry in light of the blurring distinction between a computer monitor and a television.

Can you tell me how the USTR plans to deal with this problem in the ITA negotiations?

Answer 1:

In terms of treatment under the current U.S. tariff schedule, the U.S. Customs Service is responsible for such classification determinations. However, for purposes of the ITA, we are defining the terms of product coverage in the form of a positive affirmative list, in addition to the traditional articulation in terms of tariff nomenclature. This is being done to ensure certainty of coverage, rather than having significant questions of ITA coverage and non-coverage being determined through tariff classification of such products. In this regard, we are consulting closely with our private sector, including ISAC-5, to develop a workable distinction between "televisions" --that are not included in the ITA --and the computer monitor devices to be covered by the ITA.

Question 2:

How do you evaluate Japan's compliance with our bilateral trade agreements to date? In particular, I'm interested in Japan's actions to bring an end to the keiretsu relationships and closed distribution systems that have been barriers to selling building materials in Japan, such as flat glass.

Answer 2:

- While we are pleased with the improvements we have seen so far, we would like to see additional progress.

- Our trade agreements with Japan have contributed to a significant reduction in our trade deficit with Japan. Despite Japan's recession, U.S. exports to Japan grew 20.4 percent in 1995 over the previous year, reaching a record $64 billion. This trend has continued this year with exports up 7.5 percent during the first seven month of the year.

- Moreover, in the goods sectors covered by our Uruguay Round, Framework, and other bilateral agreements, U.S. exports have grown more than 85 percent since this Administration took office.

- Looking at just one example, the critical auto and auto parts sector, sales of U.S.-made Big Three vehicles are up 16.4 percent in the first seven months of this year, and the U.S. deficit in this sector has fallen by nearly 22 percent during this period.

- Notwithstanding these achievements, we would like to see more progress.

- On autos, for example, the agreement sought to address the pervasive structural and regulatory barriers U.S. and other foreign companies face in the Japanese market. While we are pleased with the initial progress we have seen, we are continuing to push on deregulation of the aftermarket and access to dealerships.

- Similarly, on glass, which sought to address issues similar to those faced by U.S. auto companies, we have seen some real progress. Nonetheless, we are closely monitoring the agreement to ensure that it is fully implemented and that the positive changes we have seen are not reversed.

- As you may be aware, we are dealing with many of the same issues in the film case, which we are handling in the WTO. This case gave us a clear understanding of how Japan's closed distribution systems and excessive regulation have interacted to keep out competitive foreign products.

- These are difficult issues to address, but this Administration is committed to taking the steps necessary to resolve this issue and to enforce all of our agreements to ensure full access to the Japanese market for U.S. companies.

Questions Submitted by Congressman Jim Ramstad

Questions 1:

What has been the reaction of individual states to the WTO and are there any issues that will be discussed at Singapore that will affect their interests?

Answer:

The Administration consulted closely with the states during the negotiation and implementation of the Uruguay Round Agreements. As required under the Uruguay Round Agreements Act, we established an expanded consultative process to provide for the exchange of information and involve states in the formation of policies that may have a direct effect on state interests. Additionally, we have utilized the Intergovernmental Policy Advisory Committee to ensure that the states and local governments are fully informed of our objectives as we move forward in our preparations for trade negotiations, including the Singapore Ministerial. I am not aware of any issues that directly impact individual states' interests. However, we will continue our close working relationship with the states as we continue to shape the Singapore agenda.

Question 2:

Have there been significant problems with WTO member countries meeting Uruguay Round implementation obligations? Have notification requirements been too onerous on countries? Has the U.S. met all of its notification obligations?

Answer:

Much of our activity since the WTO entered into force has focused on enforcement and implementation of the results of the Agreements. Effective enforcement depends on strong implementation of the Agreements internationally -- this has been our top priority over the past year and as we look to Singapore.

Have their been problems with implementation? Yes, there have been problems in some areas, but we expected that there would be. We have and will continue to pursue implementation issues in all appropropriate fora. The dispute settlement mechanism is proving to be a very effective tool to open other nations' markets and ensure that the agreements are faithfully implemented. And, although the United States has invoked formal procedures under the new WTO dispute settlement mechanism in 17 cases -- far more than any other country in the world, we also settle a lot of disputes just by initiating the dispute settlement process.

There have also been some problems in the area of compliance with notification obligations. The volume and burden of one-time notifications required in the first year of the organization's existence was significant, but has now passed. We are now in the second cycle of periodic

notifications and compliance has improved. We are continuing to work in the WTO on ways to ensure or improve compliance with substantive obligations, with a particular focus on helping smaller countries meet their notification obligations.

The United States has fulfilled its notification obligations.

Question 3:

Does the U.S. have any objectives for dealing with the issues surrounding import-oriented State Trading Enterprises in WTO discussions? Is there a consensus for dealing with this issue?

Answer 3:

The Administration is concerned that import and export practices of state trading enterprises can and, at times, do operate in ways that distort trade, particularly in agriculture.

In the Uruguay Round we took some positive steps -- e.g., a working definition of state trading entities, the establishment of a separate WTO Working Party on State Trading with an ambitious workplan -- that help lay the foundation for further progress on this issue.

However, a key problem with state trading -- and perhaps the largest obstacle we currently face -- is that the activities of state trading enterprises are not sufficiently transparent to determine whether WTO rules and commitments are being violated. With the new WTO Working Party and persistent U.S. pressures within the WTO and elsewhere, this issue is receiving high-level attention.

Within the Working Party, we have taken the lead in the development of a new notification format that will improve reporting requirements and are developing an illustrative list of what constitutes a state trading enterprise based on its activities, mechanisms and privileges.

We are also addressing specific concerns about state trading with those countries seeking entry into the WTO, including China and the countries of the former Soviet Union.

We've been working very closely with USDA and other agencies on this issue. In this context, I draw your attention to Secretary Glickman's testimony on September 12 before the House Agriculture Committee on state trading and other factors affecting U.S. agricultural trade.

We've been consulting with Congress and the private sector on this important issue, and want to continue to exchange ideas on this important issue.

Question 4:

Negotiations on further liberalization in agriculture are slated to begin in 1999. How should the Ministerial address this sector? What are the U.S. objectives in the meantime?

Answer 4:

The key issue in agriculture at the Singapore Ministerial will be whether to initiate a work program in 1997 to prepare for the "Continuation of the Reform Process" required by paragraph 20 of the Agreement on Agriculture.

During the course of the Uruguay Round negotiations on agricultural trade liberalization, the United States and Cairns member countries agreed to accept smaller reductions in support and protection on the understanding that the reform process would continue in future years.

The continuation of the reform process was an extremely important concession for us because we agreed to accept the binding of wholly disparate levels of support and protection in return for the expectation that these would be progressively reduced through future negotiations.

We support early preparation of a work program by the WTO Committee on Agriculture to prepare for the initiation of negotiations in 1999. The work program should cover all the key areas in agricultural trade liberalization including domestic support issues, market access and export subsidies.

Question 5:

Has the 1996 Farm Bill strengthened or weakened the U.S. negotiating position for the upcoming 1999 WTO agricultural negotiations, especially in regard to reducing or eliminating internal support/subsidies?

Answer 5:

The passage of the 1996 Farm Bill has strengthened our negotiating position for the upcoming 1999 WTO agricultural negotiations. Now that the U.S. has decoupled agricultural subsidies from many commodities, we are in a better position to pressure our trading partners that have not yet broken this link to follow our lead.

Question 6:

How effectively has the WTO Committee on Agriculture functioned? Specifically, how effectively has it reviewed 1) member countries' efforts to make Uruguay Round-mandated changes to agricultural policy and 2) members' requests for exemptions from Uruguay Round-mandated internal support reductions?

Answer 6:

The WTO Committee on Agriculture has provided a useful forum to focus attention on the implementation by member countries of their Uruguay Round commitments. The increased transparency provided by the notification schedule established by the Committee encourages members to adhere to their commitments and helps to clarify cases prior to more formal dispute settlement procedures. In a recent draft report, the Agriculture Committee Secretariat noted that, in general, Members have complied with the notification requirements. There have been instances where notifications have been incomplete or have not been submitted within the specified time frames. However, in only a limited number of cases are notifications due still outstanding.

At this time, we are aware of only one country that has not complied with its Uruguay Round commitments. Hungary has exceed her export subsidy commitments. We are now pursuing that case through the formal WTO dispute resolution process.

There have been no requests for exemptions from Uruguay Round-mandated internal support reductions.

Question 7:

Have any member countries formally filed any "Notices of Intent" against our new Country of Origin rules that went into effect on July 1, 1996 and, if so, what is your reaction to this?

Answer 7:

Over the past months, we have held consultations with Canada, the European Union, El Salvador, Honduras, Hong Kong, India, Korea, Pakistan, Philippines, Singapore, Switzerland, Sri Lanka, Thailand, and Indonesia. Some of these consultations were the result of requests under Article 4 of the Agreement on Textiles and Clothing. Working with our colleagues from other agencies, we have attempted to treat all consultations in a positive manner, as an opportunity for ensuring transparency and predictability for our trading partners while also exercising our responsibility to ensure full compliance with our legislated mandate with regard to the rules of origin that were implemented July 1, 1996.

Questions Submitted by Congresswoman Jennifer Dunn

Question:

At the March 1996 Trade Subcommittee hearing on the WTO, I asked a question of then-Ambassador Mickey Kantor regarding the "zero-for-zero" liberalization of tariffs for paper and wood. I was assured that tariff acceleration was a USTR commitment. Has this commitment to the process of trade liberalization/tariff elimination on zero-for-zero wood and paper tariffs continued to be a priority of the Administration under your watch?

Answer:

Let me assure you that I share your interest in providing export opportunities for U.S. firms and workers in the paper and wood industries. We want to build on the positive results of the Uruguay Round which, since its implementation, has helped to generate a 47% increase in U.S. exports of paper and paper products last year to the European Union. We are continuing our efforts to secure improved access for paper and paper products through accelerating the implementation date for zero duties.

We also are interested in pursuing further tariff reductions in sectors, such as wood and wood products, where Uruguay Round efforts to achieve zero tariff rates were unsuccessful. The wood sector remains high on our list of priorities for further tariff reductions.

Question:

I understand you recently met U trade negotiator Sir Leon Brittan in an effort to develop some common approaches to the Singapore agenda. Were you successful in getting him to agree to a tariff package beyond the Information Technology Agreement? Did you give him an indication of the U.S. priority areas for tariff acceleration? Can you explain what those were, and did they include paper and wood?

Answer:

As you might expect, the European Union has been most reluctant on paper tariff acceleration, and Japan is opposed to any further reductions in wood. I re-affirmed to Sir Leon Brittan that acceleration of paper tariffs is a priority for the United States. I also confirmed our continued interest in achieving a zero-for-zero initiative multilaterally on wood and wood products. We agreed to continue our discussions concerning elements of a Singapore market access package at the Quad meetings next week.

Question:

Although the Administration does not have broad fast track authority, the Uruguay Round Agreements Act gives authority to negotiate further tariff concessions in the zero-for-zero sectors. Looking ahead to the Singapore Ministerial, can you describe your expectation for how successful the USTR will have been in using this authority to improve market access in the zero-for-zero sectors.

Answer:

Section 111 of the Uruguay Round Agreements Act (URAA) provides the President considerable flexibility to proclaim accelerated reductions in tariffs or additional tariff reductions in sectors of interest to the United States. Exercise of this authority, however, is subject to receipt of concessions in these sectors from other countries and reaching a multilateral agreement on the tariff cuts or accelerated staging under the auspices of the World Trade Organization.

We have already been working with our major trading partners to craft a tariff package consistent with authority provided by Section 111 of URAA.

At the April 19-21 meeting in Kobe, Japan, Quad members (United States, European Union, Japan and Canada) agreed to pursue discussions for further liberalization in a number of areas in preparation for the Singapore WTO Ministerial meeting in December. One possibility that is being explored is the acceleration of tariff reduction commitments made during the Uruguay Round. Acceleration of paper tariffs is a priority for the United States .

We also agreed at Kobe to explore the possibility of negotiating further tariff reductions in those sectors, such as wood and wood products, where Uruguay Round efforts to achieve zero tariff rates were unsuccessful. In its Statement of Administrative Action of the Uruguay Round Agreements Act the Administration made a commitment to seek multilateral elimination of tariffs on wood and wood products. This sector remains high on our list of priorities for further tariff reductions. At the APEC Ministerial in Christchurch, New Zealand, I urged our APEC partners to participate in a zero-for-zero initiative on wood and wood products. I strongly encourage U.S. exporters of wood and wood products to work with the private sector in APEC countries to pressure governments on this initiative.

We want the market access package at the Singapore Ministerial to include as many areas covered by our negotiating authority as possible. There is, naturally, no assurance that we will achieve all the goals that we set out for ourselves. All the ingredients are present for an import, even if limited, market access package, but there is a lot more work left for us to do in building the necessary international consensus. I can assure you, however, that we will continue to work intensively with our trading partners in an effort to develop more market access opportunities for U.S. exporters, both at Singapore and beyond.

Question:

The Government of Canada has apparently proposed that the Uruguay Round final tariff rates could be moved up to January 1, 1998. The U.S. and Canadian paper industries are supporting this proposal. It is my understanding that Japan would also be agreeable. Is USTR working, with the Canadian government in particular, to ensure that this proposal is accepted at Singapore?

Answer:

The authority provided in Section 111 of the Uruguay Round Agreements Act does not include acceleration of tariff reductions for all tariffs. However, we do have authority to accelerate staging in the ten zero-for-zero sectors achieved in the Uruguay Round (agricultural equipment, beer, construction equipment, brown distilled spirits, furniture, medical equipment, paper, pharmaceuticals, steel and toys) and chemical harmonization.

We support Canada's efforts to secure improved access for paper and paper products through accelerating the implementation date for zero duties. However, as you might expect, the European Union is resisting specific proposals to accelerate the staging of its duty reductions for paper and paper products.

Question:

Finally, the United Paperworkers Union has testified that securing the early elimination of European paper tariffs is important maintaining jobs here in the United States. What will the USTR do to ensure that this important objective is achieved at Singapore.

Answer:

At the April 19-21 meeting in Kobe, Japan, Quad members (United States, European Union, Japan and Canada) agreed to pursue discussions for further liberalization in a number of areas in preparation for the Singapore WTO Ministerial meeting in December. One possibility that is being explored is the acceleration of tariff reduction commitments made during the Uruguay Round.

Since the meeting in Kobe, we have had the opportunity to explore tariff liberalization further with our trading partners. As you might expect, the European Union has been most reluctant on paper tariff acceleration. Nevertheless, we will persevere in our efforts to develop a market access package for Singapore.

Questions Submitted by Congressman Rob Portman

Question:.

Madam Ambassador, the next major WTO panel ruling to be issued in which the U.S. is a complainant will be the one involving the EU banana policy. I understand that your office has done an outstanding job in making the case to the panel that this regime is illegal in virtually all of its parts. Because many of the new WTO agreements are being tested by this case, we will all be watching it carefully and look forward to a successful outcome.

I noticed in a recently issue economic report that the harm resulting from this regime is far greater than earlier projected for almost all parties involved -- for U.S. service suppliers, for Latin America suppliers, and even for Caribbean suppliers. Are you hopeful, Madam Ambassador, that with a successful WTO outcome, it will finally be possible to negotiate real reform in this sector for U.S. and other interests.

Answer:

First let me thank you for complimenting USTR for our work on this case. Our written submission is available for public reading, and I would be happy to send you a copy if you wish. We have also been coordinating closely with the other complainants in this case -- Ecuador, Guatemala, Honduras and Mexico.

The complainants maintain that the EC's banana regime violates fundamental provisions of the GATT and other WTO agreements, including the most-favored nation and national treatment obligations, and key provisions of the General Agreement on Trade in Services.

The member states of the EC, just like the United States, are sovereign nations. The WTO cannot force compliance of a panel report. However, I am hopeful that the EC will fulfill its WTO obligations and decide to bring its banana regime into conformity with international trade rules. That has been our objective for the past several years, and it remains our goal. The United States, along with the complainants, have been willing to negotiate such an outcome with the EC. We are using the WTO process to try to convince the EC to finally negotiate with us on a mutually acceptable solution.

Chairman CRANE. We will resume now with our next witness, Mr. Fred Bergsten, the director of the Institute for International Economics.

Mr. Bergsten, if you could try to confine your opening remarks to roughly 5 minutes, and all other submissions will be made part of the permanent record.

STATEMENT OF C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. BERGSTEN. Thank you very much, Mr. Chairman. I am delighted to do that, and I do have a written statement for the record.

I would like to make three central points. The first is that the Singapore Ministerial of the World Trade Organization will be a very important session. As Ambassador Barshefsky leaves, I will say that I think her analogy to a board of directors is not correct.

The board of directors of a company meets regularly, every month or every quarter. The ambassadors in Geneva do this, and so do the Quad countries. But, the ministers of the world trading system get together infrequently. They met very infrequently in the history of the GATT, and Singapore will mark the first time they will convene in the World Trade Organization.

Consequently, this ministerial is much more important than a board of directors meeting. Indeed, this session cannot be treated as business as usual. It offers, rather, an opportunity to set the whole next phase for the global trading system over perhaps the next 5 to 10 years.

Because it is so important, we in the United States need to decide where we want the trading system to go over the next 5- to 10-year period and then work back from that to our strategy for the Singapore Ministerial. That is point one.

Point two is that I support a number of things the administration has in mind for Singapore—pursuing the "built-in agenda," trying for an Information Technology Agreement, and the like. But we have to start from the premise that the United States has a major interest in further trade liberalization at the global level, for two reasons.

Increased trade can help America solve its most pressing economic and social problem, which is widespread stagnation of wages, incomes and standards of living. We can create plenty of jobs but, as you know, the median family income has been virtually unchanged for over 20 years. Export jobs pay 15 to 20 percent more than the national average, and worker productivity at exporting firms is 20 to 40 percent higher. If we can further expand the role of exports in our economy, then we will help deal with our most pressing domestic economic problems.

Exports have done very well. They have doubled as a share of the economy in the last 20 years. If we could double them again in the next 10 to 20 years, we would help solve our most pressing domestic problem, and that, it seems to me, is an overriding reason to press for more trade liberalization.

The second reason is that the United States is the world's most open market. When we talk about international trade liberalization, we are really talking about other countries reducing their barriers much more than we reduce ours.

In fact, I will make a radical proposal. I think the United States should start advocating global free trade by a date certain in the early 21st century because that is the only way we can get a level playingfield. We have already reduced most of our barriers. Most other countries have not. If we could get agreement to go to global free trade, we would get a level playingfield. The only way for us to get fair trade is to go for free trade.

You were at Miami and, as you know, we have agreed to do that in the Western Hemisphere. We have agreed to do it in APEC for the Asia Pacific region. That is my third point. I think it would be quite feasible, to start thinking in terms of global free trade by a date certain—perhaps 2010 or 2020.

A table appended to my statement shows that 60 to 70 percent of world trade takes place within regional trading arrangements that have already moved to free trade, like the European Union, or have committed legally to do so, like the NAFTA, or have made political agreements to do so, like the Miami Summit for the Western Hemisphere and APEC. If you add those up, the striking fact is that about two-thirds of world trade is already covered. Globalizing free trade would not be that much of an additional step. In fact, it would mainly add U.S.-Europe, where a lot of trade is free already; that is much less contentious than trade with developing countries, and I think we could add it to the picture.

The new director general of the World Trade Organization, Renato Ruggiero, is in fact advocating adoption of a free trade goal of that type. So, the Government of the United Kingdom, and several other countries have begun to talk of it.

In my view, such a sweeping vision could only be adopted by the world's political leaders. Even a ministerial such as Singapore cannot achieve that. We know from the Miami Summit of the Americas, the APEC summits and others that this is a commitment the political leaders must make. I therefore believe that the World Trade Organization should start planning to hold the first World Trade Summit in the next year or so to launch a program of the type that I am describing.

The GATT never held a summit. The IMF and the World Bank never had a summit. The next annual summit of the G–7 is going to be hosted by our President, in Denver next June and could push in that direction but I think we should now be thinking in terms of a global free trade goal, and a World Trade Summit in order to get it launched within the next couple of years.

There are many specific opportunities for the United States in such a program. I detail these in my statement. let me just stress here the liberalization of trade in services, where the United States has such a strong competitive advantage. The Uruguay round agreed on a set of principles in this area, but there has been very little actual reduction of barriers.

Right now, there are efforts under way in financial services, telecommunications, and maritime services. I support all of those but, Mr. Chairman, my candid view is that the current strategy is not working. The current strategy as carried out by the administration is to pursue sector-specific talks. The most recent was telecommunications; that was already mentioned. These talks did not meet the April 1996 deadline for completion. A new deadline in

February 1997 has been set. Financial services talks will also be scheduled again next year.

So far, the record is very disappointing. I support it strongly, but I think it is going to continue to be disappointing. Why? Because when you try to liberalize trade in one sector only, you simply do not appeal to enough countries to get the deal you want. In the case of telecommunications, the Asian countries did not make the kinds of offers that we wanted. Why not? They see no chance for gaining access to the U.S. or European markets in telecommunications. You have to offer them something in another sector that is of interest. That is why we have always had trade rounds in which enough issues were on the table to appeal to the countries that we want to open their markets to our own exports.

Competition policy is another major issue that should be on the table. An agreement in this area would help deal with the fundamental U.S.-Japan problem. Also important are investment policy and government procurement, which I discuss in my statement. In particular, the upcoming Singapore Ministerial could launch work programs on each of these key issues to help prepare the ground for addressing them substantively in the near future.

In conclusion, Mr. Chairman, I would recommend that the administration—which has chosen, as we know, to downplay any discussion of trade during this election year—take the lead at Singapore in beginning to position things for a new, far-reaching trade initiative over the next few years. It is obviously not all going to be agreed to at Singapore. As I have suggested, a higher-level meeting may be needed in 1 to 2 years. But, things could start to be uneasy at Singapore. All the administration needs to do is resume its leadership of 1993 and 1994, through which, with the full support of the Congress, it successfully completed NAFTA, completed the Uruguay round, launched APEC, and launched the Free Trade Area of the Americas.

It should start by taking an energetic lead at the APEC summit in November, pushing the full APEC membership to move toward achieving their goal of free trade in that region by 2010/2020. That would have a powerful effect in galvanizing global emulation at Singapore.

The final point is to recommend that you in the Congress support a goal of that type. We know that new trade legislation is going to be needed soon. Congress is going to have to address the liberalization initiatives that the administration already took in the Western Hemisphere and in APEC, and see whether it will endorse those approaches. Adding the further dimension of globalization would add only modestly to the needed negotiating authority. I think the United States could reap enormous benefits from such an effort. I believe Singapore offers an opportunity to start moving in that direction. I would urge both the administration and the Congress to decide where we want to go over the long run and work back from that to see Singapore as a launching pad to begin the process that will unfold of necessity over several years.

Thank you.

[The prepared statement and attachment follow:]

AMERICAN TRADE POLICY AND THE WTO MINISTERIAL IN SINGAPORE

C. Fred Bergsten
Director
Institute for International Economics*

Before the
Subcommittee on Trade
Committee on Ways and Means
US House of Representatives

September 11, 1996

The Ministerial Conference of the World Trade Organization (WTO) in Singapore in December can set the course for the global trading system into the early part of the twenty-first century. But the WTO can seize this opportunity only if its key members develop a clear vision of where they want to take the organization over the next decade or so, and then use Singapore to begin the process of realizing that vision.

The Ministerial should of course pursue the "built in agenda" left over from the Uruguay Round, which includes a number of issues of key importance to the United States. I also strongly support the administration's effort to use its existing negotiating authority to the fullest possible extent by achieving an Information Technology Agreement (ITA) and additional liberalization in a few other sectors. Especially praiseworthy is the administration's tactic of seeking agreement on these goals by APEC, at its annual summit in Subic shortly before Singapore, which would increase the pressure on the European Union and others to accept the proposal in the WTO (and thus demonstrate again how APEC an be a major force for global trade progress).

But it would be a great mistake to treat the meeting otherwise as "business as usual" or a routine stocktaking event. Singapore needs to start developing a strategic purpose for the WTO that is well understood, if not yet explicitly agreed or even fully articulated, by all the key participants.[1]

The United States has two strong reasons for pursuing further global trade liberalization through the WTO. First, increased trade can be a big help in enabling America solve its most pressing economic and social problem--widespread stagnation of wages, incomes and standards of living.[2] Export jobs pay 15 percent more than the average wage. Worker productivity at exporting firms is 20-40 percent higher. These firms expand employment 20 percent faster than nonexporting firms and are 10 percent less likely to fail. Small and medium-sized exporters do

---

*Also Chairman of the Competitiveness Policy Council and Chairman of APEC's Eminent Persons Group throughout its existence from March 1993 to November 1995. A more detailed version of the views expressed in this statement can be found in the author's "Globalizing Free Trade," *Foreign Affairs*, May-June 1996.

[1]Sir Leon Brittan, the chief trade negotiator for the European Union, has noted that the "WTO needs a clear strategic vision" and that "the increased involvement of Ministers, of which the Singapore meeting is a first symbol, must result...in the development of a vision of (the WTO's) future development..." See his "Expanding World Trade: The WTO Road to Singapore," Geneva, 1 April 1996, p. 3.

[2]For the latest data and analysis of this phenomenon, see *Running in Place: Recent Trends in US Living Standards*, Competitiveness Policy Council, September 1996.

even better than large ones and account for 70 percent of all sales abroad.[3] Hence a shift to export jobs from import-competing jobs would help considerably, even though the latter pay more than the national average too, even if trade liberalization had no impact on the American trade balance.

Better yet would be a shift to export jobs from the nontradeable (mainly services) sector, most of which pay less than most tradeables (mainly manufacturing), which would occur if liberalization helped the United States reduce its trade deficit. The United States continues to run annual trade deficits of about $175 billion. An improvement of even $100 billion in America's net external position, lowering the deficit to about 1 percent of GDP, would on balance create 1-2 million more of these high-paying export jobs. Total elimination of the external deficit would have twice as favorable an impact.

Such improvement in the country's net external position should be a cardinal policy goal of the next administration. It would provide a major boost in dealing with the country's chief domestic problem. If the next administration and Congress are successful in eliminating the budget deficit by 2002 or so, the national saving rate should rise sufficiently to provide the internal macroeconomic prerequisites for such an improvement on the trade front.

But American exports must have full access to foreign markets for such gains to be realized. Exports have done well in recent years. They have more than doubled as a share of total U.S. output since 1960. They would make an important contribution to solving America's fundamental economic and social problems if they could double again by 2010.[4]

The second United States interest in further global trade liberalization is that it would mean a sharp reduction in barriers in most other countries compared with very little additional liberalization in the United States, where markets are already largely free.[5] From the American standpoint, such an initiative is the only way to achieve a truly level playing field across the world economy. Indeed, a push for global free trade is the only way for the United States to achieve fair trade. At a stroke, it would greatly increase and roll into a single package the benefits that otherwise would be provided for the American economy by NAFTA, APEC, and the Free Trade Area of the Americas. The proposed ITA is an example of this approach in a sector where the United States has a strong competitive advantage.

---

[3]These and other data are derived in J. David Richardson and Karin Rindal, *Why Exports Matter: More!*, Washington: Institute for International Economics and the Manufacturing Institute, 1996.

[4]Some critics have argued that recent American trade liberalization initiatives have been a failure because of the sharp deterioration of our trade balance with Mexico. That deterioration was wholly caused by the Mexican macroeconomic and financial crisis, however, which had nothing to do with NAFTA. In fact, NAFTA shielded the United States from an even greater impact from the Mexican crisis by deterring Mexico from responding (as in the past) by erecting new import controls and exempting the United States from those new controls which it did impose.

[5]America's remaining barriers carry a net economic cost of only about $10 billion in an economy of $7 trillion. See Gary C. Hufbauer and Kimberly Ann Elliott, *Measuring the Costs of Protection in the United States*, Washington: Institute for International Economics, January 1994.

Hence the United States should begin developing a vision of global free trade by 2010 or some other target date during the early part of the twentieth century. Such a goal is eminently feasible: 60-70 percent of world trade (see attached table) now takes place within regional groupings that have already achieved free trade (such as the European Union and Australia-New Zealand) or have signed an agreement that will achieve it (such as NAFTA) or have made a political commitment to do so by a date certain (such as APEC and the Free Trade Area of the Americas).

Globalization of all these regional initiatives is in fact the logical culmination of the process of liberalization that has been adopted by almost all countries no matter how diverse their cultures, histories, income levels, geographical locations or past trade policies. Some of the most far-reaching regional agreements, including the EU and NAFTA but especially APEC, join rich and poor countries at very different levels of development in a common trade enterprise--forever ending the North-South conflict that was for so long a major barrier to trade progress.

The dynamic new Director General of the WTO, Renato Ruggiero, has already been advocating adoption of such a free trade goal. So has the government of the United Kingdom.

But such a sweeping vision can only be adopted by the world's political leaders. This has been the experience in each of the regional arrangements. Some of the most dramatic and unexpected trade breakthroughs in recent years, such as the free trade commitments adopted in APEC and for the Americas, became possible only when political leaders seized the opportunity of summit meetings to launch such bold initiatives.

The WTO should thus hold the first World Trade Summit in late 1997 or 1998, perhaps in the context of celebrating the fiftieth anniversary of the postwar trading system, to launch a program of "global free trade by 2010." The GATT never held a summit. Neither have the International Monetary Fund nor the World Bank. The next annual summit of the Group of Seven major industrial countries, which the United States will host in Denver in June 1997, could provide a strong push for such an initiative.[6]

The Case for Globalizing Free Trade

There are three basic reasons for setting a vision of "global free trade by 2010." First, it is essential to keep the bicycle of trade liberalization moving forward. We know from history that the trading system tends to topple, or even retreat, in the face of omnipresent protectionist pressures unless it progresses steadily toward reduction of impediments. In particular, substantial backsliding occurred when the GATT went into semi-hibernation for a number of years after the conclusion of both the Kennedy and Tokyo Rounds. Such a result could be extremely detrimental to American exports and thus to the American economy.

Protectionist pressures remain exceedingly powerful, including in the largest trading areas. There is a recurrent view in the United States, as again revealed in our current presidential campaign, that increased trade, especially with lower income countries, is a major cause of the stagnation in real wages that we have experienced for a generation. There is widespread complaint in Europe that the region's extremely high

---

[6]This would also help restore the needed leadership role for the G-7, whose sharp decline in recent years is analyzed in C. Fred Bergsten and C. Randall Henning, *Global Economic Leadership and the Group of Seven*: Washington, Institute for International Economics, June 1996.

unemployment, which has averaged more than 10 percent throughout the first half of this decade, is importantly due to trade. It would be foolhardy to let the bicycle stop at this crucial juncture--especially when the United States has so much to gain from further expansion of world trade and our own exports.

Second, it is essential to avoid the risk of conflict between the burgeoning array of regional trading arrangements. To date, the regionals have been positive forces--perhaps even essential catalysts--in driving global liberalization. They have kept the bicycle moving forward since the end of the Uruguay Round.

But determined leadership in the key countries, especially the United States, has been required to achieve these positive interactions. There have been some close calls, as in 1990 and again in 1993 when the near failure of the Uruguay Round could have suddenly cast NAFTA and APEC as alternatives to the global trading system rather than supportive components of it. The proliferation of regional arrangements over the past few years may make it more difficult to maintain consistency with the global system. And the next potential regional arrangement, a TransAtlantic Free Trade Area (TAFTA) between North America and Europe, could have a very negative effect on the global trading system by encompassing new discrimination by rich against poor and reversing all the progress toward North-South trade cooperation.[7]

Third, there are opportunities for huge economic gains from further trade liberalization. The Uruguay Round teed up a number of traditional border barriers for complete elimination by tariffying most agricultural restrictions, binding most tariffs of developing countries and ending quota protection for textiles.[8] In addition, a number of "new issues" are now ripe for action:

-- Liberalization of trade in services. The Uruguay Round agreed on a set of principles to govern services trade but few barriers have been reduced and the results to date of sector-specific talks on financial services, telecommunications[9] and maritime services have been disappointing.

-- Competition policy, which increasingly lies at the heart of "trade disputes" between the United States and Japan, which are actually disputes about anticompetitive corporate behavior and governmental policies toward it.

-- Investment policy, which has become central to trade (especially in services) but received short shrift in the Uruguay Round. It is now being discussed in the OECD but there is no reason why the WTO cannot begin to address it too.

-- Government procurement, which has huge trade effects but where national participation and entity coverage under

---

[7]A thorough analysis of TAFTA will appear in Ellen Frost, *The New Transatlantic Marketplace*, Washington: Institute for International Economics, forthcoming 1996.

[8]See John Whalley and Colleen Hamilton, *The Trading System After the Uruguay Round*, Washington: Institute for International Economics, 1996.

[9]In the telecom sector alone, open markets could yield at least $1 trillion in consumer benefits by 2010. See Ben Petrazzini, *Global Telecom Talks: A Trillion Dollar Deal*, Washington: Institute for International Economics, June 1996.

the existing code are still quite limited. Interim membership could be offered to countries that are willing to at least take on the code's obligations regarding transparency, which would *inter alia* help deal with the critical problem of corruption.[10]

-- Firmer disciplines on regional arrangements, now that there are so many and that it is widely recognized that the relevant WTO rules are both grossly inadequate and poorly implemented.

-- Better protection against process protection, such as abusive use of antidumping policies to offset agreed liberalization--including by the increasing number of developing countries that are using it against American exports.

In short, there is plenty of fuel to drive the bicycle forward. All of these issues are also being addressed in the various regional fora, and heading off the inevitable evolution of conflicting arrangements that could otherwise result adds strongly to the case for globalizing the attack on them.

The Role for Singapore

It would be unrealistic to expect that the Ministerial Conference in Singapore in December would be ready to adopt a global vision as far-reaching as proposed here. On the other hand, the conference could take a number of steps that--without committing governments to such a path--would pave the way for adopting such a vision over the next year or so if a consensus to do so could be created.

Two procedural steps would be to start preparing for a Global Trade Summit in 1998 and to create a private advisory group to begin developing the needed vision.[11] In addition, the Ministerial could launch work programs on each of the key issues cited (and many more) to prepare the ground for addressing them substantively in the near future.[12]

The Singapore Ministerial should also debate several key questions that must be answered whatever the extent of the next WTO initiative. First, should such an initiative follow the traditional pattern of a comprehensive "round" or the current experiment with separate sector-specific negotiations (and perhaps a few functional talks)? The European Union has now come out clearly in favor of a round.[13] The traditional logic is

---

[10]See Kimberly Ann Elliott, *Corruption and the Global Economy*, Washington: Institute for International Economics, forthcoming 1996.

[11]Formal advisory bodies, such as the wisemen's group that helped plan the Uruguay Round for the GATT and the Eminent Persons Group that devised the basic APEC strategy, have provided leaders with ideas that were unlikely to emerge from their own bureaucracies. The Singapore Ministerial should appoint an independent advisory committee to develop the vision and strategy that will be needed for the WTO to realize its potential evolution in the years ahead.

[12]The Institute for International Economics will shortly release a comprehensive proposal for Singapore in Jeffrey Schott, *WTO 2000: Setting the Course for World Trade*, Washington: forthcoming, 1996.

[13]Sir Leon Brittan concluded his "Expanding World Trade: The WTO Road to Singapore," p. 9 with "My vision is of a dynamic WTO which ...works from now on to lay the foundations for the further

compelling: much more can be accomplished when a number of key issues are tabled together, permitting tradeoffs across those that are of chief interest to different countries. The alternative sectoral approach tends instead to a lowest-common-denominator approach and may even fail, in whole or in part, as seen last year in financial services and as threatened now in both telecommunications and maritime services.

At the same time, we clearly do not want to wait a decade or more for the next round to be launched and completed. Hence it is essential to work out, first internally and then with our trading partners, an agenda of issues that is large enough to elicit the needed tradeoffs but small enough to be manageable within three or four years. The ultimate goal of global free trade could then be reached through a series of "roundups," as my colleague Jeffrey Schott artfully calls them, of issues that are negotiated on a continuing basis and implemented every few years.

A second critical issue is the meaning of "free trade." Should it be limited to traditional border barriers (tariffs and quotas), extended only to nontraditional but still border impediments (such as government procurement and many investment policies), or applied also to "purely domestic" measures that have significant external effects (such as intellectual property protection and labor standards)? A new principle should be agreed: that the goal is to assure the contestability of markets by eradicating all impediments to that objective.

A third key topic is globalizing participation in the WTO. "Global free trade" cannot be achieved if such major countries as China, Russia and Taiwan remain outside the organization. Yet some of the nonmembers seem unable or unwilling to accept its rules. Some new formula may be needed to enable them to engage in the coming initiative even if they have not yet become full members.

Finally, the WTO itself needs to spearhead a global educational campaign on the benefits of free trade. Despite the unprecedented support for freer trade around the world, considerable protectionist pressures remain. Some backlash to the rapid pace of recent liberalization is perhaps inevitable. The political leadership of every country is primarily responsible for convincing its own citizens of the merits of the strategy. But countries can help each other do so, both by sharing their experiences in overcoming domestic opposition and in reinforcing each others' efforts. Such cooperative salesmanship will be an essential component of any initiative as ambitious as seeking "global free trade" by a date certain.

Conclusion

The WTO Ministerial Conference in Singapore can be a historic event. It can take the initial steps toward completing the process launched by the creators of the GATT over half a century ago to eliminate border barriers to trade. It can go well beyond that goal and set the stage for the next half century of global trade relationships.

There are only three requirements for the Ministerial: agreeing on the need to develop an ambitious vision for the world trading system and the organization that runs it, initiating a process that will produce that vision, and beginning to debate the substantive and procedural topics that will permit any such vision to be realized in practice. The United States has a major national interest in the successful launching of such a process.

Round we know we shall need to usher in the millennium."

I recommend that the administration, which has chosen to downplay any discussion of trade during this election year, take the lead in such an effort. To do so, it need only resume its activist leadership of 1993-94--through which, with the full support of the Congress, it successfully completed NAFTA and the Uruguay Round and launched APEC and the Free Trade Area of the Americas. It should start by taking an energetic lead in APEC, generalizing the ITA tactic noted above by pushing the full APEC membership to adopt aggressive "Individual Action Plans" to begin implementing their commitments "to achieve free trade and investment in the region by 2010/2020." Such an APEC initiative would have a powerful effect in galvanizing global emulation at Singapore.

I also recommend that the Congress support the administration in such an effort. New trade legislation is of course going to be needed soon (although the administration can begin the proposed process without additional authority, just as it negotiated the first two years of the Uruguay Round without explicit approval.)[14] Congress will in any event have to address the liberalizations to which the administration has already made political commitments in APEC and the FTAA. Globalizing free trade would add only modestly to the needed authority, adding primarily Europe with which trade is already largely free. The United States could reap enormous benefits from such an effort and Singapore offers an opportunity to start moving in that direction.

---

[14]The contentious issues of labor and the environment, which torpedoed the efforts to restore fast track authority in 1994 and 1995, should be finessed by neither ruling them in nor ruling them out of the legislative mandate--leaving them open for inclusion or exclusion in each succeeding negotiation based on the merits of each situation at the time.

Regional Free Trade Arrangements
Share of World Trade, 1994[a]

European Union	22.8
EUROMED	2.3
NAFTA	7.9
Mercosur	0.3
Free Trade Area of the Americas	2.6[b]
ASEAN Free Trade Area	1.3
Australia-New Zealand	0.1
APEC	23.7[b]
Total	61.0

[a] Trade among the members of each regional group.

[b] Excluding trade among the members of their own subregional groups.

Chairman CRANE. Thank you.

Mr. Bergsten, does the administration's focus on labor, the environment and other controversial and traditionally nontrade issues jeopardize your goal, in your estimation, of achieving global free trade early in the next century?

Mr. BERGSTEN. It certainly makes it more complicated, Mr. Chairman, both internationally and, as you know better than I, domestically. There is a lot of international dispute over those topics. Each one may need to be treated differently; these issues are not to be viewed as parallel in all cases. Many other countries that want to address them, and there are legitimate issues that do need to be addressed and should be addressed. The question is, how can we do this while ensuring they do not impede the kind of liberalization process on trade itself that we want?

Domestically, that has been, of course, the stumbling block in getting fast track authority in the last couple of years. I think the remedy is clear—you neither rule them in nor rule them out. Wait and see what is appropriate in individual negotiation, and then make your judgment on whether to include them.

The administration itself, for example, has not raised those issues in APEC, despite its general thrust on them in the WTO and elsewhere. It publicly said it would not, and it has not done so. So you have to pick and choose, and I do not think a general solution, as was debated on both sides in the fast track consultations of 1 to 2 years ago, is very productive.

Chairman CRANE. Thank you, Mr. Bergsten.

Mr. Rangel.

Mr. RANGEL. Mr. Bergsten, were you suggesting to the chair that these environmental and labor requirements that we had in the last fast track caused problems in NAFTA and other negotiations?

Mr. BERGSTEN. They did cause some problems in the NAFTA negotiations, although I think not overwhelming ones. That was because Mexico was so eager to strike the NAFTA deal with us that it essentially accepted whatever we proposed, including even on those fronts that did rankle the Mexicans when we initially reopened the negotiations to include those requirements.

It will would be much more difficult to bring environmental and labor issues to the forefront in some of the negotiations that will be coming over the next years, including in the Western Hemisphere, certainly in APEC, and certainly in the World Trade Organization as a whole.

Mr. RANGEL. I just have not heard any of our trading partners indicate that this is a major problem, and as you know, that appears to be the only partisan problem that we on this Subcommittee face. So, I was surprised to hear you agree, so readily with the chair that it was a problem, since the only problem I saw was the Republican leadership. I had not really heard in the international community that there was a general feeling that they would rather not address these issues. Even though no one likes to be told what to do, there may be some question as to how we handle it, but I would like to emphasize what you have said, that it is important, and it cannot be ignored. So, it is going to be important from America's viewpoint, too.

Your exciting presentation is the best hope that I have to improve the quality of life and jobs for Americans. I do not see where there is anything else that I will have to work with. And so, therefore, I hope that instead of talking about a level playingfield, I can give a fair advantage to any U.S. firm because of the need for jobs.

My major problem, though, is that I do not see how America is being prepared for this great thrust into the next century as we move forward, taking advantage of our research and our development, how we could possibly keep our competitive lead, with millions of people in jail and scheduled to go to jail, and the tremendous cost that is involved, not in people who are not productive, but just in containing them. And when I see other countries sending thousands of students here, only to return home to teach other students, I wonder whether there is any game plan as to how far America will be able to get on this tremendously successful expansion of economic growth. How do education and research and development work together? And when we talk about labor standards, there has to be some minimum that we have to expect in a country, and there has to be something left in our country for unskilled people to do, and if there is not, we just cannot ignore them. And then, there is the large number of people who played by the rules and somehow just did not keep up, but they are 50 or 55, and a merger or acquisition decided that they really were not needed today.

As we go through this most exciting era, to hear you tell it—and it is going to be exciting—I mean, just your enthusiasm should have everyone just waiting to see what the Congress can do to stay out of the way and let the free marketplace work its will. And, I see just so many people who are not even a part of all of this at all. No one is talking to them. What happens to them?

Mr. BERGSTEN. I fully share your concern about those people and the fact that we as a country have not done a very good job to position ourselves to take advantage of what I talked about. But, we would have to do that with or without international trade.

As you know better than anybody else, the answer to the problem of the people who lack skills, and you said it, is education, training and upgrading skills so that they will be able to compete just within the dynamics of our own economy. We have got to do that anyway, regardless of our position in the global marketplace.

My first point is simply that, if we can open international markets more, we can take greater advantage of the improvement in the skills of our own human capital. You are, of course, right that not everybody is going to get that upgrading, either today or a generation from now, even if we have a better game plan. In that sense, it is fortunate that the biggest share of our economy is still not having to compete internationally. Over 70 percent of our economy is services. A few services do compete internationally but most do not. My second point is that, if we can improve the capability of our work force and our corporate structure in the services sector, which is the next big area where productivity increase is required, then we do not have to worry much about international competition because most of the services sector is really not facing foreign competition. Where we get the benefits from that is in our manufacturing industries.

Let me relay what may be a stunning fact. As you well know, there has been a steady decline in our labor force in manufacturing over the last 20 years because of increased productivity, though some have blamed the decline on trade. Those jobs are among the highest paying in the country.

Because of the export boom and the projections for its continuation over the next 4 or 5 years, it now looks like that decline in the manufacturing sector will be arrested and will even turn around. The share of the labor force in high-paying manufacturing jobs is going to rise again because of our success in penetrating foreign markets. We should build on that and do even more of it. But admittedly, that is only part of the picture. If we do not do the education and training, we will lose out, but that is with or without trade, and the services sector is something of a buffer or a safety valve against the risks inherent in globalization.

Mr. RANGEL. I can understand that, Mr. Bergsten. It has just been my experience that almost all people can start out with the low skill opportunity and that, in and of itself, provides the dignity, the drive and the hope so that the family unit remains even though the good-paying job is not there, so that the kids will find a greater ability to find their way into either the service or the high-tech export sectors.

Now, there is a break right there in the middle, and it is a very costly break. I guess my question would be, notwithstanding tradition and constitutional barriers, most people agree that this is a national problem. Having said that, they have difficulty finding a national solution. In other words, they believe that this has to be handled by a local school board.

Do you agree that that is what we have to do?

Mr. BERGSTEN. I share your frustration at that. One hat that I have worn for 5 years, as you know, is as chairman of the Competitiveness Policy Council, which the Congress set up in the Trade and Competitiveness Act in 1988. Early on, we identified education as one of the fundamental—perhaps the most fundamental—competitiveness problems of the United States. But then, tries to identify remedies, one runs into exactly what you just said. Policy is set by 15,000 local school boards.

So we put out a series of proposals to try to work within that—developing national standards as a guideline and trying to induce local authorities to move in that direction. This has, of course, moved exceedingly slowly. There is even some backsliding on it now in various legislative and other avenues. I must admit that, to me, that is the most serious problem facing our whole economic growth and competitiveness outlook—the fact that we are not doing a good job of developing our human capital and that our institutional structure is so complex that it almost defies the prospect of effective reform.

So, if I could find some way that was politically feasible to move to more national leadership of education and training for the whole population, I would dearly love to do it. I think nothing could make a bigger contribution.

Mr. RANGEL. Have you written something on this that you could send me? I have an idea that is receiving some support from the multinationals and that is, much like we created the economic

empowerment zones, to suggest that if a local school board could break down the barriers with the union and the local government and find the ideal relationship with business along with a national standard, we could create educational empowerment zones. As such, maybe we could get the class size down so that teachers can give up the hard-earned sabbaticals and other things that cost money but really do not lend to actually teaching. Maybe we could develop a relationship between teaching, graduation, and the job market. Then we might be able to find those areas competing for a model situation to make it cheaper for local government to support an alternative approval that is working.

In any event, I would welcome what you have written in support just of education, and then we will see where we can go from there.

Thank you very much for your testimony.

Mr. BERGSTEN. Thank you.

Chairman CRANE. I thank you, too, Mr. Bergsten. We look forward to working with you and solicit your input always.

Mr. BERGSTEN. Thank you.

Mr. CRANE. Our next panel of witnesses represents different industry sectors: Tom Ehrgood, international trade counsel with Digital Equipment Corp., on behalf of the Information Technology Agreement Coalition; our former colleague Henson Moore, president and chief executive officer of the American Forest and Paper Association, together with Keith Romig, environmental and public policy officer of the United Paperworkers International Union; Jacques Gorlin, director of the Intellectual Property Committee, and Eric Smith, president of the International Intellectual Property Alliance.

We welcome you all. I thought the gentleman at the end of the dais looked familiar.

Mr. RANGEL. He is on television a lot. His name is Henson Moore.

Chairman CRANE. Well, gentlemen, will you proceed in the order in which I introduced you, starting off with Mr. Ehrgood, and try to confine your remarks to 5 minutes, and all extended remarks will be made a part of the permanent record.

Mr. Ehrgood.

STATEMENT OF THOMAS A. EHRGOOD, JR., INTERNATIONAL TRADE COUNSEL, DIGITAL EQUIPMENT CORP., MAYNARD, MASSACHUSETTS, ON BEHALF OF THE INFORMATION TECHNOLOGY AGREEMENT COALITION

Mr. EHRGOOD. Thank you, Mr. Chairman, Congressman Rangel.

I would like to note that my statement includes a number of separate statements filed by associations who participate in the ITA, Information Technology Agreement, Coalition.

I am very happy to have the opportunity to speak at this hearing on behalf of the ITA Coalition. The Coalition is remarkable for its breadth. It consists of 12 associations who together, collectively, represent the range of the U.S. IT, International Trade, industry, ranging from components all the way to software publishers.

This Coalition has come together and has been working hard together in support of the Information Technology Agreement, an agreement to eliminate all tariffs on IT products by the year 2000.

The ITA Coalition is extremely grateful to USTR for the work that USTR has done through the year in promoting this negotiation and is also grateful for the priority that USTR has placed on a successful ITA in the market access agenda of the WTO Ministerial. We believe this is as it should be. If this agreement succeeds, which we hope it will, it will represent the culmination of decades of multilateral negotiations to progressively bring down tariffs in the electronics and the IT sector worldwide.

If it succeeds, we will see a strong catalyst for the development and real implementation of the information highway, or the GII, Global Information Infrastructure, or as the European like to say, the "information society."

I would like to stress at the outset something about the beginning of this negotiation. The conditions in which this negotiation kicked off back in April were extremely auspicious. At the April Ministerial Quad Meeting in Kobe, the launch of the negotiations capped a 6-month process in which we achieved an extraordinary consensus of strong, enthusiastic support for the ITA from industries in the United States, Europe, Canada and Japan, matched also by equal enthusiasm from the governments in those countries.

Over the first months of the negotiation from April to June, we made extraordinary progress, USTR leading the way with lots of industry input and good work in other countries. We made great progress on defining product scope, we solved technical problems about how this agreement would operate, and the prospects really looked very good.

And then we came to June. In June, we found ourselves with a significant roadblock. That roadblock took the form of the EU withdrawal from the negotiation, withdrawal from the negotiation as a result of its insistence, not satisfied, that the EU would be a participant in the negotiation of a renewed semiconductor agreement and a member of a trilateral agreement from the start.

The agreement did not work out as the EU had hoped, although there are a couple of tables that were set up, one a global government form, the other a semiconductor industry council, two tables where there is an obvious place for the EU Commission and the semiconductor industry.

But in any event, the EU has not yet returned. You heard a little bit from Ambassador Barshefsky about why the EU has not returned. It appears to her that the EU has not returned because there may not be a sufficient mandate. Whatever it is, whatever the problems in the member states or in the Commission, it is essential that the EU return, and we hope and are optimistic that this will be achieved in Seattle later this month at the Quad ministerial meeting.

We are at a critical juncture in the negotiation of this ITA. There is a lot to do. Not only do we have to bring the EU back, we also need to firm up the participation of the APEC member countries, and then, even when we have done that, we really have to sort out a lot of details of the negotiation in a short period of time. So, a full court press is necessary from industry. USTR is doing that, and we are delighted with it. And we need to see some other active participation from other governments as well.

Mr. Chairman, it is critical that the ITA succeed—and here is the point that I really want to stress—not just for the tariff benefits that the ITA promises, but also to ensure that the positive goal of stimulating trade in information technology products is reinforced and kept alive. This is especially important today, when the U.S. IT industry faces a couple of very serious threats, primarily in Europe.

The first such threat is the threat that much of the computer product family would be reclassified as consumer electronics products because of the ever accelerating audio reproductive and video reproductive capabilities in computer products.

The second threat is the application of impossible, burdensome rules of origin in the EU, specifically a 45 percent value-added requirement.

We are resisting these threats with some good success. We appreciate the help of USTR in this, but here again we get to the ITA, and what we find is that it is essential, in this environment of sorting out these difficulties, to have a positive initiative, something that positively keeps alive the vision or the attention on the goal of promoting IT trade, not thwarting it.

Thank you very much.

[The prepared statement and attachments follow:]

STATEMENT OF THOMAS A. EHRGOOD, JR.
INTERNATIONAL TRADE COUNSEL, DIGITAL EQUIPMENT CORPORATION
FOR THE INFORMATION TECHNOLOGY AGREEMENT COALITION
TO THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE

SEPTEMBER 11, 1996

Mr. Chairman, members of the committee, I am Thomas A. Ehrgood, Jr., International Trade Counsel of Digital Equipment Corporation. Thank you for the opportunity to testify on issues related to the World Trade Organization's Singapore Ministerial.

Today, I am appearing on behalf of the Information Technology Agreement Coalition. Led jointly by the Information Technology Industry Council and the American Electronics Association, the ITA Coalition is a group of twelve American high technology industry associations from all segments of information technology, including software, computers, telecommunications, semiconductors, and internetworking equipment. We and our member companies have been working to promote the successful negotiation of the Information Technology Agreement, or ITA, which would eliminate tariffs on all information technology products by the year 2000, with tariff phase-outs to begin in January of 1997. The ITA will be an MFN agreement with an open invitation to all countries to join.

With your agreement, Mr. Chairman, we ask that short statements be included in the record from some of our members -- including the American Electronics Association, Semiconductor Industry Association, Electronic Industries Association, European American Chamber of Commerce, and a quadripartite industry statement including the Information Technology Industry Council and its counterparts in Japan, Europe and Canada.

Mr. Chairman, the ITA Coalition and its members are extremely pleased that the United States Trade Representative's Office has placed the ITA at the center of its market access objectives for the WTO Singapore Ministerial. We believe this is as it should be. When successfully concluded, the ITA will bring to culmination decades-long multilateral efforts to eliminate tariffs in the electronics and information technology sector. This will provide huge benefits not only to IT exporting companies, but, more important, to the global economy as a whole.

The ITA will be a catalyst to complete the Global Information Infrastructure, or GII, because the elimination of tariffs on IT products will make the GII widely accessible to the world population by significantly lowering the costs of building and using this infrastructure. This will enable more businesses and people to experience the productivity gains made possible through technology and create a more competitive world market.

From its launch, the ITA's prospects were auspicious. Governments and industries outside of the United States clearly saw the ITA's great promise. Last November, members of the Trans-Atlantic Business Dialogue meeting in Seville strongly endorsed the ITA. This April, the ITA was formally launched with the declaration of the Quad ministers initiating the negotiations. Through late spring and early summer USTR and its Quad counterparts laid the groundwork by sorting through the difficult technical issues involving an agreement of this complexity. This work was done hand in hand with the cooperation of industry groups, including ours, from the U.S., Japan, Europe and Canada. By June, the ITA appeared to be well on its way toward successful conclusion at the WTO Ministerial in Singapore.

However, since that time roadblocks have arisen -- especially in the EU. In particular, when the US and Japan launched negotiations to renew the Semiconductor Trade Agreement, or STA, the EU insisted that it be included in that negotiation and made that point a condition for continuing to negotiate the ITA.

Now that the STA negotiations are over it remains unclear whether the EU will consider that its interests were sufficiently met in the agreement to bring the EU back to the ITA negotiating table. The ITA Coalition is hopeful it will. We believe the STA and the ITA would represent compatible agreements. We, like USTR, are watching with interest how the EU will proceed and are doing everything we can to positively influence the outcome.

A second EU roadblock concerns the question of linking IT tariff cuts to tariff cuts in other sectors or to other nontariff issues. We would urge that these linkages not be made because doing so would dramatically alter the ITA negotiations and threaten their successful conclusion.

In the meantime, USTR is aggressively pursuing Asian support for the ITA through APEC and other fora with the goal of achieving significant progress at the APEC ministerial in Manila this November. We support USTR's strategy in this effort and are taking appropriate steps to complement that strategy with our industry counterparts in Asia.

Mr. Chairman, the timing of this hearing is important, because the ITA is now at a critical juncture. Three months remain before the Singapore Ministerial and the promise of tariff elimination for information technology products is too great to be lost. Frankly, we do not expect it will be lost, but it will take a full-court press in the fall to bring all the parties back to the table to put this agreement in effect. Otherwise, loss of the ITA could leave us worse off than the status quo of continued tariffs on IT products. This is because there is emerging in other countries the use of new tools to erect obstacles to the information society.

In particular, I would mention the use of customs classification to move products into higher duty categories of consumer electronics, and the establishment of complex rules to dictate whether a product can receive tariff benefits based on arbitrary criteria to determine its country of origin. We expect an ITA would minimize the damaging effects of these new trade instruments, but the failure to conclude an ITA would remove a positive IT initiative from the WTO agenda and create an incentive that could allow these practices to flourish.

Finally, Mr. Chairman, I should elaborate briefly on this practice of customs classification for revenue-raising purposes because of its potential for fundamentally altering the lexicon of information technology without rational forethought. The fact is, our industry is now in an information revolution. Indeed, we are in the digital age. What this means is that the products and innovations that emerge from this revolution are utilizing the same digital technology to perform multiple functions within single units, using as just one example a laptop computer that can simultaneously serve as a fax machine, telephone, television, radio and video machine, all while the user is typing a letter or cranking out numbers on a spreadsheet. These are all digital functions.

Without an ITA, how these products get categorized could have far reaching implications for the competitiveness of this industry. Even with an ITA, the worst-case scenario could foresee an ambitious Customs official for one of our trading partners classifying a wide range of products into some high-tariff category that is not within the scope of the ITA tariff elimination agreement -- in effect, emptying the ITA basket of duty free products. USTR has appropriately made this issue known to our trading partners in the WTO. It may be that the case should be made more strongly in Singapore. This is essential as we work toward a common understanding of how the information technology industry should take us into the next century.

That concludes my statement, Mr. Chairman. I will be pleased to answer any questions.

AMERICAN ELECTRONICS ASSOCIATION

Information Technology Agreement

The American Electronics Association, representing all segments of the information technology industry, from computers, semiconductors and telecommunications, to software, internetworking equipment and computer-based analytical instruments, strongly supports negotiation of the Information Technology Agreement (ITA). The ITA would boost the export competitiveness of many of our association's 3200 member companies by eliminating tariffs on information technology products on an MFN basis by the year 2000.

The ITA would reduce to zero all post-Uruguay Round tariffs on information technology products by January 1, 2000, with staged reductions beginning in January 1997. The ITA is intended to include as many countries as possible.

Major benefits will flow from the elimination of IT tariffs. In particular, zero tariffs will:

- provide stimulus for increased U.S. exports by making information technology products and services more price-competitive in global markets now protected by tariff walls;
- facilitate worldwide implementation of the Global Information Infrastructure (GII) by reducing the cost of the inputs and making seemless communications around the world available to more people and businesses;
- alleviate the administrative burden borne by companies and customs authorities in ensuring accurate, complete and timely payment of duties; and
- reduce the propensity of governments to complicate and manipulate valuation, product classification and origin rules for reasons of tariff protection.

The need for tariff protection for IT products is over. Indeed, it is dubious that tariffs in the IT sector provide any protection at all for indigenous industries. Studies in Europe, for example, show that the cost of collecting tariffs in this sector is greater than the revenue generated by those tariffs, while price-sensitive manufacturers see their competitive position erode from the higher cost of inputs.

For these reasons, AEA urges that the US, Quad, APEC, Latin American and other governments conclude negotiations on an ITA by the time of the WTO Ministerial Meeting in Singapore in December 1996.

For More Information, Contact Greg Garcia at 202-682-4433; or (email) Greg_Garcia@aeanet.org

INDUSTRY RECOMMENDATIONS FOR AN INFORMATION TECHNOLOGY AGREEMENT AS AGREED TO BY EUROBIT, ITAC, ITI AND JEIDA

Background

In January of 1995 the information technology industry associations of the U.S., Europe and Japan (ITI, EUROBIT and JEIDA) agreed to a set of industry recommendations to the G-7 Meeting in Brussels on the Global Information Infrastructure (GII). One of their key recommendations was to eliminate tariffs in the information technology sector through the adoption of an Information Technology Agreement (ITA). Rapid conclusion of the ITA's objective of eliminating information technology tariffs should be pursued in the broader context of other GII issue areas resulting in the removal of all existing barriers and obstacles to open trade. The specific recommendation stated, "To achieve market access necessary to build the GII, all tariffs affecting information technology and telecommunications technology products and components, including semiconductors, must be eliminated." Since that statement, Canada's IT industry association (ITAC) has also lent its support to this principle.

ITI, EUROBIT, JEIDA and ITAC have since supported an initiative called the Information Technology Agreement that would eliminate all tariffs on information technology and telecommunications products no later than January 1, 2000. Products covered under this Agreement include:

- Computer Hardware (including all computer peripherals and multimedia/multifunctional products)
- Semiconductors, Integrated Circuits, and other electronic components (including, for example, transistors, crystals, and resistors)
- Semiconductor Manufacturing Equipment
- Computer and Telecommunications Software
- Telecommunications Equipment
- Parts and Accessories of the above

The realization of an ITA would make the Global Information Society as widely accessible as possible through the elimination of the remaining customs tariffs on a range of IT products. Elimination of tariffs on IT equipment will make these products and services available to a wider segment of the world's population by significantly lowering costs. This will enable more businesses and people to experience the productivity gains made possible through technology and create a more competitive world market.

This agreement only addresses the elimination of all information technology tariffs on a most-favored-nation basis and does not seek to include agreements on any non-tariff or non-IT product issues.

At the November 1995 Transatlantic Business Dialogue in Seville, over 120 American and European corporate leaders advocated the conclusion of an ITA by December 1996. A month later in Madrid, the EU and US governments agreed to a New Transatlantic Agenda Plan that also endorsed an ITA.

Critical Success Factors:
In order to have a successful ITA negotiation, a number of critical success factors have to be included in the agreement. These include:

- Tariff elimination on the products identified above in one or two stages by no later than January 1, 2000.
- Acceptable rules of interpretation which make clear the negotiator's intent that the ITA's scope extends to future generations of information technology products.
- Administrative Tools (for example, a policy process for making anticipatory ITA product coverage determinations, as well as an ongoing review mechanism) within the WTO that would ensure the integrity of the agreement for ITA product coverage purposes.
- Quad countries conclude an ITA by no later than the December 1996 Singapore WTO Summit. In order to achieve a speedy realization of the GII, as many countries as possible should join the ITA at the Singapore Ministerial Meeting

Classification:
In light of rapid development of technologies in the IT domain, it has to be ensured that present and future product generations will be covered by the ITA, with special reference to multimedia products (for which care must be taken for determining the list of multimedia products and corresponding definitions) and that the ITA conclusions are not undermined by customs authorities' decisions in areas such as classification and rules of origin.

The ITA addresses these classification issues. For example, a basic principle for addressing computers stipulates that the ITA will cover any computer whether or not it also has the capability to receive and process telephony signals, television signals or other analogue or digitally process audio or video signals. For example, any computer is covered whether or not it also is capable of displaying full motion video, as is any computer incorporating or consisting of video conferencing apparatus.

On the other hand, a television receiver or audio reproduction system today is not covered by the ITA. Such devices are not today, for example, freely reprogrammable by the user.

Conclusion:

We strongly advocate that the Quad partners agree to conclude an ITA as described above at their April meeting in Kobe, Japan and set a process for completing negotiations before the Singapore WTO Summit. We also hope that the G7 Summit in July gives momentum to an ITA through discussions. With an agreement in principle between Quad members, it is our expectation that nations from other regions are more likely to sign on to an ITA WTO accord at the Singapore Summit.

EUROBIT, ITAC, ITI and JEIDA
April 16, 1996

SIA SEMICONDUCTOR INDUSTRY ASSOCIATION
181 Metro Drive, Suite 450 ◆ San Jose, CA 95110
Phone (408) 436-6600 ◆ Fax (408) 436-6646

STATEMENT OF THE SEMICONDUCTOR INDUSTRY ASSOCIATION IN SUPPORT OF THE CONCLUSION OF AN INFORMATION TECHNOLOGY AGREEMENT AT THE SINGAPORE MINISTERIAL MEETING OF THE WTO

SEPTEMBER 10, 1996

The Semiconductor Industry Association (SIA) supports the efforts of the Clinton Administration to successfully conclude an Information Technology Agreement (ITA) to eliminate tariffs on information technology products at the Singapore Ministerial Meeting of the World Trade Organization (WTO). Among the products to be covered by the ITA are semiconductors and semiconductor manufacturing equipment, both of great interest to SIA.

SIA has long advocated the elimination of tariffs on semiconductors and related products. At SIA's request, the United States, Canada, and Japan eliminated duties on semiconductors and computer parts in 1985 without waiting for the conclusion of the Uruguay Round negotiations. SIA supported the elimination of tariffs in its home market because it believes that the U.S. semiconductor industry's health depends on the health of its customers in the information industries, and that its customers can produce the best products if they do not have the costs and administrative burdens associated with duties.

In 1994, the Uruguay Round resulted in a commitment by Korea to eliminate its semiconductor tariffs by 1999, as well as reductions in semiconductor duties in the European Union. In 1995, at the request of the European industry, EU semiconductor tariffs were further reduced from as much as 14% to either 7% or zero as compensation for tariff increases resulting from the enlargement of the EU to include Austria, Sweden and Finland. The remaining EU duties, while significantly reduced from their previous levels, continue to impede the EU electronics industry from designing competitive U.S. semiconductors into their electronics systems. Elimination through the ITA of the remaining EU semiconductor duties and other semiconductor tariffs around the world would greatly benefit chip consumers worldwide and thus benefit the U.S. semiconductor industry.

In an effort to spur progress on the current ITA effort, SIA has been actively working with industry associations from Japan and Europe to promote a worldwide semiconductor industry consensus in favor of tariff elimination for semiconductors and related equipment. In July of this year, SIA met with the European Electronic Component Manufacturers Association (EECA) to discuss, inter alia, the ITA. As a result of that meeting, SIA agreed to an EECA request that silicon wafers, which are used to make semiconductors, should also be subject to full tariff elimination under the ITA.

In August, SIA and the Electronic Industries Association of Japan (EIAJ), together with the U.S. and Japanese governments, reached industry-to-industry and government-to-government agreements on cooperation in the semiconductor sector. These two agreements provide for the creation of new government and industry fora on the semiconductor industry. The Global Governmental Forum (GGF) created under the government-to-government agreement will be a multilateral forum involving the United States, Japan and the EU, as well as other interested countries. The first meeting of the GGF is to take place no later than January 1, 1997, which will allow this new institution to meet virtually simultaneously with the Singapore WTO Ministerial Meeting. At the industry level, a new Semiconductor Council is to be created, with membership open to all industry associations whose governments either have committed that all tariffs on semiconductors will be expeditiously eliminated or have suspended these tariffs pending formal tariff elimination.

SIA views the ITA as offering an important opportunity to promote the increased competitiveness of the worldwide information technology industry through the elimination of tariffs and increased multilateral cooperation. Conclusion of this important agreement at the Singapore Ministerial Meeting of the WTO would be a significant achievement for the world trading system -- completing the work of the Uruguay Round -- and would be of tremendous value to the development of the Global Information Infrastructure.

Electronic Industries Association

INFORMATION TECHNOLOGY AGREEMENT

BACKGROUND

The Information Technology Agreement (ITA) eliminates tariffs for information technology products by the year 2000. Products covered by the agreement include semiconductors, computer hardware, software and telecommunications equipment. The agreement includes General Rules of Interpretation to guide governments in classifying existing and future information technology products

The Information Technology Agreement is currently being negotiated among the United States, the European Union, Canada, and Japan. These countries intend to conclude negotiations by the end of 1996 and to implement phased-in tariff reductions starting January 1, 1997. Governments and industry are also working to expand country participation in the agreement. Taiwan, Korea and other countries have already expressed interest in joining the ITA.

The current ITA negotiations are being conducted primarily between the United States and the European Union. The negotiations are proceeding along two tracks - political and technical. At the political level, there is widespread consensus on the value of the ITA, with negotiations focusing on many of the specifics of the agreement. At the technical level, the negotiations are focused on product coverage and classification issues.

BENEFITS TO THE ELECTRONICS INDUSTRY

The electronics industry is becoming increasingly global. Many of EIA's companies receive a large portion of their total revenues from international sales and they rely on importing components that are integrated into their most competitive products. The Information Technology Agreement benefits these companies because it eliminates the tariffs that hinder exports and it lowers the cost of the inputs that our industry uses in their products.

The ITA General Rules of Interpretation provide companies with clear and predictable guidelines for their customs operations and they make it easier for governments to classify information technology products. As the information technology industry continues to develop increasingly complex products in shorter periods of time, the General Rules of Interpretation will help avoid disputes over how these products are classified.

Consumers of information technology products also benefit from the agreement. Elimination of information technology tariffs lowers prices and makes these products available to a wider segment of the world's population. This will enable more people and businesses to experience the productivity gains made possible through technology and create a more competitive world market. The ITA will help with the development of the Global Information Infrastructure by providing users with inexpensive and easy access. In all, the ITA is an important agreement that will benefit many aspects of the U.S. and the world economy and bring our industry into the 21st century

For more information or additional documents on the Information Technology Agreement, please contact Maggie Angell in the EIA Government Relations Department at 703/907-7579.

2500 Wilson Boulevard • Arlington, Virginia 22201-3834 • (703) 907-7500 • FAX (703) 907-7501

Policy Statement of the European-American Chamber of Commerce on an Information Technology Agreement

March 20, 1996

Transatlantic Consensus
The transatlantic community, both in the private and public sector, has expressed its commitment to reach an information technology agreement (ITA). At the November 1995 Transatlantic Business Dialogue (TABD) in Seville, over 120 American and European corporate leaders advocated the conclusion of an ITA by December 1996. The overwhelming majority of the Seville participants supported a commitment to eliminate all tariffs on information technology (IT) products by January 1, 2000, or sooner. A month later in Madrid, the EU and US agreed to a New Transatlantic Agenda and Action Plan that also endorsed an ITA.

As an organization of 80 multinational companies of European and American parentage, the European-American Chamber of Commerce adds its voice in strong support of an ITA. Eliminating tariffs in this critical, rapidly-changing industry would make all transatlantic companies more efficient by reducing the cost of maintaining competitive technology. In addition, EU and US companies in the IT products industry strongly support an ITA because it would reduce customs burdens, increase the flow of trade in the transatlantic market, and promote greater market access in other countries that sign onto the agreement.

The Chamber encourages the EU and US governments to work together to conclude an ITA by December 1996 that incorporates the following objectives.

Objectives
Tariff-Based Agreement – The Chamber seeks an ITA that would eliminate tariffs – on a most-favored-nation basis – for the following product categories no later than January 1, 2000: (1) computer hardware products, (2) semiconductors and integrated circuits, (3) semiconductor manufacturing equipment, (4) computer software, (5) telecommunications equipment, and (6) passive devices. Eliminating tariffs in these product categories would constitute a very significant accord. Negotiators should not risk delaying the agreement by considering non-tariff or non-IT product issues.

WTO/GATT Compatibility – Transatlantic business selected the ambitious December deadline in hopes that an ITA will be completed during the December 1996 WTO Ministerial Meeting. As a building block of the Global Information Society, a WTO-compatible ITA would provide the maximum benefit to as many nations and companies as possible. The EU and US Quad partners, Japan and Canada, are expected to give momentum to an ITA through discussions in their April meeting and possibly agree to an ITA outline at the G-7 Summit in July. With an agreement in principle between Quad members, nations from other regions are more likely to sign on to a WTO accord. Without early concerted action between the EU and US, however, little progress can be expected on meeting these objectives.

Avoid Reclassification Obstacles – The Chamber opposes any efforts to reclassify IT products into other tariff headings in a way that would erode the integrity of a negotiated ITA. A benefit of reaching an ITA on the broadest possible range of products would be that IT goods would be classified under clear rules, largely eliminating the need to negotiate tariff classifications.

General Rules of Interpretation – In order to deal with the rapidly-changing nature of IT products, negotiators must equip the ITA with General Rules of Interpretation (GRIs) that clarify the extent of product coverage. The Chamber recommends that negotiators carefully review draft GRIs prepared by US and EU industry experts, who continue to coordinate their efforts through the TABD and other fora.

Conclusion
Concluding an ITA would advance the Global Information Society and deliver on commitments made at the Madrid EU-US Summit. To be successful, an accord must remain focused on eliminating tariffs. Corporations on both sides of the Atlantic ask for a more open global market and reduced administrative burdens for IT products, regardless of the relative trade-off of tariff revenue. The Chamber urges negotiators to look beyond conventional trade-off considerations and do what best serves consumers and transatlantic companies – conclude an ITA.

Chairman CRANE. Thank you, Mr. Ehrgood.

Chairman CRANE. Now, we welcome back before us our distinguished former colleague, Henson Moore.

STATEMENT OF W. HENSON MOORE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN FOREST AND PAPER ASSOCIATION

Mr. MOORE. Thank you, Mr. Chairman.

I am here today on behalf of the more than 200 member companies of the American Forest and Paper Association, which is the national trade association of the forest products and paper industry. This industry has a vital stake in the outcome of the Singapore Ministerial from two points, one of tariffs, and one of the European eco-label. Time today gives me only time to talk a little bit about the tariff issue, but my statement deals with the eco-label issue as well.

As my colleague representing United Paperworkers International Union will attest, this means a great deal to us in terms of being able to maintain high-paying manufacturing jobs in the United States.

During the Uruguay round trade negotiations, the United States forest products industry originated the zero-for-zero concept. Regrettably, the Uruguay round failed to achieve zero tariffs in 5 years for either paper or wood products. The phaseout period for paper tariffs was extended to 10 years, and wood tariffs were reduced by an average of only 28 percent. In accepting this result, the United States accepted a continued substantial tariff inequity which leaves our industry at a competitive disadvantage, and in some product segments, actually threatens our ability to survive.

In the case of paper, for example, some European tariffs are still as high as 7 percent, while most paper products enter the United States duty free. This difference makes a real difference in our ability to compete.

Using the protection of this tariff wall, European producers have been able to build new production capacity, some or most of which is targeted at export markets, some of which or most of which at the United States.

The current tariff imbalance thus not only undermines our ability to compete for exports, but also threatens our own domestic markets as well.

For all of these reasons, our industry lent its support to the Uruguay round implementing legislation only after this Subcommittee included legislative authority and a mandate, accepted by this administration in its Statement of Administrative Action, to continue to press for the achievement of zero tariffs on both wood and paper products within 5 years as a matter of priority.

The Singapore Ministerial is the time to deliver on that mandate. Canada, Japan, the European Union and the United States are discussing a tariff package which could be agreed upon at Singapore. The EU reportedly has suggested a 2-year acceleration of Uruguay round commitments. The Government of Canada has proposed that the Uruguay round final rates be applied as of January 1, 1998. We have urged and do so again at this hearing that the U.S. Government to do one of two things—either put forth its own proposal for

a reduction in tariffs, officially on the record, or get behind the Canadian proposal and back it, to immediately cause the taking down to zero of the tariffs on paper and to continue to work forward on doing something about wood products.

Now, I would like to share the time, Mr. Chairman, with my colleague here from the United Paperworkers Union.

[The prepared statement and attachment follow:]

STATEMENT OF
W. HENSON MOORE, PRESIDENT AND CEO
AMERICAN FOREST & PAPER ASSOCIATION

Thank you, Mr. Chairman.

I am here today on behalf of the more than 200 member companies of the American Forest & Paper Association (AF&PA), the national trade association of the forest, pulp, paper, paperboard, and wood products industry. The vital national industry which AF&PA represents accounts for 8% of total U.S. manufacturing output. Employing approximately 1.4 million people, the forest and paper industry ranks among the top 10 manufacturing employers in 46 states.

This industry has a vital stake in the outcome of the Singapore Ministerial. Agreements on market access and environmental trade restrictions will have a direct impact on our ability to compete for future export sales and, as my colleague representing the United Paperworkers International Union will attest, on our ability to maintain high paying manufacturing jobs here in the U.S. as well.

Market access

During the Uruguay Round trade negotiations, the U.S. forest products industry originated the zero-for-zero concept. We did so because we are a globally competitive industry, confident of our ability to sell where markets are genuinely open--and also because regional trade arrangements and GSP preferences already give zero tariff access to our principal competitors in many important markets.

Regrettably, the Uruguay Round failed to achieve zero tariffs in five years for either paper or wood products: the phase out period on paper tariffs was extended to ten years, and wood tariffs were reduced only by an average of 28%.

In accepting this result, the U.S. accepted a continued substantial tariff inequity which leaves our industry at a competitive disadvantage and, in some product segments, actually threatens our ability to survive.

In the case of paper, for example, some European tariffs are still as high as 7%, while most paper products enter the U.S. duty free. In a commodity market, this additional 7% cost burden can make it virtually impossible to compete.

Using the protection of this tariff wall, European producers have been able to build new production capacity, some of it targeted at export markets. When European demand proves inadequate, the duty free U.S. market has proven an easy target for predatory pricing.

The current tariff imbalance thus not only undermines our ability to compete for exports, but also threatens our own domestic markets as well.

For all these reasons, our industry lent its support to the Uruguay Round implementing legislation only after this Committee included legislative authority and a mandate--accepted by the Administration in its Statement of Administrative Action--to continue to press for the achievement of zero tariffs on both wood and paper products within five years as a matter of priority.

The Singapore Ministerial is the time to deliver on that mandate.

Canada, Japan, the EU and the United States are discussing a tariff package which could be agreed at Singapore. The EU reportedly has suggested a two year acceleration of Uruguay Round commitments. The Government of Canada has proposed that Uruguay Round final rates be applied as of January 1, 1998. In making this proposal, the Government of Canada has specifically identified paper as a priority product for such treatment.

We have urged the US. Government to use its tariff authority to maximum benefit by supporting the Canadian proposal on paper and to continue to press for zero tariffs on wood products.

This is a problem which only our government can solve. But the cost of failure will be borne by our workers and our shareholders. For paper products, we estimate it could mean $1 billion in additional U.S. exports each year between 1998 and 2000, rising to $ 2 billion annually after 2004. For wood products, the lost sales could range as high as $1.2 billion each year.

I would also like to point out that in the TransAtlantic Business Dialogue recommendations on trade liberalization, business representatives on both sides supported a targeted approach towards accelerated or increased tariff dismantling, including total elimination of duties in those industrial sectors which have expressly requested this.

Environmental trade restrictions

Also on the agenda at Singapore will be a report from the WTO Committee on Trade and Environment (CTE) regarding the compatibility of various environmental trade measures with the international trade regime. Among the issues to be highlighted are the proliferation of ecolabeling schemes and Multilateral Environmental Agreements (MEAs).

Over the past three years, our industry has been the target of an EU ecolabeling effort which has been deficient in transparency and discriminatory in effect. We have had the support of the U.S. Government--including USTR, Commerce, State, and EPA. But notwithstanding Super 301 citations, a strong recommendation by the TransAtlantic Business Dialogue (attached), and even discussions at the Summit level, in July the EU proceeded to adopt ecolabel criteria for fine paper products which--based on the use of European standards--will clearly exclude most U.S. suppliers, without any demonstrated environmental benefit.

The lesson from this experience is clear: available bilateral policy instruments for dealing with trade distorting effects of such programs must be bolstered by explicit disciplines in the WTO. In coalition with a broad group of U.S. industries representing sales in excess of $900 billion annually, we have asked USTR to seek Ministerial language which would tighten existing disciplines and incorporate concepts which have proven useful here in the U.S. in preventing fraudulent advertising and consumer deception. We have gotten generally positive responses from other WTO delegations, and we believe it is important that the U.S. demonstrate leadership on this issue.

At the same time, however, the European Union is attempting to use the CTE report to win WTO endorsement of their approach, which is based on production processes and methods (PPMs). Acceptance of the European proposal would grant a license to similar attempts at green protectionism and stimulate a new generation of trade barriers under green cover. The U.S. must not allow this to happen.

AF&PA also believes there is a need for the CTE report to clarify the limited circumstances under which trade measures can be used in Multilateral Environmental Agreements to achieve environmental objectives.

Mr. Chairman, that concludes my statement. I would be pleased to expand on any of these issues during the question period. Thank you.

Attachment

FOREST AND PAPER INDUSTRIES

I. DESCRIPTION AND SCOPE OF THE ISSUE

The issue group consists of representatives of the forest and paper industries of Europe and the U.S. The group will explore areas of potential common interest where concerted action could lead to expanded transatlantic trade.

Ecolabeling

The most immediate issue on which the Issue Group wishes to focus our governments' attention is the EU proposed program for ecolabeling of paper products. The European and U.S. forest and paper industries are actively committed to continuous improvement of environmental performance, and support constructive, market-based approaches to product labelling that provide customers and consumers with transparent, understandable and credible information about products.

In particular, the EU ecolabel scheme is opposed by European and U.S. industry on the grounds that it is discriminatory and a breach of fair competition and trade. The EU scheme, of which the initial objective was to label products, not processes, is not acceptable because:

- It does not encourage companies to improve their environmental behaviour;
- It does not give adequate information and fails to educate consumers;
- It is elitist, does not reflect sound scientific research and, based on the criteria for both tissue and fine paper, reflects political expediency more than environmental science.
- It raises trade barriers and restricts the free movement of goods, which could lead to a deterioration of transatlantic trade relations.

The EU ecolabel scheme was included in the U.S. Trade Representative's October 1995 report to Congress under the "Super 301" program as an area of continuing concern because the EU process for developing ecolabel criteria has been insufficiently transparent and failed to provide for adequate participation by non-EU interests.

II. JOINT KEY PROPOSALS

Industry believes that the EU ecolabel scheme should be extensively revised. It has little commercial or political support in Europe and strong opposition outside the EU, particularly in Brazil, Canada, Australia, New Zealand, Mexico and Japan, as well as in the U.S. In recognition of this, it is proposed that there be:

- Cessation of further work on paper criteria;
- Review of the EU ecolabel regulation and elimination of its inherent flaws;
- Creation of a scheme which the industry can support, which will result in real environmental improvement, and which will provide consumers with transparent, understandable and credible information about the products they buy.

III. ACHIEVEMENTS EXPECTED BY NOVEMBER 1996

European and U.S. industry seek to have EU action on ecolabeling requirements for all paper products suspended, pending completion of the review of the overall scheme and revisions to the program in a manner which insures non-discrimination, transparency and consistency with WTO disciplines.

IV. MESSAGE TO GOVERNMENTS ON BUSINESS EXPECTATIONS

Both sides of the Transatlantic Business Dialogue urge governments to address the need for clarification in the WTO regarding the application of TBT disciplines to ecolabeling schemes, specifically with regard to the issue of process and production methods (PPMs). Our industries believe that ecolabels were initially designed to label products, not processes and production methods, and that PPM-based schemes, as applied, discriminate against foreign suppliers.

Chairman CRANE. Thank you, Henson.

Mr. Romig.

STATEMENT OF KEITH D. ROMIG, JR., ENVIRONMENTAL AND PUBLIC POLICY OFFICER, UNITED PAPERWORKERS INTERNATIONAL UNION

Mr. ROMIG. Thank you, Mr. Chairman, Congressman Rangel, and also thanks to you, Henson.

As I said, my name is Keith Romig, and I have been asked to testify on this issue by our president, Wayne Glenn.

We represent about 250,000 people, the overwhelming majority of whom work in the primary pulp and paper industry. Their jobs are directly affected by the terms under which the U.S. paper industry must conduct its international trade.

I am not coming before you to ask for any special protection for our jobs, but for simple trade equity on this issue between us and the European Union. The reason I am here with the American Forest and Paper Association is because, in spite of the fact that we sometimes have very emphatic disagreements with industry on a variety of issues, on this particular issue, we agree.

The UPIU, United Paperworkers International Union, originally opposed the original Uruguay round because we were concerned that it contained terms unfavorable to American industry and American workers and that its implementation might become skewed against workers here in the United States. We want free trade to be fair trade.

Under the current implementation of the Uruguay round, as Mr. Moore commented, the tariffs on U.S. paper being shipped to Europe are sometimes more than three times higher than the corresponding tariffs on European paper shipped into the United States. In my written testimony is the assertion that this is costing between $1 and $2 billion annually in sales for the industry. To put that in human terms, $1 billion in sales translates to 9,000 or 10,000 jobs, 9,000 or 10,000 families. It could be a whole community, maybe two or three communities. It is a lot of effect when these jobs are lost or not created.

You have heard testimony that the Europeans are building new papermills and new paper machines to make use of the 8-year tariff advantage they are going to have if the situation is not corrected. They are creating jobs there to export paper here. This is not fair trade.

We believe that we can compete on a level playingfield with anyone in the world. Furthermore, our members' wages sustain dozens if not hundreds of small communities throughout the United States. Many of these communities would be absolutely devastated if their mills were forced to close.

This is a highly competitive industry, and I also want to point out that this is an industry that for the most part has not moved substantial production offshore. We appreciate that, and I want to commend the Subcommittee.

For these reasons, we join with the American Forest and Paper Association today in asking you to urge the U.S. Trade Representative to push for EU acceptance of the Canadian proposal to zero out the tariff on paper and paper products on both sides of the Atlantic

in 1998, or to submit its own proposal to do so. Adoption of this proposal will right a wrong that has cost and could continue to cost our members and other workers thousands of well-paid family supporting jobs.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF

KEITH D. ROMIG, JR.
ENVIRONMENTAL AND PUBLIC POLICY OFFICER
UNITED PAPERWORKERS INTERNATIONAL UNION (UPIU)

ON

THE GOALS OF THE SINGAPORE MINISTERIAL MEETING

BEFORE THE

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.
SEPTEMBER 11, 1996

Good afternoon, Mr. Chairman. My name is Keith Romig. I have been asked by Wayne Glenn, President of the United Paperworkers International Union (UPIU), to advise him on public policy issues, and when appropriate, to make the UPIU's views known to Members of Congress and other policymakers. This is one such occasion.

The UPIU represents about 250,000 members nationwide, approximately 150,000 of whom work in the primary pulp and paper industry. Their jobs are directly affected by the terms under which the U.S. paper industry must conduct its international trade.

I come before you today, not to ask for special protection for our jobs, not to hide the U.S. pulp and paper industry behind new tariff walls, but to ask for simple trade equity between us and the European Union. I am here with the American Forest and Paper Association because on this issue we agree.

The UPIU opposed the original Uruguay Round agreement because we were concerned that it contained terms unfavorable to American industry and American workers, and that its implementation might become skewed against U.S. workers.

We want free trade to be fair trade. Under the current implementation of the Uruguay Round, tariffs on U.S. paper products shipped into the European Union are as much as three times higher than the tariffs on corresponding EU products shipped into the U.S., and will remain so until 2004.

You have heard testimony that these differential tariffs are costing the U.S. industry over $1 billion in lost sales. Just for information's sake, $1 billion in lost sales translates to approximately 9,000 lost jobs. Lost sales also translate into investments not made and jobs not created. Since it costs as much as $1 billion to build a new pulp and paper mill, any loss of market share now could well be permanent.

You have heard testimony that the Europeans are building new paper mills and new paper machines to make use of their 8-year tariff advantage. They are creating jobs there to export paper here. This is not fair trade.

Our members are well able to compete on a level playing field with anyone in the world. Their wages sustain many communities throughout the United States, and many such communities would be devastated if their mill were to close. This is a highly competitive industry, which unlike many others, has not moved the bulk of its production off-shore.

For these reasons, we join the American Forest and Paper Association in asking you to urge the U.S. Trade Representative to push for EU acceptance of the Canadian proposal to zero out the tariffs on paper and paper products on both sides of the Atlantic in 1998. Adoption of the Canadian proposal will right a wrong that has cost and could continue to cost our members thousands of well-paid family-supporting jobs. Thank you very much, and I'd be happy to take any questions.

Chairman CRANE. Thank you, Mr. Romig.
Mr. Gorlin.

STATEMENT OF JACQUES J. GORLIN, DIRECTOR, INTELLECTUAL PROPERTY COMMITTEE

Mr. GORLIN. Mr. Chairman, Members of the Subcommittee, I appreciate your invitation to provide the views of the IPC, Intellectual Property Committee, on the Singapore Ministerial Meeting.

A strong intellectual property statement at the Singapore Ministerial Meeting is essential to the continued pursuit by the United States of effective intellectual property protection and enforcement abroad. To ensure concrete results on intellectual property in Singapore, the United States will have to quickly begin to include the proper and timely implementation of the Uruguay round agreements, especially the TRIPs, Trade-Related Aspects of Intellectual Property Rights, Agreement among its principal objectives for the Singapore Ministerial Meeting.

Mr. Chairman, our pursuit of the proper and accelerated implementation of the TRIPs Agreement may appear to the Subcommittee to be single-minded, and to a large extent, it is. Industry support for the TRIPs negotiations was motivated by the expected commercial benefits from the improved intellectual property protection that would result from the TRIPs Agreement. Until industry begins to realize those commercial benefits, many parts of the TRIPs Agreement remain promises. The value of a TRIPs Agreement is in its timely and proper implementation.

The various proposals about loading up the WTO agenda with so-called new issues are not reassuring for those of us who are still concerned about the implementation of the Uruguay round agreements. We need a Singapore Ministerial that will make certain that the trade momentum in favor of strong worldwide intellectual property protection that we achieved over the last 10 years is not dissipated. Trade ministers in Singapore should commit their governments to the proper and timely implementation of the already completed Uruguay round agreements before agreeing to any new negotiating objectives for the trade agenda.

Current U.S. policy on intellectual property calls not only for the acceleration of TRIPs implementation, but also for the implementation of intellectual property standards of protection and enforcement that go beyond those contained in TRIPs. These objectives reflect the concerns of U.S. industry about the substantive deficiencies and long transition periods of the TRIPs Agreement. They also recognize the emerging nature of technological developments and the need for intellectual property protection to keep pace with the blistering velocity of technological change in order to ensure the continued competitiveness of U.S. industry in the world marketplace.

The tripartite approach to gaining improved intellectual property protection abroad supported by the IPC has multilateral, bilateral and regional dimensions. Each of the three dimensions is aimed at particular countries and sets of intellectual property-related issues. Many of these issues go beyond TRIPs implementation. The issue before the Subcommittee today, TRIPs implementation in the context of the Singapore Ministerial Meeting, is thus but one consider-

ation in the ongoing drive of U.S. industry to gain improved worldwide intellectual property protection and enforcement.

Mr. Chairman, the intellectual property-related objectives of the United States for Singapore should be: First, endorsement of the proper and accelerated implementation of the TRIPs Agreement. The IPC believes that the task of getting the ministers in Singapore to support TRIPs acceleration should be easier now that both the European Commission and the administration have signalled their support for TRIPs acceleration. Nevertheless, the IPC believes that the United States will have to continue to play the leading role in ensuring concrete results on intellectual property in Singapore.

Second, endorsement of the timely review called for in the TRIPs Agreement of the current biotechnology exclusion, with a view toward its deletion. The mandated review, scheduled for 1999, was included in TRIPs at the insistence of those countries, like the United States, which supported the patentability of biotechnological inventions, with the express intent of gaining the removal of this carve-out for the TRIPs standards.

Third, opposition to efforts underway within the WTO to weaken the TRIPs standards. A number of WTO members have already indicated that they will be looking to use Singapore to begin the rollback of key TRIPs standards. The IPC is particularly troubled by the views that India and a number of other developing countries have put forward in the WTO's Committees on Trade and Environment (CTE). These views, presented ostensibly out of a legitimate concern for protection of the environment and biodiversity, are in reality nothing more than direct attacks on the standards contained in the TRIPs Agreement.

It is interesting to note, Mr. Chairman, that, whenever India runs up against TRIPs standards that get in the way of its environmental or biodiversity goals, it suggests that they be weakened. Among the changes in TRIPs that India suggests are a shorter patent term, widened exclusions from patentability, widened grounds for patent revocation, and a streamlining of what they call burdensome conditions limiting the issuance of compulsory licenses. The United States has so far effectively countered these TRIPs rollback arguments within the CTE. It is critical that there not be any slippage in our defense of strong intellectual property protection and enforcement in Singapore.

Finally, avoidance of any action in Singapore that could be interpreted as supporting the extension of the application of a 5-year nullification and impairment moratorium to TRIPs. The 5-year moratorium can only be extended by unanimous vote of the WTO Ministerial Conference, and it should be permitted to die. The demise of the 5-year moratorium will plug a major loophole in the system of intellectual property protection envisaged under the TRIPs Agreement.

Mr. Chairman, the disproportionate focus on new issues for the Singapore Ministerial would perpetuate the perception that the developed countries are ambivalent about the proper and timely implementation of the Uruguay round agreements, especially the TRIPs Agreement. A strong ministerial statement in Singapore on intellectual property along the lines that the IPC has proposed

should correct this misperception and give a critical boost to U.S. efforts to gain effective intellectual property protection and enforcement worldwide.

Thank you.

[The prepared statement follows:]

STATEMENT OF
JACQUES J. GORLIN, DIRECTOR
INTELLECTUAL PROPERTY COMMITTEE

I am Jacques J. Gorlin, Director of the Intellectual Property Committee (IPC). I appreciate your invitation to provide the views of the IPC on the World Trade Organization (WTO) Singapore ministerial meeting. My testimony today will focus on the role that the Singapore ministerial will play in meeting the U.S. policy objectives of the proper and accelerated implementation of the TRIPS Agreement.

The views of the IPC on the TRIPS Agreement and its implementation are known to the Subcommittee. IPC representatives have appeared before this Subcommittee on numerous occasions over the course of the Uruguay Round negotiations and since the completion of the round. Most recently, in March of this year, Peter Richardson of Pfizer provided the IPC's analysis of the current state of TRIPS implementation and addressed the broader question of how to ensure that we continue to make gains in improving the worldwide protection of intellectual property. I do not want to repeat his testimony, but I believe that, before undertaking any discussion of the Singapore ministerial's role in meeting U.S. intellectual property objectives, it is important to briefly review the current state of play regarding TRIPS implementation.

The IPC was formed in March, 1986--six months before the Punta del Este ministerial meeting that launched the Uruguay Round--with the specific mission of mobilizing domestic and international support for the negotiation of an intellectual property agreement in the GATT. The current members of the IPC--General Electric, Hewlett-Packard, IBM, Johnson & Johnson, Merck, Microsoft, Pfizer, Procter & Gamble, Rockwell International, Texas Instruments and Time Warner--represent the broad spectrum of private sector U.S. intellectual property interests. In June, 1988, the IPC achieved a significant milestone when it reached a tripartite consensus with the Keidanren, representing Japanese industry, and UNICE, representing European industry, on how the GATT should deal with intellectual property in the Uruguay Round negotiations. The 100 page report defined in detail the minimum standards for ensuring fundamental protection for all categories of intellectual property and proposed procedures for enforcing that protection. The IPC continues to collaborate closely with our private sector counterparts abroad in support of our mutual objective of strong worldwide intellectual property protection.

Senior management of the IPC member companies worked very closely with U.S. negotiators and the Congress--especially with members of this Subcommittee and their staffs--and with our private sector counterparts in Europe and Japan to develop a GATT agreement that would contain adequate and effective intellectual property protection. The IPC recognized the substantial progress that had been made in the negotiations and, as a result, supported the TRIPS Agreement and the intellectual property-related provisions of the Uruguay Round Agreements Act.

The IPC's long support for the negotiation of the TRIPS and NAFTA agreements and our continuing search for improved worldwide intellectual property protection stem from the inexorable link between intellectual property protection and American competitiveness and job growth. America's competitive edge rests ultimately on our creativity and resourcefulness--the unique ability of Americans to generate new ideas and develop new ways of looking at the world. Our most internationally-competitive industries depend on intellectual property protection: for example, the computer software, motion picture, sound recording, pharmaceutical, chemical and electronic industries are among the largest and fastest growing segments of the U.S. economy. Employment in these industries grew at close to four times the rate of employment in the economy as a whole between 1983 and 1993. Furthermore, the foreign sales of these industries make major positive contributions to the U.S. balance of payments.

In stressing the importance of the intellectual property-dependent industries to the U.S. economy, I underline the IPC's concern that policy makers in the United States and in our trading partners not fall into the trap of thinking that the negotiation of the TRIPS Agreement has by itself solved the intellectual property problems that we are facing today. Should policy makers adopt this view, technology-exporting countries will be taking a major economic risk, because the resultant loss of intellectual property protection abroad will endanger the future commercial health of those industries that have had a demonstrated track record of making positive contributions to economic and commercial activity.

The translation of the TRIPS Agreement into improved intellectual property protection on the ground--TRIPS implementation--is the critical issue. Included in the concept of TRIPS implementation is not only the proper and timely implementation of the intellectual property standards currently found in the agreement but also the periodic upward adjustment of those standards to higher levels of intellectual property protection. The necessity of ensuring the strengthening of the TRIPS Agreement was foreseen in the agreement itself and is an integral element of TRIPS implementation. Under the procedures outlined in Article 71.1, any new copyright-related standards, for example, that will be developed in the Berne Protocol and New Instrument currently under negotiation in WIPO would be folded into the TRIPS Agreement.

In the context of the preparations for the Singapore ministerial meeting, TRIPS implementation falls between the cracks. It is neither part of the "built-in agenda," which consists of the commitments that already exist to begin new negotiations in agriculture, services and other areas before the turn of the century; nor is it among the "new" issues of an expanded trade agenda. The various proposals about loading up the WTO negotiating agenda with so-called "new issues" are not reassuring for those of us who are still concerned about the implementation of the Uruguay Round agreements. These proposals reflect a common pitfall of trade negotiators, who are ready to move on to the negotiation of new issues even before the results of the previous negotiations are fully implemented. This is especially true for intellectual property where we face long and discriminatory transition periods and uneven national implementation. We need a Singapore ministerial that will make certain that the trade momentum in favor of strong worldwide intellectual property protection that we achieved over the last ten years is not dissipated. Trade ministers in Singapore should commit their governments to the proper and timely implementation of the already-completed Uruguay Round agreements before agreeing to any new negotiating objectives for the trade agenda.

Our pursuit of the proper and timely implementation of the TRIPS Agreement may appear to the Subcommittee to be single-minded. To a large extent, it is. While the successful negotiation of the TRIPS Agreement was a testament to the joint efforts of U.S. industry and government, industry's participation in that effort was motivated by the expected commercial benefits from the improved intellectual property protection that would result from the TRIPS Agreement. Until industry begins to realize those commercial benefits, some elements of the TRIPS Agreement remain promises. The value of the TRIPS Agreement is in its timely and proper implementation.

Current Intellectual Property Situation

As we indicated in our testimony of March 13th, the current intellectual property situation is very complicated. Current U.S. policy on intellectual property, which is contained in the intellectual property objectives of the Uruguay Round Agreements Act that were crafted by this Subcommittee, calls not only for the acceleration of TRIPS implementation but also for the implementation of intellectual property standards of protection and enforcement that go beyond those contained in TRIPS. These objectives, which have come to be known respectively as "TRIPS implementation" and "TRIPS plus," reflect the concerns of U.S. industry about the substantive deficiencies and long transition periods of the TRIPS Agreement. They also recognize the emerging nature of technological developments and the need for intellectual property protection to keep pace with the blistering velocity of technological change in order to ensure the continued competitiveness of U.S. industry in the world market place. The issue before this Subcommittee today--TRIPS implementation in the context of the Singapore ministerial meeting--is thus but one consideration in the ongoing drive of U.S. industry to gain improved worldwide intellectual property protection and enforcement.

In its March 13th testimony, the IPC suggested a tripartite approach to gaining improved intellectual property protection abroad. The approach had multilateral, bilateral and regional dimensions, each of which was aimed at particular countries and sets of intellectual property-related issues. Many of these issues went beyond TRIPS implementation. Given the focus of today's hearing on the Singapore ministerial, however, I will limit my analysis to how WTO procedures may be used to gain the proper and timely implementation of the TRIPS Agreement.

WTO-Based Strategy for TRIPS Implementation

In initiating TRIPS-related consultation and dispute settlement cases against Japan, Portugal, India and Pakistan, the Administration has already demonstrated its willingness to use the WTO procedures against countries that fail to conform their national laws and regulations to

their TRIPS obligations. The IPC commends the Administration for taking these actions. WTO-related activities to gain the proper and accelerated implementation of the TRIPS Agreement, however, go beyond the use of multilateral dispute settlement procedures. A fully integrated WTO strategy on intellectual property should include the following four elements:

- **WTO Action Cases** that involve the launch of consultation and dispute settlement cases under the TRIPS Agreement. Developed countries--such as Japan and Portugal--and a number of developing countries with violations of TRIPS articles that are not subject to any transition periods--such as India and Pakistan--would be subject to these action cases. Another group of countries--overlooked in the current debate over TRIPS implementation--would also be subject to these action cases. For example, the IPC believes that some of the former socialist countries in Central and Eastern Europe are not eligible for the Article 65.3 transition period and, therefore, come under WTO discipline. As opposed to the self-elected delay permitted developing countries under TRIPS Article 65.2, which does not provide any guidance or criteria for eligibility, the delay in TRIPS implementation for those countries covered by Article 65.3 is far from automatic. The five year delay only applies to a country that meets the following three criteria:

  - In the process of transformation from a centrally-planned into a market, free enterprise economy;

  - Undertaking structural reform of its intellectual property system; and

  - Facing special problems in the preparation and implementation of its intellectual property laws and regulations.

  A number of these countries--such as Poland--had enacted relatively good patent laws prior to the conclusion of the TRIPS Agreement and it is, therefore, highly questionable whether they are eligible for the five-year delay under Article 65.3. Their intellectual property protection and enforcement, however, fall short of TRIPS in some important respects and we, therefore, urge the Administration to pursue WTO action cases against these countries.

- **WTO Adherence** for those newly industrializing countries (NICs) with TRIPS-inconsistent standards of protection and enforcement. Because of their advanced stage of economic development, NICs, such as Israel, Argentina and Singapore, should properly be subject to full TRIPS obligations without the additional transition periods permitted developing countries. WTO consultation and dispute settlement cases should be instituted against these countries, which, we can expect, will initially oppose our WTO complaint on the grounds that they are developing countries.

- **WTO TRIPS Acceleration** for those countries that are not yet subject to the full WTO dispute settlement process. Nevertheless, full use of the WTO consultation procedures found or alluded to in TRIPS Articles 63, 67, 68 and 69 should be part of the menu of actions that should be considered vis-à-vis these countries.

- **WTO Accession** for all countries that are current or future candidates for WTO membership that would be contingent on the immediate implementation of all TRIPS obligations and outstanding bilateral commitments to the United States at the time of accession without any excessive transition periods. This approach would also extend to the use of OECD accession for current or future candidates for membership to that organization as a lever to gain the immediate implementation of, at a minimum, TRIPS obligations.

Taken together, these four approaches form the basis of a coherent and broad strategy within the WTO to gain improved intellectual property protection abroad through the proper and accelerated implementation of the TRIPS Agreement. To succeed, such a WTO-based strategy will require close international cooperation, especially between the United States and the European Union (E.U.).

E.U. - U.S. Cooperation

The close cooperation that was developed between U.S. and European industry during the TRIPS negotiations and that has continued into the implementation phase results from the shared perception of the benefits that industries on both sides of the Atlantic will gain from improved intellectual property protection and enforcement worldwide. Two developments that

have taken place since the Subcommittee's last hearing reflect this cooperative spirit. The progress report of the Transatlantic Business Dialogue, which was released on May 23rd, contained specific proposals covering the wide range of intellectual property elements. With the release of the progress report, the two business communities provided their two governments with a substantive blueprint of what the governments must do in both the short and long terms to promote a higher level of intellectual property protection and enforcement abroad.

A further impetus to improved intellectual property protection was provided just one week later when the European Commission and the U.S. Government sponsored the Transatlantic Workshop on Intellectual Property in Rome. The Rome workshop provided an unprecedented opportunity for representatives of U.S. and European industry to present their views directly to U.S. and European Commission officials on outstanding intellectual property issues of concern to industry on both sides of the Atlantic. Both governments welcomed the spirit of cooperation that generally permeated the meeting and indicated that they would be open to future industry approaches for similar meetings and other cooperative efforts. European Commission Vice President, Sir Leon Brittan, reacted to the workshop by pledging that the "Commission will work hand in hand with the United States to secure correct implementation and effective enforcement by our trading partners" of the TRIPS Agreement.

In its own way, the Commission has moved beyond "correct TRIPS implementation" and has given its support to "TRIPS acceleration." On October 23, 1995, Sir Leon Brittan, in a speech at the Trade Policy Seminar in Stockholm, raised the possibility that "developing countries, given adequate technical assistance, could beat the WTO deadlines for TRIPS." A recent "non-paper circulated at the request of the European Communities and their Members States on TRIPS and the preparations for the Singapore Ministerial Conference" outlined the EU's position on TRIPS implementation:

> With regard to developing country Members, it would be desirable if more advanced such Members could consider to implement TRIPS in advance of the transitional period to which they are entitled; in any event developing country members should make the necessary preparations in order to have TRIPS-compatible legislation in place at the latest by the end of the transition period... With regard to new Members, the TRIPS provisions must be fully applied as of the date of accession.

These are reassuring statements by the European Commission. However, the United States will have to continue to play a leading role in ensuring concrete results on intellectual property in Singapore. To do so, the United States will have to quickly begin to include the proper and timely implementation of the Uruguay Round agreements, especially TRIPS, among its principal objectives for the Singapore ministerial meeting. This will send a strong signal to both the Europeans and the rest of the WTO about U.S. intentions for Singapore with respect to intellectual property.

The Intellectual Property Agenda in Singapore

Among the positive U.S. objectives for Singapore should be, as I have already indicated, an endorsement by the trade ministers of the proper and accelerated implementation of the TRIPS Agreement. Failure to achieve this objective will not only have a profound adverse effect on the multilateral efforts of the United States currently underway in the WTO but will also call into question our regional and bilateral intellectual property efforts to gain improved intellectual property protection and enforcement.

An additional U.S. objective for Singapore should be the endorsement by the trade ministers of the timetable for improved intellectual property protection that is contained in the TRIPS Agreement itself. This is an integral part, as I have already discussed, of TRIPS implementation. The most relevant prospective provision is found in TRIPS Article 27.3(b), which calls for a review in 1999 of the exclusion of certain biotechnological inventions from patentability. The 1999 review was included in TRIPS at the insistence of those countries like the United States which supported the patentability of such inventions in order to ensure that the TRIPS exclusion would not become permanent.

While the United States will hopefully come to Singapore with an intellectual property agenda that focuses on the attainment of positive intellectual property-related objectives, other countries have already signaled that they will be looking to use Singapore to advance their intellectual property agenda of rolling back the TRIPS Agreement. The Singapore outcome will be a litmus test of the future direction of intellectual property protection and the credibility and

willingness of the developed countries to go to the mat for improved intellectual property protection worldwide.

India and a number of other developing countries, however, have something else in mind for Singapore and have been using the WTO Committee on Trade and Environment (CTE) to pursue their agenda. In a series of non-papers, India has raised its concerns about the impact of the TRIPS standards on the ability of developing countries (*i*)to gain the transfer of environmentally sound technologies under multilateral environmental agreements and (*ii*) to control their biological and genetic resources in order to ensure equitable sharing of any commercial benefits under the UN Convention on Biological Diversity. In another non-paper, Korea has suggested that the CTE recommend to the Singapore ministerial meeting that it recognize the need to clarify the relationship between the protection of intellectual property rights under TRIPS and the environmental objectives of the multilateral environmental agreements.

These non-papers, presented ostensibly out of the legitimate concern for the protection of the environment and biodiversity, are in reality nothing more than direct challenges to the standards of intellectual property protection and enforcement contained in the TRIPS Agreement. Whenever India and Korea run up against a TRIPS standard that gets in the way of their environmental or biodivesity goals, they suggest the need to revisit the TRIPS standards. These suggestions include a shorter patent term, widened exclusions from patentability, widened grounds for patent revocation and a streamlining of the "burdensome" conditions limiting the issuance of compulsory licenses. The United States has so far effectively countered these TRIPS-roll back arguments within the CTE by demonstrating that the Indian and Korean environmental and biodiversity goals can be met without any relaxation of the TRIPS standards. It was a partnership among U.S. industry, the Congress and the Administration that fought the battle in support of strong intellectual property protection at the UN Biodiversity Conference in Rio de Janeiro and continues to do so in the Conference of the Parties to the UN Convention on Biodiversity and the WTO CTE. It is critical that there not be any slippage in our defense of strong intellectual property protection and enforcement in Singapore.

Finally, the United States should ensure that the Singapore ministerial does not interfere with the "natural demise" of the five-year moratorium on the application of the "nullification and impairment" provisions to TRIPS. The five-year moratorium, which unfortunately was one of the three changes made in the TRIPS text in the final negotiations of 1993, temporarily removed a multilateral procedure available to all other Uruguay Round agreements, to redress violations of the "spirit"--in contrast to the "letter"--of the TRIPS Agreement. The moratorium continues to have the potential of adversely affecting our ability to reap any early commercial benefits from TRIPS in the industrialized countries for the next three and a half years. TRIPS Article 64.3 calls on the TRIPS Council to examine the nullification and impairment issue and submit its recommendations to the WTO Ministerial Conference. The moratorium, however, can only be extended by a unanimous vote of the WTO Ministerial Conference.

Under a TRIPS regime that includes a nullification and impairment provision, WTO member countries must provide not only high standards of intellectual property protection and enforcement but must also provide for the full enjoyment of the expected commercial benefits. Some WTO members with current weak intellectual property regimes will be tempted to limit the enjoyment of the commercial benefits as they assume their TRIPS obligations. The demise of the five year moratorium will plug a major loophole in the system of intellectual property protection envisaged under the TRIPS Agreement.

Conclusion

A strong intellectual property statement in Singapore is essential to the continued pursuit by the United States of strong intellectual property protection and enforcement abroad. To be effective, the statement should:

- Endorse the proper and accelerated implementation of the TRIPS Agreement;
- Endorse the timely review of the current biotechnology exclusion, as called for in the TRIPS Agreement, with a view toward its deletion;
- Oppose any efforts underway within and outside the WTO to weaken the TRIPS standards; and

- Avoid any action that could be interpreted as supporting the extension of the application of the five year nullification and impairment moratorium to TRIPS.

The Singapore ministerial meeting will set the future WTO trade agenda. It would be unfortunate if the United States and the other Quad countries, out of a desire to appear forward looking, were to inadvertently pull the rug out from under the implementation of the Uruguay Round results we all worked so hard to achieve.

The disproportionate focus on new issues for the Singapore ministerial would perpetuate a misperception that the developed countries are ambivalent about the proper and timely implementation of the Uruguay Round agreements, especially the TRIPS Agreement. A strong ministerial statement in Singapore on intellectual property along the lines that the IPC has proposed should correct this misperception and give a critical boost to U.S. efforts to gain effective intellectual property protection and enforcement worldwide.

Chairman CRANE. Thank you, Mr. Gorlin.
Mr. Smith.

STATEMENT OF ERIC H. SMITH, PRESIDENT, INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

Mr. SMITH. Thank you again, Mr. Chairman, for inviting IIPA, International Intellectual Property Alliance, to address the importance of the WTO to the copyright industries, that is, the business and entertainment software industries, motion pictures, music and recordings, and publishing.

On this overall topic, the views of Mr. Gorlin from the IPC and of the copyright industries making up the IIPA are identical, so I need not repeat the points made by him, points which also appear in our written testimony. However, I do wish to emphasize a few points on U.S. trade policy at Singapore and what is needed by our industries to increase trade and create new jobs.

Inadequate copyright protection and enforcement represent the copyright industries'—one of the largest and fastest growing sectors of the economy—number one trade barrier. These industries continue to lose an estimated $18 to $20 billion annually to copyright piracy around the world. These industries have become increasingly globalized, with over half of their overall revenues and job growth due to international trade. The fastest growth is occurring in countries which are not generally classified as developed. These developing countries account for 60 percent of our economy's losses due to piracy.

Already, the copyright industries and other IPR-based industries are growing faster than the economy as a whole, and in the case of the copyright industries, close to three times faster. As we move into the digital age, Mr. Chairman, the opportunities for growth will expand, but so will the piracy threat. If we are to remain competitive, if we are to move our economy into the 21st century, we must ensure that the climate for trade in copyright-based products is conducive to continued strong growth.

The most effective way to do this is to undertake aggressive and immediate implementation of the most important multilateral agreement yet written for our industries—the TRIPs Agreement. Implementation at all levels, even of just the enforcement provisions of the text, by our trading partners, will make an enormous difference in the revenues generated and jobs created back home by our companies.

Implementation just is not as sexy as focusing on new issues, but it is implementation that will bring the gains we need. For these reasons, implementation must be the highest priority of the U.S. Government at Singapore. We recommend that the United States should seek to ensure, first, that the TRIPs Council report to the trade ministers calls for full implementation, particularly of members' enforcement obligations; that the trade ministers endorse the full and prompt implementation and acceleration of TRIPs obligations and the accession of new members without transition, and last, that the TRIPs obligations are not weakened and that the "nullification and impairment" remedy moratorium is not extended beyond the year 2000.

We also ask that the Congress and the Subcommittee monitor these developments closely and ensure that USTR and other relevant agencies continue to assert U.S. leadership in securing full implementation and, Mr. Chairman, that they have adequate resources to do the job properly.

To accomplish these objectives in Singapore, the United States must have allies. The EU has indicated publicly its support for strict and accelerated implementation. Our capable negotiators should take up that offer now. If the EU and the United States act together, the gains will be very significant. We and they have identical interest in this important area of intellectual property protection.

Finally, Mr. Chairman, we fully support the effort to conclude an Information Technology Agreement with the broadest possible coverage for high-technology hardware, software and other products and to implement fully the GATS Services Agreement, and to begin now the process of achieving real progress in extending commitments in the area of audiovisual services and high-technology services.

Thank you very much.

[The prepared statement follows:]

Testimony
of

Eric H. Smith
President
International Intellectual Property Alliance

Representing

The International Intellectual Property Alliance

Before

The Subcommittee on Trade
of
The Committee on Ways & Means
United States House of Representatives

September 11, 1996

Mr. Chairman and distinguished Members of the Subcommittee:

I am Eric H. Smith, President of the International Intellectual Property Alliance ("IIPA"). We greatly appreciate the opportunity to once again present the views of the copyright-based industries on the critical subject of the World Trade Organization (WTO).

We have had the honor of presenting our views to the Subcommittee on WTO-related topics on four previous occasions. Most recently, in March, 1996, we highlighted the importance of effective implementation of the TRIPS agreement (Trade-Related Aspects of Intellectual Property Rights) and the GATS (Services) agreement, and outlined strategies to accomplish this objective. The upcoming Singapore Ministerial offers an important opportunity to advance this crucial goal.

The IIPA is a coalition of eight trade associations that collectively represent the U.S. copyright-based industries -- the motion picture, music and recording, business and entertainment software and book publishing industries. IIPA's member associations are:

American Film Marketing Association (AFMA);
Association of American Publishers (AAP);
Business Software Alliance (BSA);
Information Technology Industry Council (ITI);
Interactive Digital Software Association (IDSA);
Motion Picture Association of America (MPAA);
National Music Publishers' Association (NMPA); and
Recording Industry Association of America (RIAA).

The Singapore Ministerial will provide a critical opportunity to solidify and deepen one of the most signal achievements of the Uruguay Round that gave birth to the WTO: the TRIPS agreement. TRIPS is the first enforceable set of worldwide standards both for protection of intellectual property, and for practical judicial and administrative enforcement of those protections. For this country's copyright-based industries, the absence of effective protection for copyrighted products represents our number one trade barrier, alone causing from $18-20 billion in losses to the U.S. economy and U.S. workers annually. At the same time, these industries have been growing at a rate which far exceeds that of the U.S. economy as a whole. And they have become increasingly globalized: more than half of their overall revenues (and job growth) is due to international trade in these creative products. In short, these industries represent the leading edge of the world's high technology, entertainment and publishing industries and are among the fastest growing and largest segments of our economy.[1] Out of all the sectors of the U.S. economy benefitting from the Uruguay Round, the sector that relies on copyright, patent, trademark and other types of intellectual property protection has the most to gain from the effective, immediate and full implementation of the WTO agreement, and the most to lose if implementation of a crucial part of that agreement -- TRIPS -- is slow, spotty or superficial.

For a decade, a strong TRIPS agreement, in combination with an aggressive use of important bilateral trade tools like Special 301, has been at the forefront of the trade policy agenda of the U.S. copyright-based industries. As we have previously testified, the pact that went into effect on January 1 of this year is not a perfect agreement, but it is a major milestone in the effort to raise world standards for the protection and enforcement of intellectual property rights. The Singapore Ministerial offers the first opportunity for the trading nations of the world -- at the trade minister level -- to assess progress toward those goals in the first year of the TRIPS agreement, and to map out an agenda for aggressive implementation of TRIPS standards in the year ahead.

To develop an effective approach to TRIPS implementation in Singapore, the U.S. must have a clear set of objectives and strategies. IIPA has joined with our colleagues in the IPC to urge that such an approach must contain four critical elements. We call them the "4 A's":

---

[1]In a report released on February 16, 1995 entitled "Copyright Industries in the U.S. Economy: 1977-1993" which was prepared for the IIPA by Economists Incorporated, we outlined the importance of these industries to the U.S. economy. For example,

- The core copyright industries accounted for $238.6 billion in value added to the U.S. economy, or approximately 3.74% of the U.S. Gross Domestic Product (GDP) and the total copyright industries accounted for $362.5 billion in value added, or approximately 5.69% of GDP (in real 1993 dollars).

- The core copyright industries enjoyed more than twice the growth rate of the economy as a whole between 1991 and 1993 (5.6% vs. 2.7%).

- Employment in the core copyright industries grew at close to four times the employment growth in the economy as a whole between 1988 and 1993 (2.6% vs. 0.7%).

- Between 1977 and 1993, employment in the core copyright industries doubled to 3 million workers, about 2.5% of total U.S. employment. Over 5.7 million workers were employed by the total copyright industries, about 4.8% of the U.S. work force, in 1993.

- The core copyright industries contributed at least an estimated $45.8 billion in foreign sales to the U.S. economy in 1993, approximately an 11.7% gain over the $41.0 billion contributed in 1992. The copyright industries are second only to motor vehicles and automotive parts among U.S. industries in terms of estimated foreign sales and exports.

- commencing WTO actions against non-complying countries by means of dispute settlement proceedings;

- insisting on immediate adherence to TRIPS obligations by the so-called "newly industrialized countries" (NICs) and other countries that do not qualify for taking a transition period;

- pressing for acceleration of TRIPS implementation by developing countries that do qualify for transition periods, and

- insuring that, in negotiations for WTO accession by non-WTO members, new members are required to fully implement TRIPS, without transition, by no later than the date of accession.

Actions in the WTO: First, the U.S. must work within the WTO to enforce those TRIPS obligations which have already come into effect, in most cases on January 1, 1996. For developed countries, all the copyright law and enforcement obligations are now operative. For all other countries, the national treatment and MFN obligations of Articles 3 and 4 are in effect, even if transition periods apply for other substantive and enforcement obligations.

The task of assessing compliance with TRIPS by these countries will not be easy. Fortunately, the TRIPS Council -- the institutional mechanism established within the WTO for TRIPS implementation -- is already hard at work. Led by the U.S. government, the Council spent a week last July in detailed discussion of the compliance of the developed countries with their substantive copyright obligations in TRIPS. The Council has also established a calendar for formal review of other aspects of the TRIPS Agreement, including the crucial area of enforcement. Unfortunately, the TRIPS Council review of all elements of TRIPS will not be completed until well into 1997, which spotlights the importance of early U.S. government engagement with countries that fail to comply with either their substantive or enforcement obligations. This engagement must be both bilateral and multilateral including bringing dispute settlement cases where warranted.

In view of the crucial importance of using the dispute settlement and the Council process to leverage improvements in protection, we urge Congress to keep a watchful eye on these developments. We also ask you to ensure that USTR and other agencies involved have adequate resources to do the job properly.

This first stage of TRIPS compliance will inevitably be controversial. Many developed countries, for example, have been members of the Berne Convention (which forms to basis of most of the substantive copyright obligations in TRIPS) for many decades; Western European countries have belonged to Berne for more than a century. A public, international discussion of their levels of compliance with their Berne obligations may strike some of them as uncomfortable or even inappropriate. But that is exactly why the TRIPS agreement was so essential. The high levels of protection guaranteed by Berne were almost totally unenforceable -- until now. We must not flinch from a rigorous examination of compliance with Berne obligations, and with the other key "Berne-plus" elements of TRIPS (like full protection for sound recordings), and we must be prepared to confront those developed countries that have not yet shouldered the obligations that they became subject to almost a year ago. In that regard, we applaud USTR for its leadership in bringing Japan to dispute settlement because of its failure to meet its TRIPS obligation to protect pre-existing sound recordings, and urge them to see this case through to a successful conclusion. By the same token, the U.S. cannot turn a blind eye to the fact that some of our other major trading partners have not yet fulfilled their TRIPS obligations, especially in the field of enforcement. At the Singapore Ministerial, the U.S. must send the message that these

shortcomings cannot be tolerated, and that a failure to correct them will compel us to bring other developed countries into the dispute settlement process.

Adherence to TRIPS Obligations by All Developed Countries: The second major area of the U.S. TRIPS agenda involves countries which are shirking their responsibilities to take on TRIPS obligations immediately by relying on transitional provisions to which they are not entitled. A handful of countries, including Korea, Israel, Singapore, Bahrain and UAE qualify, by any objective measure, as developed countries, and yet are grasping at the fig-leaf of developing country status in order to excuse their non-compliance with TRIPS obligations. Several of these countries refused even to participate in the question and answer process at the TRIPS Council on the grounds that WTO had no jurisdiction to inquire into their fulfillment of the substantive and enforcement obligations of TRIPS until the year 2000. While we recognize that the WTO permits member countries to "self-designate" their status with regard to the main transitional provisions of TRIPS, these decisions are subject to dispute settlement and abuse of this right should not be tolerated or suffered in silence. At Singapore, the U.S. must make it clear that it expects these countries to do the right thing by their trading partners, and that if they do not, the U.S. is prepared to invoke the dispute settlement process, in an appropriate case, to compel them to do so. Also at Singapore, the U.S. should join with other developed countries to make the case to all countries that TRIPS levels of intellectual property protection and enforcement will benefit their local economies, and particularly their local copyright-based creators -- publishers, record companies, songwriters, performers, software developers and film, video and TV producers along with their upstream and downstream supporting entities -- as much as, if not more than, it will benefit foreigners.

Acceleration of TRIPS obligations: The third major objective of U.S. policy on TRIPS implementation involves the bona fide developing countries within the WTO membership. The U.S. policy is already clearly stated in the Uruguay Round Agreements Act (URAA): we should work to accelerate the full compliance of developing countries with TRIPS, in advance of the January 1, 2000 deadline. The U.S. has already shown that it is prepared to roll up its sleeves and help these countries , through technical assistance and loan of experts, to achieve this acceleration. (Indeed, this will be the main topic at the TRIPS Council meeting later this month.) For our part, the copyright industries are already fully engaged in helping to draft and critique laws and regulations to bring them into compliance with TRIPS, and in training police, prosecutors, judges and other officials to enforce those laws.

The importance of this policy objective -- endorsed by the Congress in the URAA -- must not be underestimated. IIPA estimates that 60% of the losses suffered by the U.S. economy due to copyright piracy occur outside the "developed" world. It is here that markets for copyrighted materials are developing the fastest. While the full WTO membership, owning to political consideration, ultimately allowed certain countries to choose to delay the implementation of TRIPS obligations, the U.S. should not permit that privilege to be abused by permitting open and wholesale theft of U.S. products embodying intellectual property. Developed countries should seek to persuade these countries that it is not in their interest to condone such theft as a matter of their own domestic economic development. In addition, the U.S. should make use of all "carrots and sticks" at our disposal to back this up. In this regard, we applaud the leadership exercised by this Committee to obtain approval of the GSP renewal legislation. Unilateral trade benefits extended to countries provide leverage to ensure that they do not unreasonably close their markets to U.S. trade, through piracy or otherwise.

WTO Accession: The final policy objective concerns accession by countries that are not yet members of WTO. These include major trading nations like China, Russia and Taiwan and other important countries like Saudi Arabia where piracy remains high. For the

success of WTO and the world trading system, we must strive to bring these nations into the organization as expeditiously as possible. But we must also make the price of admission perfectly clear. With regard to intellectual property rights, that admission price must include full compliance with all TRIPS obligations upon the date of accession without transition. None of these countries should be under any illusions that it can enter the WTO without being in a position to shoulder all its responsibilities for the protection of intellectual property rights.

Fortunately, the U.S. government has taken this position so far in its accession negotiations. But there will be strong counter pressures to compromise, particularly with countries like Russia, China and Saudi Arabia. Make no mistake: these countries do not need a transition period. They can meet TRIPS standards before they accede, and they should do so. The U.S. policy should be clear and unequivocal. We urge Congress and this subcommittee to insist that this remain firm U.S. policy.

The U.S. position on TRIPS at the Singapore Ministerial must be based on these four interrelated policy elements. The U.S. should first make a maximum effort to ensure that the report of the TRIPS Council calls for full implementation of all substantive copyright obligations discussed at the July TRIPS Council meeting. It should then work vigorously for endorsement by the trade ministers of a declaration on prompt and full implementation and acceleration of TRIPS obligations. Ministers should be asked to endorse the U.S. position on accession by non-WTO members, a position which Leon Brittan of the EU has said publicly that he agrees with. This declaration should emphasize that the enforcement obligations in the text are critical elements of WTO member compliance.

These broad overall policy objectives, though not in precisely the same terms, have been endorsed by the intellectual property-based industries in both the U.S. and Europe in the recent (May 1996) interim report of the Transatlantic Business Dialogue (TABD). The U.S. and EU industries have gotten together on a common set of recommendations to their governments in this area because they recognize how important it is for the world's two largest trading blocs to work together to halt the scourge of piracy worldwide. The TABD report deals not just with TRIPS implementation, but also with further improvements in intellectual property protection designed to take us into the 21st century.

We hope that through the impetus of joint private sector actions, such as the TABD process, we can convince the European Union to join with our own government to cooperate in Singapore and in other fora on this critical implementation process. This effort got off to a good start last May when the European Commission and the U.S. government jointly sponsored the "Transatlantic Workshop" on "Intellectual Property Rights in the Framework of the Joint EU - U.S. Action Plan" in Rome. While it is too early to tell what cooperative actions might be taken by the two governments, both the EU and the U.S. have virtually identical interests in seeing prompt TRIPS implementation. If the two blocs were to get together, both rhetorically and in terms of cooperating in dispute settlement, the possibilities for major economic gains are enormous. In the time remaining before Singapore, effort should be made to ensure that this cooperation is further cemented and a common TRIPS agenda for Singapore crafted.

Other TRIPS related issues, including threats to weaken the non-copyright standards, will be mentioned by my IPC colleague. One of these -- the five year moratorium on the traditional "nullification and impairment" remedy -- is, however, worth stressing. This moratorium will expire in the year 2000 unless extended. While we know of no overt attempt as yet to extend the moratorium, if raised in Singapore, the U.S. should strongly oppose. This remedy permits WTO members to attack violations of the "spirit" of the text, as opposed to its legal "letter," to go after the denial of commercial benefits which were part

of the bargain made in the negotiations but which may not violate a specific provision of the text.

Finally, beyond TRIPS, let me briefly mention two other areas which have significant implications for many of the copyright industries:

First, concluding the Information Technology Agreement (ITA) must be a key item taken up at the Ministerial. The U.S. should push for an agreement that puts on the glide path to zero the tariff rates on the broadest possible range of computer hardware, software and other copyrighted products in digital format.

Second, the U.S. should push for implementation of the GATS (Services) agreement. The computer services and software industries were able to obtain commitments from many countries in this area and their implementation must be ensured. The filmed entertainment industry, however, received commitments from only 14 countries and effort must be made, through immediate preparation for the new round of market access negotiations envisioned in GATS to begin in the year 2000, to extend coverage for this critical U.S. industry. This effort should focus on obtaining significant commitments in audiovisual services and other services affected by rapidly changes in technology and the convergence among all the information and entertainment industries.

Mr. Chairman, your subcommittee will be hearing a lot today about the new directions for WTO that must be set in Singapore. There are many important areas which must be brought under WTO disciplines if the full potential of broader world trade is to be realized. Yet the U.S. should take care not to focus only on the inclusion of new agenda items in the WTO process (or for that matter only on "built-in" agenda items) whether in Singapore or otherwise. Negotiation resources are limited. It will take considerable effort to ensure that existing obligations -- like TRIPS -- are implemented promptly and effectively. We do not ask that these areas be ignored, only that a balance be achieved.

TRIPS has set a floor, a lowest common denominator of IPR protection which all trading nations must meet. That is a huge accomplishment, but it is not enough. The floor must be raised as new technology spawns not only new forms of production and distribution of copyrighted works, but also new and virulent forms of copyright piracy. But as WTO members discuss ambitious plans for new negotiations in new areas, the U.S. must ensure that the implementation of existing agreements is given full time and attention. Prime among these is TRIPS. The US must go to Singapore determined to translate the promise of this central achievement of the Uruguay Round into reality. This challenge should be at the top of our country's agenda for Singapore.

Chairman CRANE. Thank you, Mr. Smith.

Chairman CRANE. Henson, I have a question for you and Mr. Romig. Do you believe that the administration's response to the EU eco-labeling scheme has been sufficient, and if not, what would you change?

Mr. MOORE. Mr. Chairman, the government has been working with us very strongly, including USTR, Commerce, State and EPA. The U.S. Government has even issued a super-301 citation. There has even been discussion of it at the summit level. But in spite of all of this, the EU in July decided to adopt eco-label criteria that essentially favor European products against those produced in this country without any increased protection for the environment.

I think our government is doing just about everything it knows how to do. It needs to move to this level at Singapore. That is the next thing it needs to do, and whether they will or not, we do not know.

So that, Mr. Chairman, if I had to ask our government to do anything further, it would be to take this up at Singapore and to be sure, as you will hear a subsequent panel discuss today, that we see to it that we seek ministerial language which would tighten existing disciplines and incorporate concepts which have proven useful here in the United States in preventing fraudulent advertising and consumer deception. Our FTC guidelines which we follow in the United States on eco-labeling ought to be the kind of thing we have internationally, and that is not what the Europeans have come up with.

Chairman CRANE. Do you have anything to add to that, Mr. Romig?

Mr. ROMIG. Just simply the general principle that eco-labeling and other devices should not be used as fronts for restraining trade or favoring European products over American products.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. To the gentlemen who are as concerned as I am with the outrageous violation of our intellectual property rights, what remedies do you suggest except our protesting what they do?

Mr. GORLIN. I think that there are different remedies that we can prescribe. First, if the offending country is a developed country, then it is already under the discipline of the WTO TRIPs Agreement. We should continue to do what the administration has already done in a number of cases, and we commend them for it, which is to bring dispute settlement cases against these developed countries. Countries that call themselves developing countries are at this point, immune from WTO, and we believe that the U.S. should be using all the regional and bilateral pressure that it can exert to get these countries to improve their intellectual property protection, including the use of section 301.

Mr. RANGEL. Are you satisfied with the agreements that were reached with China?

Mr. SMITH. The China agreement covers principally copyright and trademark, so I will answer that. Yes, we are. Obviously, it is going to take some additional time before the Chinese are in a position to fully implement the agreement, and that is something for which we have pressed very hard, along with USTR.

The agreement that was entered into in June—the report that was issued we were very supportive of. It did not answer all the issues by any means, but the Chinese appear to be moving forward slowly, and if we keep the pressure on them, I think we will see that market open up in the next year or so.

Mr. RANGEL. Mr. Smith, could you be a little more specific in terms of sanctions or reactions that we could have with those countries, developing or developed, that constantly ignore our warnings not to violate the intellectual property rights?

Mr. SMITH. We have a powerful set of tools available. Taking a country that is now a member of the TRIPs text, or bound by the TRIPs text, to dispute settlement is a very powerful tool, and it has already worked in a number of cases to back down countries that have insisted on doing things that are not in compliance with the agreement, and USTR has done that.

There are other bilateral tools, as Mr. Gorlin has said—there is special 301, there is withdrawing unilateral trade benefits—that we can and should use aggressively to keep those markets open to these critical products.

Mr. GORLIN. I think there is one other leverage that we have. There are many countries, such as China that are not yet members of the World Trade Organization, and that are applying for accession. Also, a number of countries are applying to the OECD. I think we should make accession to these international organizations contingent on, at a minimum, their immediate implementation of TRIPs. The TRIPs standards include standards not only of protection but also of enforcement and we must work with them to enforce the intellectual property standards as well. So, I think we have very good leverage against a good number of countries who are interested in joining these international organizations.

Mr. RANGEL. Well, it has been my experience that when we talk about doing those, we are led to believe that the adverse economic effects of retaliations are far more severe than our losses.

Mr. GORLIN. That is a question we always ponder, the question of the credibility of our threats. On the other hand, we must work with these countries to help them improve their intellectual property protection, wherever we do have leverage against their countries, we should use it. I already indicated that we have leverage against countries that want to join the WTO. The annual special 301 review and announcement provide additional leverage as many countries come to the table, with improved intellectual property protection and enforcement in anticipation of the announcement.

Mr. RANGEL. Are you satisfied that your country is sufficiently aware of this problem and maintains it as a priority?

Mr. GORLIN. I am sorry—this country?

Mr. RANGEL. Yes.

Mr. GORLIN. Yes. We seek to inform the country——

Mr. RANGEL. But are you satisfied with our position as relates to this very important subject?

Mr. GORLIN. I think more can be done, especially in terms of the signals that we as a country send to offending countries. I believe that one of the counterproductive signals that we are currently sending on the questioned implementation of the TRIPs Agreement is that we have not included TRIPs implementation on a key U.S.

issue or objective for Singapore. While we are already looking at the next generation of issues, and we have failed to focus on the proper accelerated and timely implementation of the TRIPs Agreement.

Mr. RANGEL. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. I want to thank all of you for your anticipation and remind you to please communicate on a continuing basis with us. We need your input and appreciate your endurance.

With that, I would like to call up our next panel, made up of representatives in the textile and agriculture industries, Julia Hughes is chairman of the board of the U.S. Association of Importers of Textiles and Apparel, Carlos Moore is executive vice president of the American Textile Manufacturers Institute, Richard Krajeck is vice president of the U.S. Feed Grains Council, and Dalton Yancey is executive vice president of the Florida Sugar Cane League and Washington representative of the Rio Grande Valley Sugar Growers, Inc.

Since it is appropriate for ladies to go first, Ms. Hughes, you are first to make your presentation.

STATEMENT OF JULIA K. HUGHES, CHAIRMAN, U.S. ASSOCIATION OF IMPORTERS OF TEXTILES AND APPAREL

Ms. HUGHES. Thank you very much, Mr. Chairman.

We appreciate the opportunity to share the views of the USAITA, U.S. Association of Importers of Textiles and Apparel. As you know, our association represents more than 165 members involved in the textile and apparel business. Member companies account for over $44 billion in U.S. sales annually and employ more than one million American workers.

These are good jobs in production, design, freight forwarding, distribution, sales, and other services. Our ability to respond appropriately to consumer demand and thereby maintain and increase our competitiveness in the world market is very much dependent upon U.S. textile and apparel trade policy.

The importance of textile and apparel trade both to importing industrialized countries like the United States and to the exporting countries is unquestionable. So, of course there is no question that trade in textile and apparel should have a place on the agenda at the Singapore Ministerial.

The Ministerial is an important opportunity for an assessment of what has been achieved to date as well as what must be done to ensure full implementation of the letter and spirit of the obligations of the Uruguay round agreements.

One basic issue for the Ministerial is to compel greater transparency regarding the decisions that affect the textile sector. Transparency in the WTO has been a priority for the administration and for the Congress, as well it should be, but it has not yet been applied to textile issues. By transparency, we are referring not only to open meetings but, more importantly, to the public issuance of written decisions and recommendations that articulate the factors and rules considered and the reasons for the findings and recommendations.

We want to make it very clear at this hearing that USAITA does not advocate reopening the agreement on textiles and clothing, nor do we believe that the exporting nations whose manufacturers supply many of our members advocate reopening the agreement. Rather, what we hope to see accomplished is an honest and straightforward assessment of the implementation of the ATC. We hope that the Ministerial will provide an opportunity for all trading partners to reaffirm their commitment to the 10-year transition.

However, our members are concerned that the legitimate desire for greater market access is being misused to criticize the textile-exporting nations. The United States implementation of the agreement highlights the hypocrisy of complaints that the developing countries have not yet opened their markets.

USAITA supports the elimination of barriers to trade and believes the Ministerial will be an important forum for ensuring that sufficient steps are taken to open the global marketplace. The Ministerial clearly should press members to meet their market access commitments, but this is a two-way street. No country, including the United States, has done any more than the minimum required by the WTO in the area of textiles. Unless the United States is ready to show leadership and a commitment to progressive liberalization, no other country will act differently. We want to guard against the temptation to postpone market opening until the end of the 10-year transition.

Textile liberalization is a litmus test for all industrialized countries. If the United States and the European Union and Canada show that we are ready to face down long-term protectionism, then we will have the moral high ground to press other countries to accelerate access to their markets in areas such as information technology and intellectual property rights.

We want to mention just a few of the shortcomings that we see in the U.S. implementation of the agreement. First, the integration plans put forward by the importing nations are a disappointment. Technically, the schedules meet the standards set forward in the ATC, but as a practical matter, not one product subject to a quota was integrated during the first stage, and fully 93 percent of the trade in textiles and apparel will remain restricted for the first 7 years of the 10-year transition.

Second, our members are concerned that at a time when the number of quotas is supposed to be declining because we are moving toward the elimination of the program, new quotas are sought. Under the terms of the ATC, new quotas should be initiated as sparingly as possible. However, since it went into effect 20 months ago, 30 quotas have been sought by the United States. And I beg to differ with Ambassador Barshefsky, but only six of those quotas are repeats of quotas with unfinished negotiations from 1994.

Our third concern is about the functioning of the Textiles Monitoring Body. It has not worked well to date, in part Because it has not been able to reach consensus and in part Because there is no transparency in terms of release of information from their decisions.

One last point is a concern about the misuse of rules of origin for protectionist purposes. There can be no question that the recent textile origin rule changes by the United States disrupted trade

under the agreement. Businesses are still trying to adapt, and despite a WTO legal obligation for any country initiating a change in the rules to hold negotiations, the United States has not granted compensation to affected countries, not even Europe.

This disruption of the trade is a concern because other countries look to the United States for leadership. We do not want our trading partners to take similar actions using rules of origin as a barrier against U.S. exports. At the very least, we hope the Ministerial will include a reiteration of the importance of avoiding disruption of trade through rules of origin and the need to make no new changes until the WTO and the WCO have finished their work program for international harmonization.

Again, we thank you for the opportunity to share our views today. We believe this is an important issue for the agenda and would be pleased to answer any questions.

[The prepared statement follows:]

TESTIMONY OF JULIA K. HUGHES
CHAIRMAN,
U.S. ASSOCIATION OF IMPORTERS OF TEXTILES AND APPAREL

Good morning. The U.S. Association of Importers of Textiles and Apparel, USA-ITA, appreciates this opportunity to express its views on the agenda for the Singapore Ministerial meeting on the World Trade Association. I am Julia K. Hughes, chairman of the Association.

USA-ITA is an eight-year old association with more than 165 members involved in the textile and apparel business. USA-ITA members source textile and apparel products both domestically and overseas. Our members include manufacturers, distributors, retailers, and related service providers, such as shipping lines and customs brokers. USA-ITA member companies account for over $44 billion in U.S. sales annually and employ more than one million American workers. These are good jobs -- in production, design, freight forwarding, distribution, sales and other services -- well paying, skilled jobs that Americans want to have. Our ability to respond appropriately to consumer demand, and thereby maintain and increase competitiveness in the world marketplace, and expand the number of good jobs in the United States, is very much dependent upon U.S. textile and apparel trade policy.

The importance of textile and apparel trade, both to importing, industrialized countries like the United States, and to exporting, developing countries is unquestionable. There also can be no question that trade in textiles and apparel must have a place on the agenda of the Singapore Ministerial. The only issue is what aspects of textiles and apparel trade should be included.

From the perspective of USA-ITA, clearly there is much to be considered by the members of the WTO. The Singapore Ministerial is an important opportunity for assessment of what has been achieved to date, what multilateral commitments have been met, and what can and should be done to ensure full implementation of the letter and spirit of the obligations undertaken as part of the Uruguay Round Agreements.

USA-ITA does not advocate re-opening the Agreement on Textiles and Clothing, the ATC, as part of the Singapore Ministerial. Nor do we believe that the exporting nations whose manufacturers supply many of our members advocate re-opening the ATC. Rather, what we want to see accomplished as part of the Singapore Ministerial is an honest and straight forward assessment of the implementation of the ATC in the almost two years since the ATC went into effect, an assessment that notes and takes into account both the shortfalls and accomplishments. We hope that the Ministerial will provide an opportunity for all trading partners to reaffirm their commitment to take appropriate and corrective actions to ensure that the ten-year transition is beneficial to all parties and that the ultimate objectives of the Agreement can and will be met within that time frame.

Specifically, USA-ITA sees the following short-comings in the implementation of the ATC:

Integration

First, the integration plans put forward by the importing nations leave much to be desired. Within the context of the ATC, integration means moving products from rules that permit unilateral safeguard actions to restrict trade on fairly traded goods, without requiring compensation to the restricted party, to normal GATT rules, which require compensation in those instances when a safeguard, or trade restriction, is imposed on fairly traded goods. Under the ATC, all textile and apparel products are supposed to be gradually integrated into normal GATT rules through a three stage process.

While technically it can be asserted that the schedule put forward by the United States for moving textile and apparel products out of the quota program and into normal GATT rules meets the minimum standards set forth in the ATC, as a practical matter, that schedule is a considerable disappointment.[1/] So, too, for that matter, are the initial schedules put forward by the European Union and Canada. However, only the United States has announced its schedule for all three stages over the full 10 year transition period; both the EU and Canada have deferred consideration of the second and third stages of integration until closer to the date of implementation of those stages.

Under the first stage of integration, which went into effect on January 1, 1995, not one product subject to a quota under the Multifiber Arrangement has been integrated into normal GATT rules. The U.S. was able to avoid integrating any quota products because the ATC expanded the scope of products subject to its terms. Thus, the first stage of integration, which ostensibly accounted for 16 percent of the trade covered by the ATC, included only products that had been outside the quota program and were never likely to have been considered sensitive or vulnerable to the imposition of quotas. The U.S. scheduled integration for stage two, which begins on January 1, 1998, which will cover another 17 percent of the trade within the scope of the ATC, will include only 6.8 percent of the products that have been subject to quotas under the MFA and have continued to be subject to quotas under the ATC. That means that during the first seven years of this 10 year transition, fully 93 percent of the trade in textiles and apparel will remain restricted.

In all, based upon the integration schedule for the U.S., which is now set in stone and cannot be altered except by an act of Congress, only 11 percent of the apparel subject to quotas on December 31, 1994 will be removed from the quota program before the end of the 10 year integration period. Fully 89 percent of the quotas on clothing will remain in place until January 1, 2005.

Clearly, this is not a gradual or progressive schedule. It is a schedule that appears intended to avoid the spirit of liberalization envisioned by the drafters of the ATC, and that could well undermine the ultimate success of the ATC. Thus, it is appropriate for the Singapore Ministerial to look closely and critically at this process, to consider what could be done to improve the integration process to ensure its faithful implementation, and to reiterate and reinforce the fact that the ultimate objective is an end to differentiated and discriminatory treatment of textile and apparel products at the completion of the 10 year transition program.

Abuse of the Transitional Safeguard Mechanism

Second, USA-ITA is concerned that at a time when the number of quotas is supposed to be declining because we are moving toward elimination of the textile restraint program, new quotas are being sought. Under the terms of the ATC, safeguard actions are supposed to be initiated "as sparingly as possible." Instead, in the United States at least, calls for consultations to establish quotas under the ATC have continued on a "business as usual" basis. In some ways, it seems as though the U.S. Government believes the MFA still lives. In the 20 months since the ATC went into effect, the U.S. has sought to establish 30 new quotas, of which 25 were aimed at the trade of WTO

[1/] USA-ITA notes that the United States chose to maintain all specific limits, or quotas, in place on December 31, 1994 when the Uruguay Round Agreements went into effect on January 1, 1995. Thus, some 1,000 quotas are in place today. In addition, as is discussed elsewhere in this testimony, the United States has sought to establish 30 more quotas since the ATC was implemented.

members. While more than half of these quotas ultimately were dropped by the United States, the process has been extremely disruptive to the trade, and clearly contrary to the spirit of the ATC. It is appropriate, therefore, that the Singapore Ministerial examine the use of the ATC safeguard mechanism and the impact the high level of reliance on safeguards has had on the liberalization process. Further, the Singapore Ministerial meeting should provide guidance on future use of such restraints in light of the objectives of the Agreement.

Functioning of the Textiles Monitoring Body

Third, and very much related to the question of whether the ATC's safeguard mechanism is being appropriately relied upon, is the functioning of the Textiles Monitoring Body, the TMB. This group of 10 persons is charged by the ATC with supervising the implementation of the Agreement, examining all measures taken under the Agreement to determine their conformity with the ATC, reviewing disputes between or among the Members, and making recommendations or findings. The TMB members are supposed to function on an ad personam basis, meaning that they should act in their personal capacities and not as representatives of their governments.[2/]

Unfortunately, the TMB process has not worked well to date. There have been numerous instances in which the TMB has not been able to reach consensus, and therefore has failed to provide guidance in situations in which disputes among the parties have arisen. Further, there are many matters that have been pending for a lengthy period of time without review by the TMB, thereby allowing non-conforming actions to stand. The purpose of the ATC's provision requiring automatic reviews by the TMB was to ensure that a formal challenge would not be necessary to have a non-conforming action identified and corrected. In addition, serious questions have been raised about whether the TMB members have been acting solely on an ad personam basis. That the question is asked at all undermines the credibility of the organization.

The result is that after almost two years of functioning, the TMB has many matters outstanding, and others that have had to be forwarded to the Dispute Settlement Body of the WTO. The very fact that three textiles matters have been brought to the DSB, with two textile matters still pending there, after the failure of the TMB to successfully resolve these disputes is testimony to problems within this body. This is an extremely important matter that deserves attention and action at the Singapore Ministerial. The Ministers should assess the functioning of the TMB and provide the TMB with instructions on improving its performance.

Transparency

One way in which the Singapore Ministerial could be most effective in improving the functioning of the TMB would be to compel transparency in the TMB. Transparency in the WTO has been a matter of high priority for the Clinton Administration, as well it should be. As the Acting U.S. Trade Representative, Ambassador Charlene Barshefsky, noted in July, when the WTO agreed to procedures allow most of its documents to be made public immediately, transparency within the WTO is a high priority objective for the U.S. Government because it means that we can "gain a better understanding of how the WTO works and the reasons underlying actions that Members take." This idealogy should incorporate textile trade.

[2/] The TMB seats are assigned by country. Each country or group of countries is then permitted to appoint the person who will serve as the TMB member.

The need for transparency is particularly great in the case of the TMB, and the Administration should extend its push for transparency to this WTO body. By transparency, we are referring not only to open meetings, but more importantly, to the public issuance of written decisions and recommendations that articulate the factors and rules considered and the reasons for the findings or recommendations. Cryptic two or three sentence conclusory statements do not provide interested persons with an understanding of why the particular conclusion was reached. Nor do they provide a useful precedent for future decisions. Rationales and precedents are especially necessary in the case of the TMB because the membership of the body will change on an annual basis. To educate future members of the TMB and to ensure continuity and consistency, a solid body of precedents is essential. A mandate for such transparency in the TMB would be an extremely significant accomplishment for the Singapore Ministerial meeting.

Bilateralism

The failure of the TMB to review all actions taken to date, and the lack of transparency in that body, leads USA-ITA to a fifth issue that must be considered and expressly addressed at the Singapore Ministerial: the continuation of bilateralism despite ATC provisions prohibiting bilateral arrangements. Let me provide an example. In March 1995, the United States issued a call for consultations on cotton and man-made fiber underwear from Turkey, among other countries. In the case of Turkey, an agreement was negotiated during the course of the TMB's review of whether the U.S. call was justified. However, that agreement was not limited to a quota on underwear. Instead, Turkey agreed to accept a quota on its underwear exports in exchange for an increase in its quotas on knit shirts and on dressing gowns.

While as importers, we certainly are not going to complain that two restrictive quotas were enlarged thereby increasing the available trade, the fact is that this is a blatant example of the type of bilateralism that was supposed to be eliminated upon implementation of the Uruguay Round. Whether the safeguard action is justified is supposed to be considered on its own, and not swept under the rug based upon a deal affecting unrelated products and quotas. In fact, USA-ITA would argue that this situation actually encourages bilateralism. It does so because it tells importing countries that they may issue a demand for a quota in one category, whether or not a quota is necessary, and get that quota implemented by cutting deals covering other categories of goods. Yet, a year and a half after the deal was reached between the U.S. and Turkey, the TMB has yet to consider its legitimacy under the ATC, thereby allowing bilateralism to continue unchecked. The Singapore Ministerial offers an excellent opportunity for the WTO members to be reminded of the rules against bilateralism.

Rules of Origin

The sixth issue we must raise and which we believe that the Singapore Ministerial meeting must address is the misuse of rules of origin for trade protectionist purposes. As you know, as part of the Uruguay Round Agreements Act, the Congress statutorily mandated a major re-writing of the rules and regulations for determining the origin of textile and apparel products. The new rules went into effect on July 1, 1996. This change in practice has been extremely vexing for both manufacturers and importers, because it has created confusion and uncertainty and because it has required a restructuring of production plans. At least two governments have been forced to completely re-write the rules for issuing export licenses under their Outward Processing Arrangements, in order to conform with the unilateral initiative by the United States. In many instances, particularly in the area of fabrics, accessories, and home furnishings, where the manufacture of the raw fabric occurs in one country but all additional processing occurs elsewhere, restructuring of production plans really is not possible.

There can be no question that this action by the United States has disrupted trade under the Agreement. It also violated what is effectively a "standstill" obligation under the Uruguay Round Agreement on Rules of Origin.

With regard to the ATC, USA-ITA is seriously concerned that the obligations undertaken under Article 4 of the ATC are not being correctly interpreted and acted upon. Under Article 4, there is an obligation for the country initiating a change in the rules to "initiate consultations with the affected Members . . . with a view to reaching a mutually acceptable solution regarding appropriate and equitable adjustment." However, the United States initiated no such consultations, despite the assurances by the Administration, in the Statement of Administrative Action that accompanied the Uruguay Round Agreements Act, that it would initiate consultations. Thus, in the SAA, the Administration asserted that it interpreted the ATC as "provid[ing] that any member that initiates an action that may [disrupt trade] must, whenever possible, initiate consultations with the WTO member affected with a view to reaching a mutually acceptable, appropriate and equitable adjustment. The Administration intends to undertake such consultations . . . by July 31, 1995 and to conclude them as expeditiously as possible."

Instead, the United States now asserts that, in its view, the burden is on an affected Member to seek consultations and to prove that there is an adverse impact, including the exact extent of that impact, even though much of the necessary information is in the hands of the United States. It is very likely that this interpretation, and what constitutes an appropriate and equitable adjustment will come before the TMB for consideration -- and if these questions are not resolved there, before a WTO Dispute Settlement Body panel.

Under these circumstances, it is incumbent upon the Singapore Ministerial meeting to recognize the existence of this situation and to provide some guidelines for the future. We must remember that other countries look to the United States for leadership in trade. We do not want them to take similar actions, using rules of origin as a barrier to trade against U.S. exports. At the very least, the Singapore Ministerial must include a reiteration of the importance of avoiding disruption of trade through changes in rules of origin, and of the need to make no new changes in rules of origin except in the context of the Uruguay Round's work program for international harmonization of such rules.

Market Access and Circumvention

USA-ITA understands that some in the United States believe that if textiles is to be included on the Singapore Ministerial agenda, the issues should be limited to an assessment of the extent to which market access obligations have been undertaken and the extent to which exporting nations have adopted effective measures to prevent circumvention. While certainly these are issues within the framework of the ATC, they are not and cannot be the sole textile issues considered at the Ministerial.

Let there be no question: USA-ITA supports the elimination of barriers to trade and believes that the biannual Ministerial meeting process will be an important forum for ensuring that sufficient steps are being taken to open the global marketplace, including the United States. Thus, clearly the Singapore Ministerial meeting should press members to meet their market access commitments. However, this is a two way street. Article 7 of the ATC states that "as part of the integration process . . . and the specific commitments undertaken by the Members as part of the Uruguay Round," all Members shall take actions to "achieve improved access to markets for textile and clothing products through such measures as tariff reductions and bindings [and] reduction or elimination of non-tariff barriers." The integration process is a gradual one, and so too will the opening of markets be a gradual process.

As USA-ITA noted earlier in this testimony, the United States already has set in stone that 89 percent of the integration of clothing will be postponed until the end of the 10 year transition period. Not a single quota product will have been integrated into normal GATT rules by December 1996. Therefore, the United States is hardly in a position to argue that market access by exporting nations should be completed by the Singapore Ministerial.[3/] The fact is, all of the Members of the WTO need to do more to meet the objective of opening markets, and the Singapore Ministerial meeting provides an important opportunity for all to be reminded.

The issue of circumvention of quotas also cannot be considered at the Singapore Ministerial in a vacuum of what the exporting nations are doing to prevent it. Three years ago, the United States announced a task force on transshipment that was going to issue recommendations for combatting the mislabeling of the origin of textile and apparel products. We're still waiting for that report. But in the meanwhile, the legitimate import community is facing increased barriers and costs to doing business, as U.S. Customs takes a broad brush approach in its search for evidence of illegally transshipped merchandise. It is USA-ITA's recommendation that the Singapore Ministerial meeting should remind Members that the prevention and detection of fraudulent trade is a legitimate objective, but that such efforts should be directed at individual actions, not all trade, and should be accomplished through maximum use of existing laws and not through a lowering of standards of evidence that allows mere allegations to justify unrelated trade restrictive actions. The obligation and standards for avoiding circumvention are clearly set forth in Article 5 of the ATC, and it is appropriate for the Singapore Ministerial meeting to remind Members of its existence and the importance of adherence to it.

Conclusion

Obviously, based on these remarks, there is much about the area of textiles and apparel that should be addressed during the course of the Singapore Ministerial meeting. In less than two years, many issues have arisen in this sector, and unless they addressed at this important point, many more problems will surely face the next ministerial meeting. Perhaps even more significantly, with a successful Singapore Ministerial meeting, one that takes on these matters and provides a basis for a smooth and multilaterally beneficial transition, we can assure a net increase in good jobs and benefits to U.S. consumers, and strengthen the U.S. economy.

USA-ITA thanks the Subcommittee for this opportunity to present its views and would be glad to answer any questions you have.

01741354.W51

[3/] To those would argue that the ATC's provision for "growth on growth" has already provided a means of liberalization that began with the implementation of the Uruguay Round, let us remind them that the United States, in anticipation of that obligation, studiously sought to negotiate bilateral agreements lowering the base growth rates upon which that "growth on growth" factor was to be applied (and in many cases succeeded).

Chairman CRANE. Thank you, Ms. Hughes.
Mr. Moore.

STATEMENT OF CARLOS MOORE, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. MOORE. Thank you, Mr. Chairman.

I am executive vice president of the American Textile Manufacturers Institute, which is the national trade association of the domestic textile industry. Our member companies operate in more than 30 States and account for approximately 80 percent of all the textile fibers consumed in this country.

On behalf of our members, I would like to share our views with the Subcommittee on the upcoming ministerial, beginning with a quote from WTO Director General Ruggiero on the subject, and I quote: "The full and prompt implementation of commitments is essential for the credibility of the WTO and for building confidence on which to explore the trade agenda that lies ahead."

We believe this is a very clear and insightful statement about what the objectives for the upcoming ministerial should be. It is clear that the first and foremost task should be to assess the implementation of the commitments that were so carefully negotiated over many years in the Uruguay round negotiations.

The one reason offered for this examination by the director general is to build confidence for the tasks that have to be faced ahead. We believe some other reasons exist which are equally important.

WTO members need to know the extent to which their trading partners are living up to their commitments. The WTO needs to confront those members who have fallen short, it needs to exercise the disciplines available to obtain compliance; and the United States needs to evaluate the extent and impact of countries not in compliance and then decide upon the effective responses which it might take.

All of these added reasons we believe are directly in the interest of the U.S. Government and its citizens. In fact, we would urge all WTO members to endorse their director general's words and focus the ministerial meeting on the implementation of the Uruguay round commitments.

As for future movement of WTO negotiations, we believe that a road map already exists and should require relatively little time to deal with in Singapore. That road map is the "built-in agenda" which was referred to earlier by other speakers. It contains items for future negotiations on which WTO members have already committed to begin negotiations—items such as various services negotiations, agriculture, investment, competition policy, and so on.

However, as we begin to move toward the date of the ministerial, we observe that some of our trading partners are trying to deflect and divert the focus of the ministerial, particularly in the area of textiles and clothing. A number of developing countries, encouraged by importers and retailers here in the United States and led by the ITCB, International Textiles and Clothing Bureau, a Geneva-based organization that assists the developing countries in negotiations and actually encourages them, we believe, to more radical proposals, are seeking to change the agenda.

Pakistan, for one, has taken the lead in trying to divert attention from an examination of the implementation of commitments by all WTO members, especially an examination of Pakistan's commitments, and instead, the ITCB countries, such as India, Indonesia, Korea and Pakistan very conveniently ignore the fact, as does Ms. Hughes, that the United States has lived up to its WTO commitments and instead claim that the United States has somehow failed to live up to the spirit of the WTO Agreement on Textiles and Clothing.

When you cut to the bottom line, it seems to us that these countries do not like the pace of the phaseout, and they do not want to submit their own trade regimes to very close scrutiny, so they hide behind the argument that somehow, the United States has not lived up to the spirit of the agreement.

Ms. Hughes talked about the two-way street that should exist in terms of market access. We agree with that. We think that India and Pakistan, to name two, as well as other members of the ITCB such as Indonesia and Korea, certainly do not want us to approach anything like a two-way street when it comes to market access.

For example, according to WTO data, in 1995, India and Pakistan each shipped about 6 billion dollars' worth of textiles and clothing to the world; they imported less than $100 million. In fact, they imported so little that the WTO does not even record how much they imported. Now, you might think that they are developing countries, and therefore they do not have much demand for imported goods. As a matter of fact, India has over 150 million middle-class citizens that we would love to be able to sell our products to, but we are prohibited. We have been prohibited by the existing high duties that they have had for many years, but to really pour salt in the wound, they have now added additional duties in the last 6 months that will clearly keep us out of their markets as long as those duties persist.

Congressman Spratt referred to a particular case that exists today where we had potential to sell significant amounts of floor covering in India, and as a matter of fact their duty now is 95 percent. We are shut out of that market.

So, we believe it is in the U.S. interest to reject the arguments that are without basis, without fact, raised by these members of the ITCB, and to point out that the United States has met every commitment that it negotiated and is supposed to meet in the Uruguay round negotiations and the ATC agreement that followed. And I am certain that the United States will continue to do so. In fact, Congress has mandated that as part of the Uruguay round implementing legislation.

So, we urge the government to seek the support of other WTO members and to reject these self-serving demands of Pakistan, India and others to make textiles a major issue in Singapore.

One final issue of very big importance to our industry relates to the accession of China to the WTO. We will be submitting a statement on this issue later when your Subcommittee has scheduled hearings on this issue, but while we believe that China should enter the WTO only if it has implemented major reforms in its import and export sectors, we recognize that at some point, China will

become a WTO member, and who knows when that will happen, but it will happen ultimately.

We would urge all of the authors of the radical proposals and the ITCB members to think about that fact because their demands for further liberalization of the ATC, the Agreement on Textiles and Clothing, are really going to profit China far greater than anyone else once China becomes a WTO member. They should not be blinded to this reality either by Hong Kong, who promotes China's interests on China's behalf, or by the U.S. importers who try to reap excessive profits at the expense of U.S. consumers or workers by trying to make sure that more and more goods are available from countries like China.

Thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF CARLOS MOORE
EXECUTIVE VICE PRESIDENT

AMERICAN TEXTILE MANUFACTURERS INSTITUTE

My name is Carlos Moore. I am Executive Vice President of the American Textile Manufacturers Institute (ATMI), the national trade association for the domestic textile industry. Our member companies operate in more than 30 states and account for approximately 80 percent of all textile fibers consumed by mills in the United States. The textile industry in this country employs 666,000 workers and contributes approximately $24.8 billion to our country's gross domestic product.

On behalf of ATMI's members, I would like to share our views with the Committee on the upcoming Ministerial Meeting of the World Trade Organization (WTO). An appropriate way to begin is to quote WTO Director General Ruggiero on this subject:

> "The full and prompt implementation of commitments is essential for the credibility of the WTO and for building confidence on which to explore the trade agenda that lies ahead."[1]

No one can say it clearer, with more insight, or with more conviction. The first and foremost task facing the WTO member countries is to examine and assess the level of implementation of the members' commitments made in the Uruguay Round agreement. This, we believe, should be the primary task of the Singapore Ministerial and should be the focus of the preparatory work for that meeting.

Director General Ruggiero has offered one important reason that a report on implementation take center stage in Singapore: namely to build confidence for the tasks that the WTO members will be facing.

Some other reasons exist, as well:

- WTO members need to know the extent to which their trading partners are living up to their commitments;
- The WTO needs to confront those members who have fallen short and it needs to exercise the disciplines available to obtain compliance;
- The U.S. needs to evaluate the extent and impact of countries not in compliance and then decide upon effective responses.

All of these added reasons are directly in the interests of the U.S. government and its citizens. In fact, all WTO members should unequivocally endorse the Director General's words and unanimously agree to make an assessment of member country implementation of Uruguay Round commitments the fundamental task of the Singapore Ministerial.

As for future movement WTO negotiations, a road map already exists and should require relatively little time to deal with in Singapore. That road map is the aptly-called "built-in agenda" of the Uruguay Round Agreement. It contains items for future negotiations on which WTO members have already committed to begin negotiations. Those agenda items include: agriculture, various services, investment and competition policy. Ministers in Singapore should reaffirm that commitment and schedule a firm date to begin negotiations.

---

[1] "The Road Ahead: International Trade Policy in the Era of the WTO", delivered at the Fourth Annual Sylvia Ostry Lecture, Ottawa, Canada, May 1996

However, as the preparatory work moves ahead and the date for the Ministerial approaches, we observe a growing lack of interest by some of our trading partners in the type of Singapore agenda described above. A number of developing countries, spurred on by U.S. importers and retailers and led by the International Textiles and Clothing Bureau (ITCB), a WTO-financed Geneva-based front for radical proposals, are seeking to change the Ministerial agenda to the detriment of the U.S. and other developed countries.

Pakistan has taken the lead in trying to divert attention from an examination of the implementation of commitments by all WTO members, including and especially Pakistan. Instead, on behalf of countries not renowned for open trading systems or for keeping WTO commitments, such as India, Indonesia and Korea, Pakistan ignores the fact that the U.S. has lived up to its WTO commitment and, instead, claims that the U.S. has failed to live up to the "spirit" of the WTO Agreement on Textiles and Clothing (ATC). After cutting through the Geneva verbiage, the bottom line for these countries is simple:

> They do not like the pace of the Uruguay Round's phase out of textile and clothing quotas and they do not want to submit their own trade regimes to WTO scrutiny.

Hence, they attempt to divert attention from the examination of all WTO members' commitments, which would include their own. And one can understand why they would want to divert attention away from their trade regimes:

Using the WTO data, in 1995 millions of dollars:

	Exports of Textiles to		Imports of Textiles & Clothing from	
	World	U.S.	World	U.S.
Pakistan	5,563	768	N.R.	10
India	6,300	1,520	N.R.	21
Indonesia	5,704	1,170	1,170	20
Korea	16,346	2,448	4,032	153

N.R. -- Not reported; less than $100 million

Clearly, none of these countries is a shining example of open markets; nor have they taken any significant steps toward opening their market.

Perhaps the most blatant example of reneging on Uruguay Round commitments is India's recent introduction of new supplementary tariffs on top of its already high tariffs. These new tariffs, for which no justification can be made, push the Indian import tariff on floor coverings, for example, a product in which the United States is clearly competitive, to an outrageous 95 percent.

We believe it is in the U.S. interest to reject these spurious arguments. The U.S. has met every commitment in the ATC and I am certain will continue to do so throughout the transition period. In fact, the Congress has seen to it by mandating the implementation schedule as part of the Uruguay Round legislation.

We urge the U.S. government to seek the support of other WTO members who are likewise committed to implementing their WTO commitments and to reject the self-serving demands of Pakistan, India and others to make textiles an issue in Singapore.

Another motive for these countries could well be that they want an excuse to renege on their commitments to negotiate on the "built-in" agenda items. Or, at the very least they want to be "paid" for honoring a commitment they have already made, allegedly in good faith, to negotiate further. They may want that payment to be a renegotiation of the

ATC's provisions. Whatever their motives, their efforts need to be rejected by the U.S. out of hand.

One final WTO issue of paramount importance to our industry that is not likely to be on the Singapore agenda is the accession of China to the WTO. ATMI will be submitting a statement on this issue to the Committee at its hearing on this subject scheduled for September 17. However, one comment in the context of the efforts to subvert the Singapore agenda by the ITCB and its members is appropriate.

China should enter the WTO only after it has implemented, and we stress the word "implemented" rather than words like "agreed to" or "committed to", major reforms in its import and export sectors and in its trade practices. Nonetheless, at some point, China will probably become a WTO member and all of the ITCB members (except, perhaps Hong Kong) should weigh that event carefully against their demands for further liberalization of the ATC. China, once it is a WTO member, will benefit from the phaseout of quotas to a far greater extent than any other textile exporting country. ITCB members should not be blinded to this reality either by Hong Kong, which is promoting China's interests, or by U.S. importers who are trying to reap excessive profits at the expense of U.S. consumers and workers.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Moore.
Mr. Krajeck.

STATEMENT OF RICHARD KRAJECK, VICE PRESIDENT, U.S. FEED GRAINS COUNCIL

Mr. KRAJECK. Thank you, Mr. Chairman, Congressman Rangel. I assure you it is only an accident that I am sitting between Ms. Hughes and Mr. Moore.

I am pleased to testify today on behalf of the U.S. Feed Grains Council on U.S. agricultural exports. The U.S. Feed Grains Council is a private, nonprofit organization that develops overseas markets for corn, sorghum, barley and their related products. Our mission is supported by U.S. producers of corn, sorghum and barley, as well as over 70 related agribusinesses. The Council has been building export markets since its founding in 1960.

Agriculture, like many industries is going through a period of rapid change. Much of that change has been generated by technological innovation. Some has been spurred on by governments backing away from intrusion into domestic farm policies, such as the recent U.S. farm bill and the EU's CAP reform.

First, let me address the change that benefits U.S. farmers and the U.S. economy, and that is the increasingly liberalized global market in which we operate. The World Trade Organization Agreement established in 1995 has truly benefited U.S. agriculture and will continue to benefit U.S. agriculture in the future as trade barriers are reduced and removed throughout the implementation period and more WTO members are gained. Our organization, with 11 overseas offices and projects in over 80 countries, has witnessed first-hand how many other countries have also benefited from increasingly liberalized trade. A rising tide does indeed lift all boats.

The international marketplace is the fastest growing arena for U.S. agricultural producers. Among the major U.S. industries, agriculture is the largest positive contributor to the U.S. merchandise balance of trade, reaching over $50 billion in fiscal year 1995 and generating a trade surplus of over $22 billion. That trade surplus is projected to grow to nearly $30 billion in fiscal year 1996.

The principle embodied by the WTO Agreement of predictable and growing access to markets is essential to every country's long-term economic success, as well as the success of U.S. agriculture in general.

World population is growing in absolute numbers and in income levels, creating increasing demand. Exports are where the market potential is. The WTO is definitely facilitating world trade to meet that demand.

We have the opportunity in Singapore to expand upon the successes of the WTO Agreement. The agreement on agriculture was designed to provide increased fairness in agricultural trade, and there can be no doubt that we are making progress and will continue to do so throughout the implementation period.

But there are areas of concern. The respective organizations of the U.S. Feed Grains Council request that the following issues be included on the ministerial agenda because of their impact on further trade liberalization: The enforcement of internationally accepted sanitary and phytosanitary standards; the trade-distorting capa-

bilities of the Trade-Related Investment Measures, or TRIMS, provisions of the WTO Agreement; the trade-distorting practices of state trading enterprises, and the need to schedule the beginning of further agricultural trade negotiations before the built-in agenda date of 1999.

I have elaborated on each of these issues in the written testimony.

The WTO has a scheduled agenda date of 1999 for agricultural negotiations to begin to discuss further tariff reductions and any impediments to fair and open agricultural trade. With the knowledge that the next round of negotiations may take many years to complete, we would like to see the ministerial discussions review implementation progress and obstacles and to develop an agenda for future agricultural negotiations to begin by 1998. We feel that the agricultural negotiations work program should be finalized at the Singapore Ministerial.

The WTO Agreement classifies countries as either developed, developing or least developed. These categories define each country's commitments for reductions in tariffs, export subsidies, and internal supports. The level of reduction in trade-distorting measures for developing countries is two-thirds of that of developed countries, and least developed countries are exempt from any further reduction commitments. The level at which a country enters the WTO should not be a negotiable point as it currently is. Nonsubjective economic indicators should be used to judge a country's level of development.

The United States has taken a leadership role in the creation of the WTO, and we would like to see that role continue as the 121-member WTO seeks other members. The accession of those other members, such as the People's Republic of China, should not be considered until the ability to monitor agreed-upon commitments can occur. The lack of transparency in state-operated trading systems can make it impossible to determine compliance with any agreements. Accession members should at the minimum be required to publish any laws, regulations and decrees, or any other administrative controls, that govern trade.

The largest benefit of the WTO for our organization is that agricultural trade is now subject to international rules. Adherence to these rules has begun the process of eliminating internal and external subsidies and prevented countries from shifting the costs of supporting domestic production onto the international market. Because the prices of agricultural commodities are less subject to manipulation by governments, both producers and consumers are benefiting.

We are experiencing the benefits of a world where tariff and non-tariff barriers are falling, and demand is rising due to the expansion of foreign economies which are also experiencing the benefits of free trade.

We are very supportive and appreciative of this Subcommittee's efforts to continue to expand the membership and goals of the WTO and appreciate the opportunity to appear before you today.

Thank you.

[The prepared statement follows:]

Statement of Richard Krajeck
Vice President
U.S. Feed Grains Council
before the Subcommittee on Trade,
House Committee on Ways and Means regarding
The World Trade Organization and Singapore Ministerial Meeting
September 11, 1996

Mr. Chairman, members of the Committee, I am pleased to testify today on behalf of the U.S. Feed Grains Council and U.S. agricultural exports.

The U.S. Feed Grains Council is a private, non-profit organization that develops overseas markets for corn, sorghum, barley, and their related products. This international market development mission is supported by U.S. producers of corn, sorghum, and barley, as well as over 70 related agribusinesses. The Council has been building export markets since its founding in 1960.

Agriculture, like many industries, is going through a period of rapid change. Much of that change has been generated by technological innovation. Some of that change has been spurred on by governments backing away from intrusion into domestic farm policies, such as the recent U.S. farm bill and the E.U.'s Common Agricultural Policy (CAP) reform.

Let me first address change that benefits the U.S. farmer and the U.S. economy. This is the increasingly liberalized global market in which we operate. The World Trade Organization (WTO) agreement established on January 1, 1995, has truly benefitted American agriculture and will continue benefitting U.S. agriculture in the future as trade barriers are removed throughout the implementation period and more WTO members are gained. As a market development organization with 11 overseas offices and projects in over 80 countries, we have witnessed firsthand how other countries have also benefitted from increasingly liberalized trade.

A rising tide does indeed lift all boats.

The international marketplace is the fastest growing arena for U.S. agricultural producers. Among the major U.S. industries, agriculture is the largest positive contributor to the U.S. merchandise balance of trade, reaching over $50 billion in fiscal year 1995. U.S. agriculture generated a trade surplus of over $22 billion in fiscal year 1995. That trade surplus is projected to grow to nearly $30 billion in fiscal year 1996. The principle embodied by the WTO agreement of predictable and growing access to markets is essential to every country's long term economic success, as well as the success of American agriculture in general.

Populations in international markets are growing in absolute numbers and in income levels, creating increasing demand. Exports are where the market potential is. The WTO is definitely facilitating world trade to meet that demand.

We have the opportunity in Singapore to expand upon the successes of the WTO agreement which went into effect on January 1, 1995. The WTO agreement on agriculture was designed for the first time to provide increased fairness in agricultural trade. There can be no doubt that we are making progress and will continue to do so throughout the implementation period.

But there are areas of concern. The WTO is not perfect.

The respective organizations of the U.S. Feed Grains Council request that the following issues be included on the ministerial agenda because of their impact on further trade liberalization: the enforcement of internationally accepted sanitary and phytosanitary standards; the trade distorting capabilities of the Trade Related Investment Measures (TRIMS) provision of the WTO agreement; the trade distorting practices of State Trading Enterprises (STE's); and the need to schedule the beginning of further agricultural trade negotiations before the built-in agenda date of 1999.

I would like to take a minute to explore these issues.

Sanitary and Phytosanitary Standards (SPS): The SPS agreement establishes a multilateral mechanism to protect exporters against the use of health-related measures which act as barriers to trade. We feel there needs to be improvement in the acceleration of the dispute settlement procedures of the agreement and prompt remediation for measures deemed to be unscientific and/or unjustifiable. We support the concept of equivalency and encourage steps designed to accomplish the goal of harmonization of international standards. We also encourage the acceleration of transparency obligations under the WTO.

Genetically engineered agricultural products will serve an important role in any worldwide effort to increase food production and quality. The Council encourages all countries to use the risk-focused, science-based provisions of the Sanitary and Phytosanitary agreement as the basis for their internal regulations and risk analysis processes.

Trade Related Investment Measures (TRIMS): The TRIMS provision is designed to ensure that governments do not apply measures to investments that create trade restrictions or distortions. This provision has actually created some distortions of its own as some developing countries are claiming preferential treatment for domestic industries by notifying under the TRIMS provision. As an example, government requirements for local industries to purchase domestic product before issuing import certificates for foreign product are clearly WTO illegal, but are being justified under the TRIMS provision. This provision should be re-examined for the trade distortions that are a by-product of its inclusion in the WTO agreement.

State Trading Enterprises (STE's): The Uruguay Round's focus on eliminating non-tariff trade barriers and reducing export subsidies served to focus attention on direct government actions and away from the potentially trade distortive marketing practices of the state trading enterprises (STE's) that are sanctioned and supported by governments. As WTO implementation continues and the WTO seeks to integrate formerly centralized, state-managed economies into the multilateral trading system, it is imperative that the WTO initiate a thorough examination of the trading practices of STE's, including: government guaranteed loans/payments, subsidies to domestic production and exports, levies on production and/or imports, and the lack of transparency in procurement and pricing practices.

Agricultural discussions: The WTO has a scheduled agenda date of 1999 for agricultural negotiations to begin to discuss further tariff reductions and any impediments to fair and open agricultural trade. With the knowledge that the next round of negotiations may take many years to complete, we would like to see the Ministerial discussions review implementation progress and obstacles, and to develop an agenda for future negotiations to begin by 1998. We feel the agricultural negotiations work program should be finalized in Singapore.

The WTO agreement classifies countries as either developed, developing, or least-developed. These categories define each country's commitments for reductions in tariffs, export subsidies, and internal supports. The level of the reduction in trade distorting measures for developing countries are two-thirds of that for developed countries. Least developed countries are exempt from any reduction commitments. The level at which a country enters the WTO should not be open for discussion prior to accession; in other words, it should not be a negotiable point. Non-subjective economic indicators can be used to judge a country's level of development, and should be.

The built-in agenda for the Ministerial includes the areas of: labor standards, environmental standards, government procurement rules, and investment and competition rules. All of the areas of concern in this letter fall within this agenda. SPS measures could be discussed under environmental standards; TRIMS could be discussed under investment rules; STE's could be discussed under government procurement rules; and the acceleration of agricultural negotiations is part of the built-in agenda itself.

The United States has taken a leadership role in the creation of the WTO, and we would like to see that role continue as the 121-member WTO seeks other members. The accession of other

members, such as the People's Republic of China, should not be considered until the ability to monitor agreed-upon commitments can occur. The lack of transparency in trading systems can make it impossible to determine compliance with any agreements. Accession members should at the minimum be required to publish any laws, regulations, and decrees (or any other administrative controls) that govern trade.

CONCLUSION

The largest benefit of the WTO for our organization is that agricultural trade is now subject to international rules. Adherence to these rules has begun the process of eliminating internal and external subsidies and prevented countries from shifting the costs of supporting domestic production onto the international market. Because the prices of agricultural commodities are less subject to manipulation by governments, both producers and consumers are benefitting.

We are experiencing the benefits of a world where tariff and non-tariff barriers are falling, and demand is rising due to the expansion of foreign economies which are also experiencing the benefits of free trade. We are very supportive and appreciative of this committee's efforts to continue to expand the membership and goals of the WTO, and appreciate the opportunity to appear before you today.

Chairman CRANE. Thank you, Mr. Krajeck.
Mr. Yancey.

STATEMENT OF DALTON YANCEY, EXECUTIVE VICE PRESIDENT, FLORIDA SUGAR CANE LEAGUE, AND WASHINGTON REPRESENTATIVE, RIO GRANDE VALLEY SUGAR GROWERS, INC.

Mr. YANCEY. Thank you, Mr. Chairman.

The United States sugar industry is committed to multilateral progress toward a global free market for sugar and sweeteners. Our producers are among the most efficient in the world, despite our high cost of labor and environmental protections. Our growers are ranked 25th-lowest of the 92 world sugar-producing nations, and our cost of production is well below the world average.

However, because of trade-distorting practices which exist, the so-called "world price" has averaged only about half the cost of production during the last 15 years. For this reason, efficient American sugar producers continue to require a domestic policy.

Because U.S. farmers are so efficient, we have supported achieving global free trade in sugar since the outset of the Uruguay round. Foreign sugar is not produced more efficiently, just with more government help.

The United States made some significant concessions on sugar in the Uruguay round, but multilateral movement toward free trade in sugar is minimal. The Uruguay round agreement on agriculture and sugar specifically did not level the playingfield for fair international competition among sugar producers; it did not address vastly differing standards for labor and environmental protections; it did not address the trade-distorting practices of state trading enterprises, and it did not make significant progress on the most distorting of all trade barriers—export subsidies. And, the Uruguay round did not require developing nations and non-GATT members to comply with the major disciplines.

While the Uruguay round provided a useful road map for coordinated, multilateral reduction of barriers to trade in the future, it did not address many of the crucial, distorting trade practices which we must yet negotiate.

As we look toward future negotiations, we believe that the U.S. unilateral reforms of the 1996 Farm Bill place our sugar farmers in danger. They will be vulnerable to the trade-distorting practices of foreign countries, and in addition, we will not be able to approach the next round of talks with significant leverage, and we will have virtually little with which to negotiate.

We would like to make this challenge. The U.S. sugar industry challenges foreign sugar producers to eliminate export subsidies and reduce their sugar policies to the minimal levels to which American sugar farmers are committed in the 1996 Farm Bill. If they exceed these GATT commitments, we are committed in the Farm Bill to match those reductions in the future.

We call for progress in the following areas. We would like to see a reduction of export subsidies around the world to the U.S. level of zero. For importing countries, we would like to see an increase in the minimum access to their markets, up to where our level is

as required by GATT and, for all countries with higher domestic supports, a reduction in support prices to the U.S. level.

As we issue this serious challenge for future multilateral trade barrier reductions, we would also voice a couple of major concerns.

We strongly urge that, as foreign producers reduce their barriers to trade, they also move toward matching U.S. standards for labor and environmental protections, and we strongly urge that marketing monopolies that were ignored in the Uruguay round be addressed aggressively in the future.

State trading enterprises, which are characterized by quasi-government, monopolistic buyer-seller systems for purchase and export of commodities, provide trade-distorting protections that were not addressed in the Uruguay round. The Round focused on the more obvious practices, such as export subsidies, price supports and import limitations. But state trading enterprise practices, while distorting, are actually less obvious.

The U.S. sugar industry has communicated these concerns to our administration, and I am pleased to report that they agree with our concern. We are concerned about the unilateral reductions that were made in the Farm Bill. We hope that other countries will match these reductions, and we challenge them to do so, and we urge that future reductions be made in a coordinated, multilateral fashion and that widely varying labor and environmental standards be taken into account and that the distorting practices of state trading enterprises be addressed in future negotiations.

Thank you.

[The prepared statement and attachments follow:]

House Ways & Means Committee Trade Subcommittee Hearing
On World Trade Organization Ministerial Hearing in Singapore
September 10, 1996

Testimony of Dalton Yancey,
Florida Sugar Cane League and Rio Grande Valley Sugar Growers,
On Behalf of U.S. Sugar Industry

Thank you, Mr. Chairman, for the opportunity to provide testimony for this important hearing. I am Dalton Yancey, Executive Vice President of the Florida Sugar Cane League and Washington Representative of the Rio Grande Valley Sugar Growers of Texas. I also have the privilege of serving on the Agricultural Policy Advisory Committee, where I am the only member representing sugar-producer interests. I am honored today to present to you the views of the entire U.S. sugar-producing industry.

I would like to provide information on four topics in my testimony: first, background on the U.S. sugar industry and its views on trade policy; second, the effect of the Uruguay Round on U.S. and foreign sugar policies; third, the effect of the recently completed 1996 Farm Bill on U.S. sugar policy; and, finally, U.S. sugar industry views and concerns on the next round of multilateral trade negotiations.

Background

The U.S. sugar industry believes the world's most efficient producers, abiding by high labor and environmental standards, should produce for the world marketplace. The U.S. sugar and corn sweetener-producing industry is large and efficient, abides by some of the world's highest standards for labor and the environment, and is committed to multilateral progress toward a global free market for sugar and sweeteners.

Sugarcane and sugarbeets are grown and processed in 17 states. The sugar and corn sweetener industries combined generate nearly 420,000 American jobs in 42 states and over $27 billion in annual economic activity.

U.S. producers are among the most efficient in the world, despite the high cost of our labor and and environmental protections. Our growers are ranked 25th lowest cost among the world's 92 sugar-producing nations, most of them developing countries. Our cost of production is *below* the world average.

Unfortunately, the so-called "world price" for sugar does *not* reflect the cost of producing sugar. Because so many countries encourage sugar production with high internal supports, and subsidize the dumping of their surplus production on the world market for whatever price it will bring, the "world price" has been extremely depressed for some time. Over the past 15 years, the "world price" has averaged *only about half* the world average cost of producing sugar.

For this reason, efficient American sugar growers *do* require a domestic sugar policy -- so that subsidized surplus supplies from the world dump market not displace American sugar. This foreign sugar is not produced more efficiently -- just with more government help.

Despite our efficiency, our's is an industry in some pain. Because of intense domestic competition, production is dropping in many areas, with wrenching consequences for local economies. Sugar production and acreage have dropped dramatically in recent years for sugarcane in Hawaii and for sugarbeets in California, Texas, Ohio, and Nebraska. Thirteen beet or cane processing plants have closed just since 1993.

Nonetheless, because we are efficient, we would welcome the opportunity to compete, head-to-head, against foreign producers. For this reason we have supported the goal of achieving global free trade in sugar since the outset of the Uruguay Round, in 1986. At that time, the U.S. administration announced its goal of achieving *total* elimination of barriers to world agricultural

trade. We were the first U.S. commodity group to endorse that goal, and we still do -- as long as the progress toward free trade is made on a rational, fair, and multilateral basis.

Uruguay Round Effects on Sugar

The United States made significant concessions on sugar in the Uruguay Round of the GATT, but multilateral movement toward free trade was minimal. The International Policy Council concurs with us on this point, concluding in a recent report: "...the sugar sector was left largely untouched by the final Uruguay Round Agreement."

In the Uruguay Round, the United States:

1. Tariffied its sugar import quota;

2. Bound its foreign sugar access commitment -- that is, we agreed to guarantee imports of no less than 1.26 million short tons per year;

3. Agreed to reduce the import quota's second-tier tariff rate by 15% over 6 years.

Unfortunately, foreign countries' commitments on sugar were negligible. There were a number of critical areas where the Uruguay Round accomplished little or nothing.

The Uruguay Round Agreement on Agriculture:

1. Did *not* level the playing field for fair international competition among producers;

2. Did *not* address vastly differing standards for labor and environmental protections;

3. Did *not* address the trade distorting practices of state trading enterprises (STE's).

4. Did *not* make significant progress on the most distorting of all trade barriers -- export subsidies. With respect to the European Union, for example, which destroys the world market by dumping some 4 - 5 million tons of heavily subsidized sugar each year: USDA predicts *no* significant reduction in the volume of subsidized EU exports over the course of the Uruguay Round.

5. Did *not* require developing countries and non-GATT members, which together account for about two-thirds of world sugar production, to comply with the major trade disciplines of the Round.

While it could be acknowledged the Uruguay Round provided a useful road map for coordinated, multilateral reduction of barriers to trade in the future, it did *not* address many of the crucial, unfair trade practices that must yet be dealt with . (A summary of Uruguay Round agriculture disciplines is attached, Attachment A.)

1996 Farm Bill Effect on Sugar

The purpose of U.S. sugar policy is to ensure reliable supplies of this essential food ingredient to American consumers at competitive prices, while providing some stability for American sugar farmers. The policy has been operated at no cost to the U.S. Treasury since 1985, and has been a revenue raiser since 1991; it will raise an estimated $288 million for federal budget deficit reduction over the next 7 years.

U.S. sugar policy is also a necessary response to the policies of foreign countries whose growers are not more efficient than American growers, but are simply more subsidized.

When the Congress approved the Uruguay Round in 1994, it did so with the promise that, in committing American farmers to the Uruguay Round reductions, it was committing to approve future reductions only on a fair, rational, multilateral basis. Instead, the Congress voted for precipitous, unilateral reform of U.S. sugar policy in the 1996 Farm Bill, as it did for all U.S. commodity policy.

To highlight the Farm Bill changes to U.S. sugar policy with implications for international trade:

1. Marketing allotments were eliminated -- in other words, there will be no limits on U.S. sugar production. The new domestic free market will intensify competition and cause the demise of some of the industry, sending American farm and factory jobs overseas.

2. Minimum producer prices are no longer guaranteed -- non-recourse loans will be available to growers only when imports are more than 20% above the Uruguay Round-mandated minimum. American growers will face enormously greater risk, after having had a minimum price guarantee since 1982.

3. The standby support price is effectively reduced by 5.6%, because of a penalty producers will be forced to pay to the U.S. Treasury if they forfeit their loans. This effective loss of about $150 million per year in producer revenues will put more farmers out of business.

4. The minimum import level is effectively increased by nearly 20%, to 1.5 million tons. This increase in minimum access commitments will benefit foreign producers, but will increase domestic competition for the remainder of the U.S. market and could shift more domestic production and jobs overseas.

Furthermore, an additional burden on U.S. sugar growers is the 25% hike in marketing assessments -- the special tax our farmers pay to the government on each pound of sugar produced. This tax will raise approximately $288 million for federal budget deficit reduction over the next 7 years. (A summary of the Farm Bill reforms is attached, Attachment B.)

The U.S. sugar industry is deeply concerned that the unilateral nature of these reforms could: a) Make all American farmers more vulnerable to the unfair trade practices of other producing countries -- policies that have been left untouched by the Uruguay Round; b) Reduce U.S. negotiators' leverage in future trade talks.

For this reason, we must approach the next round of multilateral trade negotiations with extreme caution.

Thoughts on the Singapore Ministerial

As we look toward the possibility of another multilateral round of trade negotiations, as will be discussed at the World Trade Organization's ministerial meeting in Singapore this December, we believe that U.S. unilateral reforms in the 1996 Farm Bill place American farmers in danger. Nonetheless, these reforms may also provide some opportunity.

The danger, as I mentioned earlier, is that American farmers, who will soon have virtually no domestic commodity policies, will be vulnerable to the unfair trade practices of foreign countries. This is true both for our export commodities, which compete for foreign markets, and for net-import commodities, such as sugar, which compete for our domestic market. In addition, we will not be able to approach the next round of talks with the leverage of significant domestic policies, and we will have virtually nothing to concede.

Some suggest the United States may be able to lead by example. Though our experience with many trading partners, particularly some of those in the Far East, has shown little success with this approach, we can only hope we will have more success in the future.

Challenge. Along these lines, we would like to take this opportunity publicly to make a challenge:

The U.S. sugar industry challenges foreign sugar producers to eliminate export subsidies and reduce their sugar policies to the minimal levels to which American sugar farmers are committed in the 1996 Farm Bill. To the extent that foreign producers exceed their Uruguay Round commitments on reductions in trade barriers such as export subsidies and price support, we are committed in the 1996 Farm Bill to matching those reductions.

Specifically, we call for foreign progress in the following areas:

1. For exporting countries -- a reduction of export subsidies to the U.S. level of *zero*;

2. For importing countries -- an increase in minimum access to the U.S. level, around 15% of domestic consumption;

3. For all countries with higher domestic supports -- a reduction in support prices to the U.S. level.

Concerns. As we issue this serious challenge for future multilateral trade barrier reductions, we must also voice two major concerns.

1. *We strongly urge that, as foreign producers reduce their barriers to trade, they also move toward matching U.S. standards for labor and environmental protection.*

We issue this caution for two reasons: a) That foreign workers and fragile ecologies not be exploited to replace the production of the industrialized nations where farmers are held to bear the cost of substantially higher standards. Our hope is that as a result of multilateral trade negotiations, conditions for foreign workers and the environment improve to U.S. standards. b) That efficient American farmers are not unfairly disadvantaged by farmers whose costs of production are ostensibly lower, but only because they need not adhere to the higher standards our government establishes for labor, food, and environmental safety.

2. *We strongly urge that marketing monopolies that were ignored in the Uruguay Round be addressed aggressively in the future.*

State trading enterprises (STE's), which are characterized by quasi-governmental, monopolistic buyer systems for purchase and export of commodities, provide trade distorting protections that were *not* addressed in Uruguay Round. The Uruguay Round focused on the more obvious practices, such as export subsidies, price supports, and import limitations. STE practices are no less distorting, but are simply less obvious.

Furthermore, STE's exist in some major sugar producing countries. In Australia, for example, the Queensland Sugar Corporation acts as the single buyer and exporter of the vast majority of that nation's sugar, providing important price protection for Australian producers. Attached, for your information, is an article from the *Financial Times* of London describing the trade distorting practices of Australia's sugar STE (Attachment C).

The importance of STE's in international trade was also recognized in a recent U.S. government study -- the General Accounting Office's "State Trading Enterprises: Compliance with the General Agreement on Tariffs and Trade."

The U S. sugar industry has communicated its concerns about STE's to the Administration, and I am pleased to report the Administration shares our concern. A copy of our letter to Secretary of Agriculture Glickman, and his response to us, is attached (Attachment D).

Conclusion

The U.S. sugar industry is efficient and committed to multilateral reduction of global barriers to sugar trade. We would welcome the opportunity to compete on a level playing field, where no farmers have the unfair advantage of government support. We applaud U.S. Government efforts to move toward global free trade, as long as this movement is made in a fair, rational, and multilateral fashion.

We are concerned, however, that the United States may have gotten too far out in front with precipitous, unilateral reductions U.S. farmers are committed to in the 1996 Farm Bill. But we hope that other countries will match our reductions, and we challenge them to do so.

We urge that future reductions be made in a coordinated, multilateral fashion, that widely varying labor, consumer, and environmental standards be taken into account, and that the distorting practices of state trading enterprises be addressed in future negotiations.

Thank you, Mr. Chairman, for the opportunity to participate in this important and timely hearing.

Attachment A

Uruguay Round:
Agreement on Agriculture

	Reduction	Effect on U.S. Sugar
Internal Supports	20% of average for all commodities, from 1986-88	None
Export Subsidies	21% volume; 36% value	None
Market Access		
Tariffs	36% average; 15% minimum	Second-tier tariff rises from current 16¢ to 17¢ at start of agreement; falls back to 16¢ after 1 year; then drops gradually to 14.45¢ over next 5 years.
Current or minimum access	Import restrictions reduced to ensure at least 3-5% of consumption from imports.	U.S. first-tier quota never to be less than 1.256 million short tons (well in excess of 3-5% minimum).

HSPA
11-7-94

411WY4GB

Attachment B

1996 Farm Bill
Reforms of U.S. Sugar Policy

1990 Farm Bill	Reforms
Domestic marketing controls	GONE—Domestic free market
Guaranteed minimum price	GONE—No downside limit on producer prices (unless imports > 1.5 mst)
Loan rate	EFFECTIVELY REDUCED—1¢ penalty = producer revenue loss of $150 million/year
Deficit reduction tax (marketing assessment) paid by producers	INCREASED—By 25%, generating $288 million over 7 years
Foreign sugar imports	INCREASED—Effective 20% increase in minimum
No-cost provision	REMAINS—No cost since 1985; revenue raiser since 1991

April 1996

FINANCIAL TIMES THURSDAY DECEMBER 21 1995

Fear of a fudge over Australian sugar

Nikki Tait reports from Queensland on the implications of a competition initiative

Up on Queensland's lush coastal plain, the sugar cane fields look serene. Harvesting and processing of this year's crop, slightly delayed by wet weather, is underway. Despite lower world prices and some reduction in production from 1994-95's record levels, the forecasts are for a A$1.8bn harvest – only slightly short of last time's bumper A$1.94bn.

But beneath the tranquility, uncertainty looms. A commission, reporting to the federal and Queensland governments, is debating whether Australia's sugar industry should be thrown open to competitive forces. For a sector traditionally among the most heavily protected in Australian agriculture, this is potentially traumatic.

The commission was anticipated when Queensland, source of 95 per cent of Australia's raw sugar production, introduced new sugar industry legislation in 1991 and promised to review this after five years. But it has been given extra impetus by Australia's embrace of a "national competition policy" – a federal initiative to which all the state governments signed up this year.

The competition initiative has particular implications in the rural sector. The dominance of statutory support schemes cost Australian consumers and users about A$550m in 1988-89, estimated one Industry Commission report. Benefits to these groups from reform of the milk, sugar and egg industries alone could total about A$346m a year.

In an effort to erase such inefficiencies, the authorities have declared that agricultural sector legislation should not be allowed to restrict competition unless it can be shown that benefits of the anti-competitive practices outweigh the costs.

For most of this century, Australia has placed either an embargo or a tariff on sugar imports. Domestic production has been constrained by a "land assignment" system, specifying the acreage from which growers can harvest cane and sell to a mill.

Meanwhile, a centralised Sugar Board has controlled the purchase and marketing of sugar, contracting domestic refineries to process raw sugar on a "toll" basis, then sold on the industry's behalf.

The agricultural legislation is not to restrict competition unless the benefits of anti-competitive practices outweigh the costs

In 1991, some liberalisation was introduced. The Sugar Board was replaced by the Queensland Sugar Corporation. This is still a statutory body which buys and markets the state's sugar production, but it is funded by the 7,000 cane growers out of these sales.

The QSC remained responsible for an assignment system, but was to ensure that cane-growing acreage in Queensland expanded by at least 2.5 per cent each year. (In 1994, it grew by 3.6 per cent, allowing the QSC to claim that, for the first time, land available exceeded demand.) The import embargo, meanwhile, was replaced by a tariff on raw sugar imports, initially set at A$115 a tonne but now less than half that.

These partial reforms fall well short of the commission's brief – which includes a review of the tariff and an assessment of the phased removal of sugar industry regulatory arrangements by 2000. Privately, many industry players say they are fairly relaxed about further easing of assignments or even a loss of the tariff. But it is the role which QSC plays as a "single desk" seller, for both the export and domestic markets, which most see as critical and vulnerable.

"The industry is on notice that under the national competition policy single desks are deemed inappropriate," says Mr Michael Bosscher, deputy chief executive of the QSC.

The QSC argues that it helps to smooth the production chain and acts as an efficient – even necessary – salesman for Australian sugar overseas, given corruption in world markets. Because burnt cane has to be crushed fast, the relationship between growers and mills is extremely close. The QSC makes advance payments to the mill owners throughout the season, which in turn are shared on a formula basis with growers. Centralised management of bulk terminals and the like is justified on the grounds of more streamlined handling.

Expecting small farmers to start adapting to world market prices could also be a big task. "The average cane grower probably doesn't even know what the world price for sugar is," says Mr Bosscher.

Critics, however, say this ignorance is precisely the worry. Despite recent growth in the industry, there is no evidence that it is at an optimal size. Even with modified land assignment, there are lags between the desire of growers to expand with the market, and their ability to do so.

On the buying side, there is the distortion of the two different "pool" prices provided by the QSC. Nor is there any conclusive evidence that growers would be baffled by more entrepreneurial responsibility; parallels are drawn with cotton, where growers regularly utilise futures markets.

Although one of the largest raw sugar suppliers, Australia never developed refined sugar exports, mainly because of high regulation

There is also the question of whether Australia can, or should, move into the world market for refined sugar. Largely because of the industry's highly regulated history, Australia never developed refined sugar exports, although one of the largest international suppliers of raw sugar (accounting for about 15 per cent of its world trade in the early 1990s). Refineries, under the Sugar Board, were inevitably near domestic markets.

The more liberal regime has encouraged some initiatives. Last year, for example, Mackay Refined Sugars, a joint venture between Mackay Sugar Co-operative, a grower-owned organisation, and London-based ED&F Man, the commodities trading house, opened a A$96m refinery attached to the Racecourse Mill on the Capricorn Coast. This was to build an export-oriented refined sugar business on the back of a domestic operation.

MRS has not had an easy birth. The company claims that, even with modern bulk shipping, it is only feasible to develop an export-oriented refining business in tandem with a domestic presence. But a virulent price war has broken out locally, prompting legal action between MRS and CSR, the largest domestic refiner, and allegations of predatory pricing.

The cumbersome industry structure is much to blame. A Queensland mill must sell to QSC before the refinery can buy the sugar back at the import parity price. "Single desk selling belongs to a past era," says Athol Harley, MRS's chief executive.

Australia's wheat industry, meanwhile, has managed to retain a single desk system for export sales and the wool industry is still grappling with the centralised selldown of a large stockpile, built up under an earlier price guarantee scheme. Some worry that the sugar industry will suffer because of the political desire to make an example of it.

But perhaps the greater fear is a fudge. Geoff Mitchell, head of Tate & Lyle's Bundaberg Sugar, said: "The industry has to either continue down the competitive track or it has to revert to a sustainable regulated environment."

Attachment C

BACKING AMERICA'S BEET, CANE AND CORN FARMERS

Attachment D

May 15, 1996

The Honorable Dan Glickman
Secretary
U.S. Department of Agriculture
14th Street and Independence Avenue, SW
Washington, DC 20250

Dear Mr. Secretary:

The groups listed below, representing the U.S. sugar producing industry, are writing to recommend your attention to: 1) The distorting effect of state trading enterprises (STE's) on the world sugar market; 2) The lack of attention to STE practices in past multilateral trade negotiations; and, 3) The need to recognize and address these distortions in future negotiations.

1. **STE's play an important, but largely unrecognized, role in the world sugar market.**

   Sugar is generally regarded as the most volatile, and most distorted, of all the world's commodity markets. This is the direct result of the extraordinary amount of government involvement in the pricing, production, consumption, and trade of sugar. Over 100 countries produce sugar, and *all* have some level of government involvement in their individual markets.

   U.S. sugar farmers are efficient by world standards. But our efficiencies cannot compete with the distorting practices of foreign governments. U.S. sugar policy is, therefore, a necessary response to those practices and resulting distortions.

   Many countries control domestic pricing, imports, and/or exports of sugar through STE's. Australia and Brazil, two of the world largest sugar exporters, are prime examples.

   Australia has called for reform of U.S. sugar policy and argued that its sugar market is virtually "free." It ignores, however, the long standing practices of its Sugar Board (recently renamed the Queensland Sugar Corporation), which controls production through a "land assignment system" and "buys and markets the state's sugar production." This "single desk seller" functions as a monopoly, controlling both domestic and export market sales. In addition, Australia has a system of tariffs on sugar imports. (See the attached article from the *Financial Times*.)

   Brazil's sugar market, likewise, has long been controlled by its parastatal Sugar and Alcohol Institute.

2. **Compliance with GATT disciplines on STE's has been minimal.**

The General Agreement on Tariffs and Trade (GATT) recognized the trade distorting effects of STE's from its outset in 1947. The GATT has long required its member countries to report regularly on STE's, but compliance has been minimal.

In its 1995 report "State Trading Enterprises: Compliance with the General Agreement on Tariffs and Trade," the U.S. General Accounting Office points out that each year between 1980 and 1994 generally fewer than 10 percent of the member countries even bothered to file reports on whether any such STE's exist in their countries.

The GAO review revealed the existence of six sugar STE's, but many more no doubt exist among member countries. Brazil, for example, has never reported on the activities of its Sugar and Alcohol Institute.

The Uruguay Round established a Working Group to look more closely at STE practices. We hope this group will be active and aggressive.

3. **Future World Trade Organization (WTO) negotiations need to focus on STE's.**

The current WTO member countries must focus better on the trade distorting practices of STE's in future negotiations, most immediately in the ministerial meeting set for Singapore this December.

Furthermore, the WTO must be aware that a number of countries that have applied for GATT membership, such as China, Russia and the Ukraine, have major sugar industries controlled by STE's.

U.S. agricultural policy was seriously curtailed, far in excess of our Uruguay Round commitments, in the Federal Agriculture Improvement and Reform Act of 1996. Foreign countries are poised to take advantage of the unilateral reform and dismantlement of U.S. agricultural policy, and can further exploit their advantage through the trade distorting practices of STE's that have not been addressed.

For these reasons, we request your vigilance on this important subject, and we stand ready to assist you in any way we can.

Sincerely,

American Sugarbeet Growers Association
The United States Beet Sugar Association
American Sugar Cane League
Florida Sugar Cane League
Hawaii Agriculture Research Center
Rio Grande Valley Sugar Growers, Inc.
Sugar Cane Growers Cooperative of Florida

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JUL 12 1996

Mr. Dalton Yancey
Executive Vice President
Florida Sugar Cane League
Washington Represenetative
Rio Grande Valley Sugar Grower, Inc.
1301 Pennsylvania Avenue, N.W.
Suite 401
Washington, D.C. 20004

Dear Mr. Yancey:

Thank you for your letter of May 15, 1996, cosigned by your industry colleagues, expressing the American Sugar Alliance's concerns about State Trading Enterprises (STEs) in world sugar trade.

Please be assured that the Administration shares your concerns about STEs and is continuing to take steps to address the role of STEs in the import and export of agricultural commodities, including sugar.

As you know, a working group is now in regular session within the World Trade Organization (WTO) to monitor the activities of STEs. This group has a limited charter under the current WTO regime because disciplines specifically dealing with STEs have not yet been formulated. This situation is likely to change in the relatively near future because of the pending accession to the WTO of many countries whose internal economic structures are very dependent on STEs in both importing and exporting. China and Russia are among the most significant of these countries.

The STE working group currently is establishing a framework for future work, including negotiations to establish rules intended to mitigate the most egregious trade distorting effects of STEs. This framework will become the basis for a first round of negotiations addressing STEs at the Ministerial-level talks scheduled to be held in December 1996 in Singapore. The United States intends to be in the forefront of these discussions.

Thank you for your support and for writing to us to express your thoughts on this important trade issue. An identical letter is being sent to each of your colleagues.

Sincerely,

DAN GLICKMAN
Secretary

Chairman CRANE. Thank you, Mr. Yancey.

Chairman CRANE. I have just one question for Ms. Hughes and Mr. Moore, and it is kind of a followup to the question I asked earlier and concerns textile trade with Sub-Saharan Africa.

There are concerns that the textile quota in the Uruguay round was divided in such a way as to leave these countries with a very small piece of the pie. Given that textile manufacturing is often a critical first step leading to economic and industrial development, how do you suggest we alleviate the problem—by doing nothing, or expanding the level of imports permitted into the United States, or giving Africa more quotas to the detriment of other trading partners? And do you expect the issue of trade with the least developing countries to come up at the Singapore meeting?

Ms. HUGHES. We strongly support the mechanism that is included in your bill with Congressman McDermott because we think it is a positive step to appeal to business to improve their trade in Africa. Because that mechanism merely states that there will be no new quotas placed on Africa until the Sub-Saharan African continent as a whole reaches a certain level of trade, it gives an opportunity for businesses to produce in Africa where they do not produce there now.

This is important because in the past, quotas have been placed on African countries, such as Kenya, at such low levels that U.S. companies left their investment behind rather than try to deal with the quota system. Africa only has the next 7 1/2 years to become competitive with the other textile exporting countries since most of them are WTO members and are part of the quota phase-out. So we feel it is important to have some kind of a mechanism to jump-start investment in Africa so they do not get left behind permanently, not just with the current transition.

Chairman CRANE. Mr. Moore.

Mr. MOORE. Mr. Chairman, it is a difficult question because there are WTO constraints on some of the things that we as a government can or cannot do to try to promote trade there. I hope that we are successful. Our industry hopes that we are successful in promoting the development of trade from Sub-Saharan Africa, because quite frankly, we are looking for markets around the world to sell yarns and fabrics. Our industry has embarked on a very strong export effort. That is one reason why we are very interested in market access in the context of the Uruguay round WTO commitments.

We think that if that trade develops, we would be able to export yarns and fabrics there and create jobs and additional production in the United States. The question is how do you do it without harming, say, levels of U.S. apparel production currently; how do you do it and be consistent with the rules, because you cannot take away quota from someone else, as much as one might think that is desirable. My view, on a reading of the WTO, is that you are not allowed to do that from one WTO member to the next.

I think Ms. Hughes hit upon something that is very interesting. She said that those countries only have 7 1/2 years left, implying that they cannot compete in a freely open trading system. I am not sure that that is in fact the case because apparel production, if the rules are properly enforced—if China has to play by the rules and

reform its system, then in fact China may not take over the bulk of apparel production, which a lot of people think they will once quotas disappear. I alluded to the fact that they might in my testimony, because if we do not insist on reforms of the Chinese system, they surely will, and neither Sub-Saharan Africa nor any other apparel producer will have much of a chance to compete.

So, what we really urge is proper enforcement of the WTO disciplines to make sure that trade takes place under the kinds of conditions of equitable competition that it should. That will tend to promote those kinds of growth industries in countries where there is no production now. We have seen it in other countries. Nepal, a very undeveloped country, has become a major producer of apparel. So, there may be ways to do that but it is not easy.

Chairman CRANE. I want to thank all of you for your testimony and urge you, as I have done previous panels, to keep the channels of communication open and keep the flow coming down here for us because we are in the position of having to make sometimes difficult and not as well-informed decisions as you people would make if you were in our shoes.

We appreciate your input today. Thank you so much.

With that, our final panel is composed of representatives from additional U.S. industries. Elizabeth Seiler is director of environmental affairs for the Grocery Manufacturers of America, and she is accompanied by Gary Horlick of O'Melveny & Myers. Bruce Aitken is executive director of the Pro Trade Group. Howard Samuel is executive director of the Labor/Industry Coalition for International Trade, and he is accompanied by Timothy Regan, vice president of Corning-Asahi Video Products.

Again, ladies go first, so Ms. Seiler, we will hear your testimony for openers.

STATEMENT OF ELIZABETH H.A. SEILER, DIRECTOR OF ENVIRONMENTAL AFFAIRS, GROCERY MANUFACTURERS OF AMERICA, INC., ACCOMPANIED BY GARY HORLICK, PARTNER, O'MELVENY & MYERS, WASHINGTON, DC

Ms. SEILER. Thank you, Mr. Chairman and Congressman Rangel. I am Elizabeth Seiler of the Grocery Manufacturers of America, and I am here today representing the Coalition for Truth in Environmental Marketing Information. The Coalition's members are American trade associations representing aluminum, forest and paper, chemical, plastic, electronic and food and consumer product companies.

With me today is Gary Horlick of O'Melveny & Myers.

The Coalition's members support the sharing of environmental information with consumers through eco-labeling, but are concerned that certain eco-labels, particularly those being developed in Europe, which provide misleading and incomplete information, could serve as a barrier to U.S. trade.

Our position is that the Singapore Ministerial should direct the Subcommittees on Trade and the Environment to develop principles on eco-labeling that will promote their environmental goals while reducing the chances that they will become the source of trade disputes.

The objectives of eco-labeling programs are to provide information to consumers and to encourage the development and use of products with reduced environmental burdens. We agree with these objectives, and they are broadly shared by government, industry and the environmental community.

A system modeled on the FTC guides for the use of environmental marketing claims is an excellent means of accomplishing this. The guides are based on the principles of truthfulness, scientific basis, verifiability and nondeceptiveness. The guides have been praised by environmental groups and businesses and have led to an increase in meaningful environmental labeling in the United States.

While the Coalition strongly supports eco-labeling based on the approach embodied in the FTC guides, it is deeply concerned over one form of eco-labeling known as eco-seals, which have become more common overseas, particularly in Europe. An eco-seal is a type of eco-label that is a symbol awarded by a centralized certification panel that purports to judge the environmental effects of products and packaging and to tell consumers, with a single seal, which products and packaging are "best" for the environment.

An example can be seen on the last page of my testimony.

Our member companies' 20 years of experience with eco-seals in Europe and elsewhere has shown that these programs have inherent unresolvable problems in both theory and practice. Specifically, the selection of criteria upon which an eco-seal is awarded is subjective rather than scientifically sound. They act as barriers to innovation both for environmental progress and product performance. They do not educate consumers about the environmental attributes or tradeoffs associated with the products they purchase, and they are barriers to trade because their criteria are frequently discriminatory and protectionist in nature.

I would like to go a little further into the issue of science because it is integral to the development of criteria for any credible eco-seal.

At this time, there is no objective way to scientifically determine which products and packaging are "best" for the environment. Products have different strengths and weaknesses from an environmental standpoint, even within the same category. For example, one product may have low energy consumption but generate relatively high solid waste. Another may have low solid waste but cause greater water pollution.

Even within a single environmental parameter, there are tradeoffs, and among different geographic areas, the relative priority of environmental issues varies. For example, detergents which use less water are more valuable in dry countries. As a result, the process of granting an eco-seal is inherently based on value judgments by the issuing organization.

Eco-seal panels typically consist of government officials, companies and experts from the country establishing the program. Faced with no objective means for trading off environmental attributes of products and sensitized to local concerns, the panels inevitably favor local products. We suspect that discrimination in favor of local products is often intentional.

Eco-seals have become sources of increasingly contentious trade disputes. Most recently, the European Union has issued eco-seal criteria for paper and pulp that threaten to shut U.S. producers out of European markets. We can expect trade disputes such as that brewing over paper to occur with increasing frequency as eco-seal programs expand. At the same time, we cannot permit U.S. products to be discriminated against in violation of WTO rules by protectionist measures disguised as environmental measures.

Mr. chairman, I also want to clarify what our Coalition does not oppose. Our Coalition has taken no position on labor labeling, which we believe is completely unrelated to the issues we raise. Moreover, we are not opposed to the use of symbols which clearly convey to consumers specific, verifiable information about the environmental attributes of products.

Mr. Chairman, we look forward to continuing to work with your Subcommittee and other interested Committees in Congress to develop a strategy that will protect U.S. exporters while promoting the laudable goals of eco-labeling.

Thank you.

[The prepared statement and attachment follow:]

TESTIMONY OF ELIZABETH H.A. SEILER
DIRECTOR OF ENVIRONMENTAL AFFAIRS
GROCERY MANUFACTURERS OF AMERICA, INC

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify today. I'm Elizabeth Seiler, Director of Environmental Affairs for the Grocery Manufacturers of America, and I am here today representing the Coalition for Truth in Environmental Marketing Information. The Coalition's members are American trade associations representing aluminum, forest and paper, chemical, plastic, electronic and food and consumer product industries. The Coalition's 1,200 U.S.-based companies do over $900 billion dollars of business globally. With me today is Gary Horlick of O'Melveny & Myers, counsel to the Coalition.

The Coalition's members support the sharing of environmental information with consumers through eco-labeling, but are concerned that certain eco-labels, which provide misleading and incomplete information, could serve as a barrier to U.S. trade. The Coalition is speaking here today because the WTO Committee on Trade and the Environment has taken up the issue of eco-labeling, one form of which has increasingly become a trade barrier.

It is important that the Singapore Ministerial take action to ensure that rules concerning eco-labeling ensure progress towards the linked goals of environmental education and avoidance of barriers to U.S. trade.

The objectives of eco-labeling programs are to provide information to consumers and to encourage the development and use of products with reduced environmental burdens. We agree with these objectives, and they are broadly shared by government, industry, and the environmental community.

Providing scientifically sound, useful, environmental information is an important and constructive way to help consumers make informed choices about the products and packaging they purchase. A system modeled on the Federal Trade Commission's Guides for the Use of Environmental Marketing Claims (the "Guides") is an excellent means of accomplishing this. The Guides are based on the principles of truthfulness, scientific basis, verifiability and non-deceptiveness. A market-oriented environmental information sharing system, such as the Guides, encourages competition and innovation, and empowers consumers to make informed choices based on objective, scientific information about the environmental effects of products and packaging. The Guides reflect the new generation of government environmental policy-making which encourages innovation and flexible decision-making by manufacturers and consumers. The Guides have been praised by environmental groups and businesses, and have led to an increase in meaningful environmental labeling in the United States.

While the Coalition strongly supports eco-labeling based on the approach embodied in the FTC Guides, it is deeply concerned over one form of eco-labeling, known as eco-seals, which have become more common overseas, in particular in Europe. For those on the Committee who are new to this issue, an eco-seal is a type of eco-label that is a symbol awarded by centralized certification panel that purports to judge the environmental effects of products and packaging and to tell consumers, with a single seal, which products and packaging are "best" for the environment. In other words, eco-seals connote environmental preferability. However, our member companies' twenty years of experience with eco-seals in Europe and elsewhere has shown that eco-seal programs have inherent, unresolvable problems in both theory and practice. They neither encourage environmental progress in consumer markets, nor provide consumers with useful information that empowers them to make informed purchasing decisions. The specific problems with eco-seals are:

- The selection of criteria upon which an eco-seal is awarded is subjective rather than scientifically sound.
- They act as barriers to innovation -- both for environmental progress and product performance.

- They do not educate consumers about the environmental attributes or tradeoffs associated with the products they purchase.
- They are barriers to trade, because their criteria are frequently discriminatory and protectionist in nature, whether by design or not.

I would like to go a little further into the issue of science because it is upon this issue that criteria for any credible eco-seal must rest.

At this time, there is no objective way to scientifically determine which products and packaging are "best" for the environment. Eco-seal authorities cannot objectively reconcile environmental tradeoffs between different products, social infrastructures, or regional/national priorities.

Products have different strengths and weaknesses from an environmental standpoint, even within the same category. For example, one product may have low energy consumption, but relatively high solid waste emissions. Another may have low solid waste, but cause greater water pollution. Even within a single environmental parameter there are tradeoffs. For example, products manufactured in most of Europe and the U.S. will use energy from natural gas or coal fired power plants, while those made in France use mostly nuclear power. Each of these power sources has different environmental characteristics that cannot be scientifically ranked by any "expert" panel. Finally, among different geographic areas, the relative priority of environmental issues varies. For example, in Spain, water is relatively scarce, and the laundry process in many areas is typically performed in normal temperature water. Thus, from a local standpoint, a detergent which reduces water use would be more environmentally meaningful than one that conserves energy. In Germany, where heated water is normally used, and water is relatively plentiful, the reverse is the case. The history of eco-seals is replete with failed efforts to paper over these unresolvable conflicts.

As a result, the process of granting an eco-seal inherently is based on value judgments by the issuing organization. In practice, eco-seal systems often favor local manufacturers over foreign competitors by virtue of the way criteria are determined. Eco-seal panels typically consist of government officials, companies and experts from the country establishing the program. Faced with no objective, scientific means for trading off environmental attributes of products and sensitized to local environmental concerns, the panels inevitably favor local products. Although harder to prove, we suspect that discrimination in favor of local products is often intentional.

Eco-seals have become sources of increasingly contentious trade disputes. Most recently, the European Union has issued eco-seal criteria for paper and pulp that threaten to shut U.S. producers out of European markets. Working with one of the Coalition's members, the American Forest & Paper Association, the U.S. Government has been trying heroically for over a year to try to moderate the most discriminatory aspects of the EU program. Thus far, this effort has failed. The EU disregarded the valid concerns raised both by the U.S. Government and U.S. industry (and their own European paper industry) and adopted controversial eco-seal criteria for copying paper in late July.

We can expect trade disputes such as that brewing over paper to occur with increasing frequency as eco-seal programs expand. These disputes and the way eco-seal programs operate and are administered could undermine the legitimacy of, and public confidence in, all eco-labeling programs, a result nobody wants. At the same time, we cannot permit U.S. products to be discriminated against in violation of WTO rules by protectionist measures disguised as environmental measures.

The WTO Committee on Trade and the Environment (CTE) was established by the WTO Ministers in Marrakech with the stated aim of "making international trade and environmental policies mutually supportive." From the start, eco-labeling has been on the agenda of the CTE. The Coalition views the work of the CTE as an opportunity to resolve problems with eco-seal programs so that eco-labeling can

continue to develop without becoming the source of trade disputes. Our position is that the CTE should have on the agenda of its post-Singapore work program the development of principles on eco-labeling that will promote the environmental goals of eco-labeling while reducing the chances that eco-labels will become the source of trade disputes.

Mr. Chairman, I have explained what the Coalition supports and opposes about eco-labeling. I also want to clarify what the Coalition does not oppose. Our Coalition has taken no position on labor labeling, which we believe is completely unrelated to the issues we raise. However, we do not perceive any conflict between our goals and means and those of proponents of labor labeling. Moreover, we are not opposed to the use of symbols which clearly convey to consumers specific, verifiable information about the environmental attributes of products. Likewise, our positions are not in conflict with the "dolphin-safe" label, which, again, conveys specific, objective information to consumers.

Mr. Chairman, we look forward to working with your Committee and other interested Committees in Congress to develop a strategy that will protect U.S. exporters while promoting the laudable goals of eco-labeling. Thank you again for providing us with the opportunity to come before you today to discuss our concerns.

ECO-LABELS

ECO-SEAL
(TYPE I)

ENVIRONMENTAL INFORMATION LABELS
(TYPE II)
(e.g. FTC Guidelines)

TIDE
PACKAGE AND PRODUCT INFORMATION

- The Solid Waste Association of North America supports product and packaging innovations that reduce solid waste.

- Refill designed to help reduce solid waste in the environment.
- Refill made from at least 25% post-consumer recycled plastic.
- Refill made from 80% less packaging than Tide cartons because it has no scoop, no handle and no cardboard.
- Use your Tide carton and scoop again and again.
- Cleaning agents are biodegradable.
- Safe for septic tanks.
- CONTAINS NO PHOSPHORUS.

Questions? 1-800-879-8433.

Chairman CRANE. Thank you, Ms. Seiler.
Mr. Aitken.

STATEMENT OF BRUCE AITKEN, EXECUTIVE DIRECTOR, PRO TRADE GROUP, INC.

Mr. AITKEN. Thank you, Mr. Chairman.

I am Bruce Aitken, a partner in the law firm of Aitken, Irvin, Lewin, Berlin, Vrooman & Cohen, and Pro Trade Group executive director. I have been asked to testify today by Ed Black, PTG chair and president of the Computer and Communications Industry Association.

We commend the Subcommittee on conducting this hearing, particularly in light of the fact that our understanding is that the operating Committees of the WTO will conclude their meetings to establish the agenda for the ministerial by the middle of next month.

We have three issues that I will briefly comment on today. We intend to discuss these and other issues more fully in a posthearing submission.

They are, first, the implications for the WTO of the harmonization of manufacturing standards; second, the need for a telecommunications agreement, and third, implementation of the Uruguay round issues.

As to the first issue, we believe that the goal of global harmonization of manufacturing standards should be addressed at the ministerial. We believe this issue could and should be addressed within the context of the WTO's Technical Barriers to Trade Committee and its Trade and Environment Subcommittees. We commend the administration for its support of the achievement of the goal of global harmonization of manufacturing standards through, among other things, mutual recognition agreements. This, after all, reduces the cost of manufacturing, which is what the WTO is all about, facilitating trade.

Over the last year, for example, this has been the focus of the Trans-Atlantic Business Dialog. If this serves as a model and precursor for truly global harmonization, then we support its goals.

However, we are concerned with its focus on the UN Economic Commission for Europe Working Group 29 as the vehicle for global harmonization. While this group has focused on related issues for nearly 30 years, it would need to broaden its global make-up, including membership by the United States, and outlook to fill the role needed to achieve the goal of global harmonization.

The recent proposals in hearings held in July by the U.S. Department of Transportation and the Environmental Protection Agency to reform Working Party 29 in the context of possible harmonization of automotive standards are such threat as to call into question the likelihood of such changes, at least in the near future.

By contrast, the WTO has the stature to coordinate these interests of concerned governments and to discuss global harmonization. In fact, it may indeed facilitate the reform of UN Working Party 29.

We have attached to our testimony a memorandum of law that describes the negotiating history of these Committees and the basis for raising these issues within the context of the WTO, and we ask that that be included as part of the record of the hearing.

The second issue that we wish to address briefly is that we believe that at the WTO Ministerial, the progress of negotiations on basic telecommunications services should be reviewed. As you know, the negotiations were originally scheduled to conclude on April 30, 1996 but have been extended until February 15, 1997. A number of our members were disappointed at the failure to conclude these talks last April, but remain hopeful that a final agreement will be reached. We urge an emphasis in Singapore on the importance of achieving a competitive global marketplace for telecommunications services and a call for all countries to submit offers that conform to WTO regulatory principles.

Third, we join with many others in calling for a focus on implementation of the Uruguay round agreements. As Members of the Subcommittee well know, the Uruguay round agreements include 175 notification requirements that the various agreements are being implemented. Yet WTO Director General Ruggiero has reported that for some of the agreements, notification of compliance has been poor, and he has noted concerns about the lack of completeness and comparability of the notifications.

Finally, in our post-hearing submission, we intend to address a number of other issues, including WTO dispute resolution.

Again, we commend the Subcommittee on the timeliness and importance of this hearing and thank you for the opportunity to appear.

[The prepared statement and attachments follow:]

TESTIMONY OF BRUCE AITKEN, EXECUTIVE DIRECTOR, PRO TRADE GROUP, ON THE DECEMBER, 1996 WTO MINISTERIAL MEETING

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to appear today. My name is Bruce Aitken, I am a partner in the Washington, D.C. law firm of Aitken Irvin Lewin Berlin Vrooman & Cohn and serve as Executive Director of the Pro Trade Group.

We understand that the operating committees of the World Trade Organization (WTO) will conclude their recommendations for discussion items for the agenda of the December, 1996 Ministerial meeting by mid-October. As such, we commend the Subcommittee on organizing this hearing and urge the Congress and the Administration to strongly express the concerns and views of U.S. industry as to legislative items for discussion at the Ministerial meeting.

The Pro Trade Group is a broad coalition of U.S.-based companies and organizations that represent U.S. exporters, importers and consumers, including manufacturing, agricultural, wholesaling, retailing, service and civic interests, which actively seek to develop competitive markets and promote trade. It was founded in 1986 and is committed to expanding, not restricting, trade and promoting policies which achieve that goal and resultant economic prosperity. We were actively involved in the development and passage of the Omnibus Trade and Competitiveness Act of 1988 and played an equally active role in the consideration and enactment of Uruguay Round (UR) implementing legislation. We are committed to helping develop and implement constructive, trade expanding policies, laws and regulations. The positions of the PTG represent a consensus view although PTG participants may have varying views on particular issues.

As the PTG is a coalition of diverse U.S. companies and associations, we intend to file a comprehensive submission to the Subcommittee later this month. Today, we wish to highlight just a few of the issues of concern to our members.

First, we believe that the goal of global harmonization of manufacturing standards should be discussed at the WTO Ministerial. This issue, we believe, could and should be raised by the United States within the context of the WTO's Technical Barriers to Trade Committee and the Trade and Environment Committee. We commend the Administration for its support for achievement of the goal of global harmonization of manufacturing standards through, among other things, mutual recognition agreements. Over the last year, e.g., this has been the focus of the TransAtlantic Business Dialogue. If this serves as a model and precursor for truly global harmonization, we support its goals. However, we are concerned with its focus on the UN Economic Commission for Europe Working Party 29 as the vehicle for global harmonization. While this group has focused on related issues for nearly 30 years, it would need to broaden its global makeup and outlook to fill the role needed to achieve the goal of global harmonization. The recent proposals of the U.S. Department of Transportation and the Environmental Protection Agency for reform of Working Party 29, in the context of possible harmonization of automotive manufacturing standards, are of such breadth as to call into question the likelihood of such changes, at least in the near future. Further, UN Working Party 29 would need to broaden its global make-up and outlook to fill the role needed to serve as a viable vehicle for negotiating global harmonization. By contrast, the WTO has the stature to coordinate the interests of concerned governments to discuss the goal of harmonization.

Enclosed as an Appendix is a Memorandum of Law which discusses the basis for raising harmonization issues -- by mid October -- within the WTO's

Technical Barriers to Trade Committee and its Trade and Environment Committee.

Second, we believe that at the WTO Ministerial, the progress of negotiations on basic telecommunications services should be reviewed. As you know, the WTO has sponsored negotiations with over 50 nations, including the United States, to achieve an agreement liberalizing trade in telecommunications services. The negotiations were originally scheduled to conclude on April 30, 1996, but have been extended until February 15, 1997. A number of our members were disappointed at the failure to conclude the talks on April 30, but remain hopeful that a final agreement will be reached. We urge an emphasis, in Singapore, on the importance of achieving a competitive global marketplace for telecommunications services and a call for all countries to submit offers that conform to the WTO regulatory principles.

Third, we join with many others in calling for a focus on implementation of the UR. As the members of the Subcommittee well know, the UR agreements include 175 notification requirements that the various agreements are being implemented. Yet WTO Director-General Renato Ruggiero has reported that, for some of the agreements, notification of compliance has been poor and he has noted concerns about the lack of completeness and comparability of the notifications and about the administrative burden of complying with the requirements.

Finally, in our post hearing submission, we intend to address a number of other issues, including the WTO dispute resolution process, among others. In that submission, we intend to offer a comparative analysis of the dispute resolution mechanisms of the U.S.-Israel and U.S.-Canada Free Trade Agreements, the NAFTA and the WTO, with some policy recommendations.

Thank you. We will look forward to working with the Subcommittee on this important subject.

AITKEN IRVIN LEWIN BERLIN
VROOMAN & COHN, LLP
Attorneys at Law
Fulton, Maryland
Orange, California
1709 N Street, N.W.
Washington, DC 20036
Telephone: (202) 331-8045/331-8234
Facsimile: (202) 331-8191/537-8073
Garrison, New York
White Plains, New York

APPENDIX

September 11, 1996

MEMORANDUM TO THE FILES

FROM: Bruce Aitken and Martin J. Lewin

RE: HARMONIZATION OF MANUFACTURING STANDARDS -- BACKGROUND INFORMATION ON THE WTO'S COMMITTEES ON TECHNICAL BARRIERS TO TRADE AND ENVIRONMENT

I. OVERVIEW

The goal of global harmonization of manufacturing standards should be discussed at the December, 1996 World Trade Organization (WTO) Ministerial meeting in Singapore. This issue, we believe, could and should be raised by the United States within the context of the WTO's Technical Barriers to Trade Committee and its Trade and Environment Committee. The Administration has supported achievement of the goal of global harmonization of manufacturing standards through, among other things, mutual recognition agreements. Over the last year, e.g., this has been the focus of the Trans-Atlantic Business Dialogue (TABD). If this serves as a model and precursor for truly global harmonization, we support its goals. However, both the Administration and the TABD have focused on the UN Economic Commission for Europe Working Party 29 as the vehicle for global harmonization. While this group has focused on related issues for nearly 30 years, it would need to broaden its global makeup and outlook to fill the role needed to achieve the goal of global harmonization. The recent proposals of the U.S. Department of Transportation (DOT) and the Environmental Protection Agency (EPA) for reform of Working Party 29, in the context of possible harmonization of automotive manufacturing standards, are of such breadth as to call into question the likelihood of such changes, at least in the near future. Further, UN Working Party 29 would need to broaden its global make-up and outlook to fill the role needed to serve as a viable vehicle for negotiating global harmonization. The United States, e.g., is not a participant and the DOT/EPA proposals

for reforming this entity raise questions of whether it is a viable forum for this matter, at least in the near future. By contrast, the WTO has the stature to coordinate the interests of concerned governments to discuss the goal of harmonization

The following discusses the pertinent background of the Uruguay Round (UR) negotiations and the mandates of the WTO's Committees on Technical Barriers to Trade, and Trade and the Environment.

II. DISCUSSION

A. URUGUAY ROUND NEGOTIATIONS

1. The background of the negotiations is instructive as to the issue of the possible discussion of manufacturing standards harmonization at the WTO's December, 1996 Ministerial. The operative section of the UR, on its objectives, reflects the considerations set out in its preamble. Among other things, the negotiations were aimed at strengthening the role of the GATT system, including its responsiveness to the evolving consensus to improve environmental standards.

2. Nine "MTN Agreements and Arrangements" were negotiated in the Tokyo Round. The Punta del Este agreement called for them to be improved, clarified and expanded, "as appropriate". At the conclusion of the Tokyo Round, five codes, to a greater or lesser extent, were identified as the subject of future negotiations. They were the agreements on technical barriers to trade (referred to as the "standards code"), the government procurement code, customs valuation, import licensing, and dumping (the "antidumping code").

3. The WTO entered into force on January 1, 1995, pursuant to the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations of December 15, 1993, and the April 15, 1994 Marrakesh Agreement Establishing the WTO and adopted by Ministers representing 124 government and the European Communities.

4. The objectives of the TBT Committee are set forth in the UR preamble. While qualified to ensure that members countries are not prevented from taking measures necessary to ensure the quality of a country's exports, to protect health or the environment, or prevent deceptive practices, the preambles include the following elements, in pertinent part:

> *Recognizing* the important contribution that international standards and conformity assessment systems can make in this regard by improving efficiency of production and facilitating the conduct of international trade
>
> *Desiring* therefore to encourage the development of such international standards and conformity assessment systems:
>
> *Desiring* however to ensure that technical regulations and

> standards, including packaging, marking and labeling requirements, and procedures for assessment of conformity with technical regulations and standards do not create unnecessary obstacles to international trade.
>
> * * * * *
>
> *Recognizing* the contribution which international standardization can make to the transfer of technology from developed to developing countries.
>
> *Recognizing* that developing countries may encounter special difficulties in the formulation and application of technical regulations and standards and procedures for assessment of conformity with technical regulations and standards, and desiring to assist them in their endeavors in this regard.

5. Both agreements call upon the member countries to work to harmonize technical regulations, that is, enforceable measures, as wide a basis as possible In this regard, Article 2 6 of Uruguay TBT provides:

> With a view to harmonizing technical regulations on as wide a basis as possible, members shall play a full part, within the limit of their resources, in the preparation by appropriate international standardizing bodies of international standards for products which they have adopted, or expect to adopt, technical regulations.

6. A significant addition under the Uruguay Round TBT is Article 6, Recognition of Conformity Assessment by Central Government Bodies. Article 6,1 provides in pertinent part:

> With respect to their central government bodies:
>
> 6.1 Without prejudice to the provisions of Article 6, paragraphs 3 and 4. Members shall ensure, whenever possible, that results of conformity assessment procedures in other Members are accepted, even when those procedures differ from their own, provided they are satisfied that those procedures offer an assurance of conformity with applicable technical regulations or standards equivalent to their own procedures.

In addition, Article 6.3 provides:

> 6.3 Members are encouraged, at the request of other Members, to be willing to enter into negotiations for the conclusion of agreements for the mutual recognition of results of each other's conformity assessment procedures.

> Members may require that such agreements fulfil the criteria of Article 6, paragraph 1, and give mutual satisfaction regarding their potential for facilitating trade in the products concerned.

7. Read in conjunction with Article 2.6, these provisions provide an obvious basis for member countries to pursue the goal of for harmonization of manufacturing standards within the WTO. Also, in informal discussions with the WTO Secretariat staff responsible for TBT Agreement, we understand that the WTO is looking to member country interest in developing Article 6. This in turn, may depend on the position of manufacturers with their governments.

B. TECHNICAL BARRIERS TO TRADE COMMITTEE

1. As indicated in 4/15/96 letter to us, the WTO's Trade and Environment Division stated:

> "Harmonization is one of the main principles of the WTO Agreement on Technical Barriers to Trade. In order to improve economic efficiency and to minimize obstacles to trade that could be created by national differences in technical regulations, standards and procedures for conformity assessment, the TBT Agreement encourages harmonization through the use of international standards, the acceptance of the technical regulations of other Members as equivalent, and mutual recognition of conformity assessment procedures."

2. As the WTO's own history of the Uruguay Round negotiations stated, "the agreement on technical barriers to trade -- familiarly known as the "standards codes", or in the jargon of the officials concerned, "TBT" -- was perhaps the most successful of the Tokyo Round Agreements", which concluded in November, 1979.[1] The Tokyo Round standards code was designed to ensure that international trade would not be unnecessarily burdened by technical regulations and standards. In general, the Code had been concerned with rules that establish what characteristics a product must have, e.g., its performance, size or safety. In the UR, what some countries sought was further improvement, clarification and/or expansion of the agreement.

3. The 1979 Code focused on setting obligations that would apply between the central governments which signed it. It did not cover non-governmental bodies or "second-tier" government agencies (e.g., provincial governments). It only provided that signatory governments should take reasonable measures as may be available to them to comply with the code. In the UR negotiations, the European Community proposed a Code of Good Practice for the Preparation, Adoption and Application of Standards in Annex 3 of the Agreement as Technical Barriers to Trade. This was designed to attempt to translate the main obligations under the Code -- national and most-favored nation treatment, the use of international standards and transparency -- into operational guidelines that would be submitted to these bodies for acceptance.

---

[1] See, Croome, John, Reshaping the World Trading System, (WTO 1985) at p. 5.

4. The WTO's Committee on Technical Barriers to Trade was established as part of the UR Agreement on Technical Barriers to Trade. Article 13 of that Agreement provides:

> "There shall be established under this Agreement:
>
> 13.1 A Committee on Technical Barriers to Trade composed of representatives from each of the Members (hereinafter referred to as "the Committee"). The Committee shall elect its own Chairman and shall meet as necessary, but no less than once a year for the purpose of affording members the opportunity of consulting on any matters relating to the operation of this Agreement or the furtherance of its objectives, and shall carry out such responsibilities as assigned to it under this Agreement or by the Members."

5. In the negotiations, the United States finally was persuaded to accept the EC proposal for a Code of Good Practice. Among other things, it aims to "ensure that standards are not prepared, adopted or applied with a view to, or with the effect of, creating unnecessary obstacles to trade." Agreement on this code was helped by a proposal from the International Organization for Standardization (ISO) that it should cooperate in defining what represents good practices. The ISO's membership includes both governmental and non-governmental standards bodies. It has cooperated closely with the GATT on the operation of the Tokyo Round Code and its support for the Code of Good Practice made its possible for negotiators to reach an agreement which channeled reporting procedures through it.

6. Finally, a Ministerial decision was made "to recommend that the Secretariat of the World Trade Organization reach on understanding with the International Organization for Standardization (ISO)" to establish an information system.

7. Clearly, the Standards Code has evolved. It is in this context that we believe it appropriate for the WTO's TBT Committee to consider a possible formal encouragement to WTO members of harmonization of manufacturing standards as an important trade liberalizing goal.

C. TRADE AND ENVIRONMENT COMMITTEE

1. This Committee has none of the history of the TBT Committee. Until the end of the UR negotiations, environmental issues were addressed in the preamble to the UR Agreement but the decision to establish a standing environmental committee was left for a post-round work program. The preamble states, in part, that "relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living ... seeking both to protect and preserve the environment and enhance the means for doing so..." (Emphasis added).

2. At the April 12-15, 1994 Marrakesh meeting, the Ministers decided to direct the first meeting of the WTO's General Council to establish a Committee on Trade and Environment. The Ministerial decision directed the Committee to address several matters, including "the relationship between the provisions of the Ministerial trading system and ... (b) requirements for

environmental purposes relating to products, including standards and technical regulations ...." It also directed the Committee to report to the first Ministerial Conference, which is the December, 1996 meeting in Singapore.

3. The Committee was charged with the "aim of making international trade and environmental policies mutually supportive", including "requirements for environmental purposes relating to products ..." We believe that an appropriate goal for international manufacturing is to attempt to persuade the WTO's Trade and Environment Committee to consider including in its report to the Ministerial Conference recognition that truly global harmonization of international manufacturing standards is consistent with its mandate and goals and, further, that inconsistent standards represent an obstacle to open trade. This issue could be considered by the WTO Committee in terms of mutual recognition.

III. CONCLUSION

The focus of the Administration, and the TABD, on achieving progress towards global harmonization of manufacturing standards through UN Working Party 29 is problematic. An effort to reach a consensus at the WTO Ministerial to reaffirm the goal of a global harmonization of manufacturing standards would appear to be a worthwhile exercise in its own right and, further, may have the added benefit of creating an environment which facilitates reform of UN Working Party 29.

Chairman CRANE. Thank you, Mr. Aitken.
Mr. Samuel.

STATEMENT OF HOWARD SAMUEL, EXECUTIVE DIRECTOR, LABOR/INDUSTRY COALITION FOR INTERNATIONAL TRADE

Mr. SAMUEL. Thank you, Mr. Chairman.

I am here, along with my colleague Mr. Regan, on behalf of the LICIT, Labor/Industry Coalition for International Trade, which is a coalition of businesses and companies that work together in support of increased, balanced and equitable international trade. As is our custom when we testify at Committee hearings such as this, we are represented by someone from the labor movement—I spent a number of years in the labor movement before becoming associated with LICIT—and Mr. Regan is a division vice president of Corning, Inc.

The trade policy issues arising as U.S. officials prepare for Singapore are important to LICIT's company and union members. While LICIT has been active across a spectrum of WTO issues—and our full testimony touches on a number of those issues—today we will just focus on two. I will talk briefly about competition policy, and Mr. Regan will discuss the issues regarding dispute settlement.

Competition policy is a trade issue. LICIT and particularly its subsidiary, the Coalition for Open Trade, are deeply concerned about the problem of private anticompetitive practices abroad and government toleration of such practices. Inadequate and uneven discipline over anticompetitive practices harms U.S. trade interests and is one of the major trade policy problems the U.S. Government will have to tackle in the years ahead.

While perhaps primarily a concern with respect to Japan and Europe today, this problem will only magnify as other trading nations shed their formal, government-imposed trade barriers and private restraints take on added commercial significance.

Our members have first-hand experience in this area. The Coalition for Open Trade has led the way in documenting the problem and spurring debate on solutions, starting with our first report published in 1991. Among the many sectors where we have documented anticompetitive practices as a market access problem are paper, glass, steel, autos and auto parts, and heavy electrical equipment.

Our message concerning competition policy in the Singapore Ministerial is a simple one. We have two main points. First, focus on competition policy, not antidumping. While interested in multilateral progress on ACPs, anticompetive practices, we are quite alarmed by recent suggestions that this could be a way of reopening antidumping issues. The U.S. Government, we believe, must prevent this. Antidumping is a separate issue. The focus of multilateral competition policy discussions should be on the ways in which ACPs and support for or toleration of such practices by National Governments restrict the ability of foreign businesses to contest markets. We believe that such an inquiry will clearly show that ACPs and differential antitrust responses by National Governments affect competition within markets.

There is no reason why a competition policy initiative needs to involve any consideration of antidumping or other trade policy

measures. In addition, the WTO antidumping rules were just recently renegotiated. They should be allowed to work, and the new WTO Committee on Antidumping used for airing reform proposals.

Finally, "compromise" language in the ministerial communique should be avoided. Too often, international efforts to begin addressing competition policy have resulted in statements that focus on both antidumping and uneven antitrust enforcement, as if both were problems in need of correction. The United States should not sign on to any such statement at Singapore.

Our second goal we believe should be that we set a modest, achievable goal for the near future. Antitrust cooperation is not enough and probably not feasible. For a variety of reasons, cooperation among antitrust authorities is not an adequate substitute for market access efforts. There is no clear prospect for success in relying on traditional antitrust approaches to solve market access problems, and a limited track record at best to date, despite the best of intentions.

For now, multilateral efforts in this area should focus on fact-gathering rather than rulemaking. The goal should be to identify barriers to market access that are not adequately covered by international commitments and that may not be reachable under current rules and dispute settlement.

Meanwhile, the United States must continue to address bilaterally, through section 301, foreign government toleration of private restraints that block U.S. exports to, or investment in, foreign markets. As with intellectual property rights, such an approach will enhance our ability to bring this issue into the multilateral system with appropriate rules at a later date.

Thank you.

Chairman CRANE. Thank you, Mr. Samuel, and before you commence, Mr. Regan, our colleague, Amo Houghton, apologizes for his inability to be here; he had a conflict with another engagement. Please proceed.

STATEMENT OF TIMOTHY REGAN, VICE PRESIDENT, CORNING-ASAHI VIDEO PRODUCTS, INC., CORNING, NEW YORK

Mr. REGAN. Thank you, sir.

Mr. Chairman, Mr. Rangel, I am in the unenviable position of standing between you and the end of this hearing so you can go to dinner, so I am going to make it real quick.

My name is Tim Regan, and I am with Corning, Incorporated. We are a founding member of the organization, LICIT, which has been around for over a decade. We are proud of our participation because we are one of the few organizations where you really find some collaboration and cooperation between labor and business. We are proud of the association.

The dispute settlement process has been used aggressively by the United States. We have filed some 17 cases, and our government appears to be going after them aggressively. We do not know what the outcome of this effort is going to be because we have not gotten the results, but the will so far seems to be there.

I should also say that the agreement is going to be up for reconsideration in 4 years; there is a 4-year trial period in it. We think

this ministerial coming up is an opportunity to send a couple of signals to the rest of the world about dispute settlement.

The first signal is that it is not going to interfere and should not interfere with the things we have to do bilaterally. The dispute settlement is there to deal with problems that are currently within the system and can be dealt with in the system. As we all know, the agreement was not all-encompassing. There are certain practices and certain problems that remain outside the agreement. The United States should tell the rest of the world that, going forward, we are going to continue to pursue resolution of those problems using the normal U.S. tools for bilateral resolution, including section 301.

Number two, we have got to make it clear to the world that clearly—and I think Charlene Barshefsky did this today—the dispute settlement process does not violate any country's sovereignty. This is a very important point. There has been a lot of talk about sovereignty. The fact of the matter is that if you get a decision that is made against you in the dispute settlement process, you do not have to conform. You can compensate the other parties. You can face some form of retaliation, but they cannot change our laws, and we need to make that clear, and we need to reinforce that concept, both domestically and internationally.

Finally, there is lots that we can do to make this system more transparent. Now that it is becoming the primary method for resolving problems. We used to just go to USTR and they would work out a solution; whether it was the 301 solution or some other solution, they would take care of it. We knew whom we were dealing with. Not anymore. Now, we are going to go to USTR, and they are going to go into an international court, and there is going to be a lot of activity in that international court. As private interests that are affected by the outcome of this discussion, we want to be involved in that process, and we think USTR knows that, and they are trying to do it.

One thing we would like to have is the ability to get access to briefs that are submitted. Up until now, we have not been able to get anything. Just about 2 months ago, USTR was able to get the rest of the world to agree that they are going to start making panel decisions, at least, the final outcome, available; they are going to derestrict those decisions and make them available to public interests.

The second thing we would like to provide for is the possibility for public hearings. We would like to be able to participate—by "participate," I mean observe, at least—the hearings that are being undertaken on our behalf, except in instances where there is clearly confidential information being utilized.

Third, we would like to participate. Amicus briefs. We can do it in U.S. courts; why not do it in international courts?

And then, of course, we want to have some control on the WTO's use of outside experts; use such experts only when they are requested and approved by both parties to the dispute.

Those are some areas where we can make improvements, and I think that the USTR folks are interested in transparency. Here are some specific suggestions.

Now, in terms of domestically, what we need to do—that is, how do we need to reinforce the dispute settlement process in the United States—I will give you a couple of ideas.

One is to pass and to enact the so-called Dole bill, the WTO Review Commission bill, which has been introduced in the House as H.R. 1334.

Another way is to ensure that we have continued effective enforcement of our trade laws, the unfair trade laws, and we think that that is happening and ought to continue to happen.

A third way is to ensure that we have aggressive enforcement of the trade agreements. We are very pleased by what happened in the Commerce Department and USTR when they set up these offices of compliance because now we are going to make sure that folks really do live up to their international obligations.

I appreciate your patience. Thank you.

[The combined prepared statements follow:]

Statement of

The Labor-Industry Coalition for International Trade (LICIT)

on

The Singapore WTO Ministerial

Submitted to the Committee on Ways and Means Subcommittee on Trade

September 11, 1996

We appreciate the opportunity to testify on the Singapore WTO Ministerial. This statement sets out the views of the Labor-Industry Coalition for International Trade (LICIT). LICIT, along with its subsidiary, the Coalition for Open Trade, brings companies and unions together to advocate increased, balanced and equitable international trade. Companies and labor organizations that have joined in recent LICIT statements on trade policy are American Flint Glass Workers; Association for Manufacturing Technology; Bethlehem Steel; Chrysler Corporation; Cincinnati Milacron; Communications Workers of America; Corning Inc.; Industrial Union Department (AFL-CIO); Intel Corporation; International Brotherhood of Electrical Workers; International Union of Electronic Workers; Motorola Inc.; UNITE; United Rubber Workers; and United Steelworkers of America.

I. Introduction

The trade policy issues arising as U.S. officials prepare for the Singapore Ministerial are important to LICIT's company and union members. While LICIT has been active across the spectrum of WTO issues, our written statement focuses mainly on a few which we view as especially high priorities. It also contains some suggested internal measures to complement the external U.S. trade policy agenda.

One key issue, of course, is the candidacy of China and Taiwan for WTO membership. LICIT welcomes the Subcommittee's decision to consider that important issue in a separate hearing, and we plan to participate by submitting a short written statement of our views.

With regard to the other WTO issues, it is worth remembering that we have recently completed the biggest and most comprehensive trade negotiations in history. The results included more than fifty agreements, understandings and Ministerial decisions covering several hundred pages. We will not know for many years the full effects of these agreements, many of which are being phased in over an extended period.

WTO Members need a period to incorporate, understand and adjust to all of these new agreements. Accordingly, there should be reasonable and relatively modest expectations for the first WTO Ministerial. LICIT recommends a cautious approach, seeking incremental progress, in each of the three major areas: implementation, built-in agenda, and new issues.

II. Implementation

One important yet underemphasized goal of the Ministerial is to take stock of progress (and any problems) in Members' implementation of the Uruguay Round agreements. This does not mean simply adherence to tariff phaseout schedules but also includes, for example, notification of subsidies, of new trade laws, and of trade-related investment measures. Such notification mechanisms figure among the important achievements of the Uruguay Round and, properly utilized, will help to lay the groundwork for more beneficial agreements in the future. The U.S. Administration appears to be doing a good job in this area, both in implementing U.S. obligations and in tracking other countries' implementation of theirs.

III. Built-In/Automatic Agenda

This category comprehends a large number of issues. Those of greatest interest to LICIT's members are discussed below.

A. WTO Dispute Settlement

The new rules embodied in the WTO Dispute Settlement Understanding (DSU) are subject to review after an initial four-year trial period. It is not too soon to begin establishing parameters for this review at the Ministerial level. How can WTO dispute settlement -- the very heart of the system -- command U.S. industry's support?

- ***It must not interfere with bilateral market-opening initiatives.*** The WTO agreements do not address all the important barriers in the world. U.S. Government market-opening efforts must continue in areas where WTO disciplines do not apply, and the WTO agreements cannot be allowed to operate as an impediment. Our delegation at Singapore should reiterate that section 301 continues to be available in this context and will continue to be used. They should also make clear that extension of the new DSU rules is not a foregone conclusion, and that a key factor influencing the U.S. position on extension will be the degree to which those rules have impeded U.S. efforts to address trade barriers that cannot be effectively addressed under the WTO's substantive rules. (WTO Members should be in favor of market opening efforts that go beyond GATT and may build a foundation for future GATT efforts. As with regional free trade agreements, where these efforts are GATT-plus, they should be seen as strengthening the global trading system.)

- ***It must not violate Members' sovereignty.*** The intent of the DSU is to allow Members to adjudicate those practices which violate WTO rules or nullify or impair WTO benefits. Members retain the sovereign right to keep in effect measures found to violate WTO rules, and to compensate injured trading partners or, in the alternative, accept trade retaliation. A country can comply fully with its WTO obligations by negotiating a compensation package deemed acceptable by the complaining country. This flexibility is a cornerstone of the WTO system and must not be eroded in any way.

- ***It must operate transparently.*** The United States was only partially successful in its effort during the Uruguay Round to increase the transparency of the WTO/GATT dispute settlement system. LICIT supports continuation of the U.S. Government's effort and applauds the USTR's recent announcement of progress in this area.

  - **Public briefs:** DSU rules should make all briefs and arguments available to the public, except for those (rare) portions of a clearly business-proprietary nature. The renegotiated DSU should require parties to release non-confidential summaries of their briefs during the dispute settlement proceeding to which they relate.

  - **Public hearings:** Meetings of dispute settlement panels should generally be open to the public, subject to temporary closure only when material of a clearly business confidential nature is being reviewed.

  - **Public participation:** The United States should seek recognition, if any is necessary, that national delegations in the dispute settlement process may include representatives of private sector interests. The DSU should also be amended to permit the submission of amicus briefs by non-governmental parties generally supportive of their government's position and having a clear and direct interest in the outcome of a case.

  - **Controls on use of experts:** WTO panels should be permitted to consult outside experts only with the knowledge, and at the request, of the litigating governments.

B. Other "Built-In" Issues

- ***Expiring provisions.*** Many provisions of the WTO agreements expire by their own terms after a certain number of years unless extended. While actual decisions on extension may

be a few years away in some of these areas, as with the DSU review, it is not too soon to start establishing appropriate parameters. As an example, the WTO Agreement on Subsidies and Countervailing Measures contains a new category of non-actionable or "greenlighted" subsidies. This hole in the multilateral anti-subsidy rules only encourages the trade-distorting behavior of other governments. At Singapore and during the months that follow, our negotiators should make clear the United States will oppose extension of the greenlight category after the initial 5-year trial period absent an affirmative demonstration that the new rules have on balance strengthened, rather than weakened, subsidy discipline.

- ***Additional tariff negotiations/ITA.*** There may be some scope for additional/accelerated tariff liberalization, within the confines of existing tariff cutting authority. The proposal for an Information Technology Agreement (ITA) is an example of this, and is something LICIT supports. In determining the coverage of such an agreement, negotiators should focus on those IT sub-sectors that clearly have a net export potential. For some (a minority of) IT sub-sectors, inclusion in an ITA may not make sense from a U.S. trade policy perspective.

- ***Reciprocal opening of telecom services markets.*** LICIT supports the Administration's insistence on full market-opening commitments in the telecom sector. These negotiations affect a number of important manufacturing sectors. If acceptable commitments from a critical mass of trading partners do not materialize, the United States must be willing to take an MFN exemption as it did in the financial services sector to ensure adequate market-opening leverage going forward.

IV. New Issues

Given the enormity of what was recently negotiated, and the extent of unfinished WTO business already needing attention, the U.S. Government has wisely sought to be selective in admitting "new issues" for WTO consideration. New issues should not be ignored but certainly should not be the Ministerial's main focus. LICIT's views on the new issues are as follows:

A. Competition Policy as a Trade Issue

LICIT and particularly its subsidiary, COT, are deeply concerned about the problem of private anticompetitive practices (ACPs) abroad and government toleration of such practices. Inadequate and uneven discipline over ACPs harms U.S. trade interests and is one of the major trade policy problems the U.S. Government will have to tackle in the years ahead. While perhaps primarily a concern with respect to Japan and Europe today, this problem will only magnify as other trading nations shed their formal, government-imposed trade barriers and private restraints take on added commercial significance.

Our members have first-hand experience in this area. COT has led the way in documenting the problem and spurring debate on solutions, starting with our first report published in 1991. Among the many sectors where we have documented ACPs as a market access problem are paper, glass, steel, autos and auto parts, and heavy electrical equipment.

- ***Competition policy, not antidumping, is the issue.*** While interested in multilateral progress on ACPs, we are quite alarmed by recent suggestions that consideration of this issue could be misused as a way of reopening the Agreement on Antidumping. The U.S. Government must prevent any such reopening.

    - **The issues are separate:** The focus of multilateral competition policy discussions should be on the ways in which ACPs, and support for or toleration of ACPs by national governments, restrict the ability of foreign businesses to contest markets. We believe such an inquiry will clearly show that ACPs, and differential antitrust responses by national governments, affect competition within markets. Of course, trade policy measures also affect competition within markets. This is true of antidumping duties imposed under GATT Article VI, safeguard measures under Article XIX, tariffs under Article II, intellectual property border measures under

the TRIPs Agreement, etc. But each of these is expressly authorized under existing GATT rules, and has its own appropriate place in the WTO system. There is no reason why a competition policy initiative needs to involve any consideration of antidumping or other trade policy measures.

- **WTO antidumping rules were just recently renegotiated:** They should be allowed to work, and the new WTO Committee on Antidumping used for airing reform proposals.

- **Focusing narrowly on competition policy will satisfy our European allies:** The EU has positioned itself as the *demandeur* on this issue. The European Commission's recent "non-paper" recognizes that antidumping is a distinct issue from competition policy -- and a legitimate trade policy tool.

- **"Compromise" language in the Ministerial communique should be avoided:** Too often, international efforts to begin addressing the competition policy problem have resulted in statements that improperly focus on both antidumping and uneven antitrust enforcement, as if both were "problems" in need of correction. The United States should not sign on to any such statement at Singapore.

The focus should be on modest, achievable goals for the near term. The competition policy issue is important but, as discussed above, is new to the WTO and is fraught with some danger. What should the United States seek to do?

- **Antitrust cooperation is not enough:** For a variety of reasons, cooperation among antitrust authorities is not an adequate substitute for market access efforts. There is no clear prospect for success in relying on traditional antitrust approaches to solve market access problems, and a limited track record to date despite the best of intentions. Moreover, even assuming such efforts could at some point achieve their full potential, they would not address fundamental market access obstacles that go beyond narrow issues of antitrust adjudication.

- **Fact-gathering makes the most near-term sense:** For now, multilateral efforts in this area should focus on fact-gathering rather than rule-making. The goal should be to identify barriers to market access for goods, services and investment that are not adequately covered by international commitments, and that may not be reachable under current rules and dispute settlement. This is the proper focus for OECD discussions and for any near-term consideration of this issue within the WTO. It will focus much-needed attention on the problem and spur additional efforts to devise solutions.

- **Preparation and leverage for rule-oriented negotiations:** Rule-oriented negotiations will need to await further preparatory work by both the private sector and the U.S. Government. In the meanwhile, the United States must continue to address bilaterally (through section 301) foreign government toleration of private restraints that block U.S. exports to, or investment in, foreign markets. As with intellectual property rights, such an approach will enhance our government's ability to bring this important issue into the multilateral system **with appropriate rules** at a later date.

Other "New" Issues

Bribery/corruption. Bribery, and the differences in national regimes for addressing it, have adversely affected U.S. trade interests. LICIT supports U.S. efforts to place this important trade issue on the WTO agenda. It is appropriate to seek a multilateral approach to this problem.

Social and economic integration. The Administration should continue to design regional and multilateral trade initiatives, including negotiations, so that they promote social integration in tandem with economic integration.

- ***Investment.*** To avoid distortions of normal commercial decisions, LICIT endorses broadening and deepening of the current international rules governing cross-border investment. Market access can be illusory without the ability to invest in sales, distribution and other facilities in export markets. The proposed Multilateral Agreement on Investment (MAI) currently being negotiated in the OECD would be a useful step forward and, upon completion, can serve as a model for further multilateral efforts in this area.

V. Internal U.S. Steps

The best negotiating strategy is of little use without internal policies that assist U.S. firms and workers in taking the fullest possible advantage of the negotiated opportunities. We need flexibility under international rules to act in defense of legitimate U.S. trading interests -- but we also need internal mechanisms to ensure that future Administrations will be able and willing to do so. LICIT has several recommendations:

- ***Establishment of WTO Review Commission:*** The WTO Review Commission bill should be enacted promptly so that this new mechanism -- which is critical to the WTO's credibility in the United States -- can begin its important work immediately.

- ***Effective trade law enforcement:*** This includes strong antidumping and countervailing duty regulations and, as discussed above, use of section 301 where appropriate. Congress, for its part, should continue to reject trade law-weakening proposals, particularly the current effort to superimpose a "short supply" or "temporary duty suspension" mechanism on the existing antidumping and countervailing duty laws.

- ***Effective trade agreement enforcement:*** LICIT applauds the creation of enforcement units at the Office of the USTR and at the Commerce Department. The process by which these units identify and respond to trade agreement compliance problems should be as public and transparent as possible.

- ***Trade agency reform:*** Whether pursued directly or indirectly through funding decisions, trade agency reform should be approached with great caution. Enforcement functions should remain insulated from non-enforcement policy objectives, and should remain adequately funded no matter where they are ultimately lodged. The issue of reorganization should be examined systematically by a blue ribbon panel, whose explicit goal should be to determine means of improving: (1) the effectiveness of U.S. market opening efforts; (2) U.S. preparations for negotiations, including the analytical and informational base on which negotiations are conducted; and (3) staffing for U.S. participation in international dispute settlement proceedings.

- ***Work on anticompetitive practices:*** Careful work is needed to determine the appropriate position for the United States to take in multilateral fora with respect to private restraints which deny market access. The United States must continue to address bilaterally (through section 301 and other statutory tools) foreign government toleration of private restraints that block U.S. exports to, or investment in, foreign markets. This formula was used successfully in the area of intellectual property rights, which have now been brought within the multilateral system.

- ***Vigilance against currency manipulation:*** The U.S. Government should redouble efforts to ensure that exchange rates are not being manipulated by our trading partners' central banks, including Japan's, which may seek through currency devaluation to increase artificially the competitiveness of their goods and services to the detriment of U.S. workers and manufacturers.

Chairman CRANE. Well, we thank you all. We appreciate your patience and endurance because of the interruptions on the floor.

That concludes our hearings, but we want to extend to you also the invitation to please stay in communication with us. We need your insights, too. You are the sector that we are trying to represent in the best and most equitable way with our trade legislation.

Thank you for enduring, and with that, our hearing is adjourned.

[Whereupon, at 5:43 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF JAYETTA Z. HECKER, ASSOCIATE DIRECTOR
INTERNATIONAL RELATIONS AND TRADE ISSUES
NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION
U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to provide this statement for the record for your hearing on September 11, 1996. Based on our past and ongoing work, I have some observations about the implementation of the Uruguay Round agreements and the operations of the World Trade Organization (WTO) in the context of the upcoming Singapore ministerial meeting. WTO is a multilateral organization that, among other things, serves as a forum for international trade negotiations and oversees the administration of the Uruguay Round agreements. After providing a brief overview of some issues expected to be raised at Singapore, my statement will discuss in more detail the status of (1) general implementation issues, (2) issues related to WTO agreement on textiles and clothing, (3) implementation of the agriculture agreements, (4) ongoing negotiations involving trade in services and market access, (5) new issues that may be taken up by the WTO in Singapore, and (6) new member accessions to the WTO.

The first biannual WTO ministerial meeting will take place from December 9 to 13, 1996, in Singapore. The meeting is a forum for reviewing implementation of the Uruguay Round agreements and for discussing new issues. The U.S. Trade Representative (USTR) believes that this meeting will be an important test of the WTO's credibility as a forum for continuous consultation, negotiation, and liberalization. Some foreign government and WTO officials told us that they hope these regularly scheduled, more focused WTO ministerial meetings will replace the series of multiyear, exhaustive negotiating "rounds" of the past. However, other officials expressed doubt that much progress could be made toward future trade liberalization without the opportunities for trade-offs created by having a number of important issues under negotiation at one time.

OVERVIEW

The Uruguay Round agreements generally went into force on January 1, 1995. Implementation of these agreements is complex, and it will take years before the results can be fully assessed.[1] The ministerial level meeting in Singapore provides WTO member countries the first opportunity to "take stock" of how well they have implemented the Uruguay Round agreements so far. The many committees and working groups that constitute the organization will report to ministers through the WTO General Council about their activities and plans. Members may also debate how best to further expand trade liberalization. Our work highlights the following issues that are expected to be topics at Singapore:

-- -- In general, assessing the new and complex Uruguay Round agreements will create a challenge for the ministers. Numerous WTO bodies were formed to oversee implementation by the member governments. These committees and working groups, together with a Secretariat that facilitates the work of the members, experienced early difficulties with the information generated by numerous notification requirements, in part because of limitations in members' reporting and in the unevenness of information that was provided. WTO members have already invoked the new process for settling disputes 53 times on a wide range of issues, with the United States filing the most cases. The USTR has stated that it believes the dispute settlement process is an effective tool to open other nations' markets.

-- -- Implementation of the WTO Agreement on Textiles and Clothing has been a major area of contention between the exporting and importing countries, and it is expected to be the

[1]According to the WTO Secretariat, the almost 500 pages of text comprise 19 agreements, 24 decisions, 8 understandings, and 3 declarations. There are also approximately 24,000 pages of specific market access commitments.

subject of further debate at Singapore. Textile exporting countries allege that the United States and other importing countries have delayed lifting quotas and integrating textile trade into normal WTO/General Agreement on Tariffs and Trade 1994 (GATT) rules. The importing countries, in turn, have voiced concern about the lack of access to exporting countries' textile markets and the adequacy of measures they have adopted to prevent quota circumvention.

-- -- Since liberalizing agricultural trade was a key objective for the United States during the Uruguay Round, monitoring the implementation of commitments is essential to securing anticipated U.S. gains. In addition, U.S. officials have indicated that they would like to begin preparations for further agricultural reform negotiations starting in 1999. At Singapore, three separate WTO committees are expected to provide reports on progress in the reduction of agricultural subsidies; improvements in market access; the use of measures to protect human, plant, and animal health; and efforts to make state trading enterprise activities (STE) more transparent (open). The United States has implementation concerns in many of these areas and many reasonably expect a divergence of views among trading partners.

-- -- Whether the ongoing efforts to liberalize trade in the services sector will be successful is not yet clear. Individual negotiations have been conducted to progressively open trade and investment. Thus far, however, members have been unable to reach final agreements covering the financial, telecommunications, and maritime service sectors. Similarly, it is unclear whether WTO members will reach agreement to improve market access in those sectors where USTR has negotiating authority because of some countries' expected opposition to further tariff reductions.

-- -- At Singapore, proposals are expected for WTO members to begin work on the next generation of trade issues. However, because these issues include areas heretofore outside the scope of detailed trade negotiations--environmental protection, investment rules, competition policy, labor standards, and bribery and corruption--it is unlikely members will reach consensus on the WTO's role. Of these issues, only environment is on the WTO agenda already, but members have not decided how to reconcile environmental concerns with trade objectives. USTR strongly supports discussing labor standards as part of the WTO agenda. USTR may begin to address bribery and corruption issues indirectly as it seeks to expand participation in the Agreement on Government Procurement. However, many other members are just as strongly opposed to including these two issues. On the other hand, the United States is not yet prepared to agree to a negotiating program for competition policy and would prefer discussions on investment policy to take place primarily in the Organization for Economic Cooperation and Development (OECD).

GENERAL IMPLEMENTATION ISSUES

In earlier testimony[2] we noted that it will take time and resources to (1) completely build the WTO so that members can address all its new roles and responsibilities; (2) make members' national laws, regulations, and policies consistent with new commitments; (3) fulfill notification requirements and then analyze the new information; and (4) resolve differences about the meaning of the agreements and judge whether members have fulfilled their commitments. It is critical that USTR monitor implementation of the agreements to ensure that other WTO members are honoring their commitments and thus that the agreements' expected benefits are being realized. USTR and the Departments of Commerce and Agriculture have created specific units to try to monitor foreign government compliance with trade agreements, including those of the Uruguay Round.

---

[2]See International Trade: Implementation Issues Concerning the World Trade Organization (GAO/T-NSIAD-96-122, Mar. 13, 1996).

The New Organization

In general, the ministers at Singapore will be reviewing the progress of the WTO in fulfilling its mandate. Some observers have been concerned about the creation of this international organization and its scope and size. The "new" WTO was based on a similar "provisional" GATT organizational structure that had evolved over decades. The Uruguay Round agreements created some new bodies; however, these bodies address new areas of coverage, for example, the Councils for Trade in Services and for Trade-Related Aspects of Intellectual Property Rights. Other bodies, such as the WTO Committee on Antidumping Practices, were "reconstituted" from previous GATT committees but were given new responsibilities by the Uruguay Round agreements and now have broader membership. The WTO Secretariat, headed by its Director General, facilitates the work of the members. The work of the bodies organized under the WTO structure is still undertaken by representatives of the approximately 123 member governments, rather than the Secretariat. Early meetings of some WTO committees were focused on establishing new working procedures and work agendas necessary to implement the Uruguay Round agreements.

Notifications

The ministers will be judging the progress of members in implementing numerous agreements to date, based on information collected from the many notification requirements placed upon member governments. These notifications are aimed at increasing transparency about members' actions and laws and therefore encourage accountability. Notifications take many forms. For example, one provision requires members to file copies of their national legislation and regulations pertaining to antidumping measures. WTO committees began reviewing the notifications they received from member governments in 1995. The information provided allows members to identify general problems with implementing the terms of the agreements, as well as monitor each others' specific activities and, therefore, to enforce the agreements.

Limitations in members' reporting may make it difficult for the ministers to assess progress in some areas. The WTO Director General noted some difficulties with members' fulfilling their notification requirements in his report in December 1995. Some foreign government and WTO Secretariat officials told us in 1995 that the notification requirements had placed a burden on them and that they had not foreseen the magnitude of information they would be obligated to provide. The WTO Secretariat estimated that the Uruguay Round agreements specified over 200 notification requirements. It also noted that many members were having problems understanding and fulfilling the requirements within the deadlines. While developing countries reportedly faced particular problems, even the United States missed some deadlines for filing information on subsidies and customs valuation laws.

To address concerns about notifications, WTO formed a working party in February 1995 to simplify, standardize, and consolidate the many notification obligations and procedures. This working party may make recommendations for changes for the ministers to consider.

Dispute Settlement

The WTO dispute settlement mechanism is intended to be a central element in providing security and predictability to this multilateral trading system. Through it, members have a system to resolve disputes that result from violations of WTO obligations or impairment of benefits from WTO agreements. The new dispute resolution mechanism incorporates several objectives that were particularly important to the United States--time limits for each step in the dispute settlement process and elimination of a country's ability to block the adoption of resolutions from dispute settlement panel reports. The new Dispute Settlement Understanding established time limits for each of the four stages of a dispute: consultation, panel review, appeal, and implementation. Also, unless there is unanimous opposition in the WTO Dispute Settlement Body, the panel or appellate report is to be adopted. Further, the recommendations and rulings of the Dispute Settlement Body can neither add to or diminish the rights and obligations provided in the Uruguay Round agreements nor directly force members to change their laws or regulations.

However, if members choose not to implement the recommendations and rulings, the Dispute Settlement Body may authorize trade retaliation.

From January 1, 1995, to August 30, 1996, formal WTO dispute settlement procedures have been invoked in 53 instances. Most of the cases are still in progress--35 are either in the consultation phase, under panel review, or on appeal. Of the 18 closed cases, 16 have been settled or abandoned, and 2 have been closed after a final appeal.

The United States has availed itself of the dispute settlement mechanism more than any other member. The United States has initiated 17 cases on a variety of issues including patent protection in India, Portugal, and Pakistan; meat import restrictions in South Korea and the European Union (EU); and restrictions on the importation of magazines into Canada. There are currently four pending cases against actions or measures taken by the United States--two involve import restraints concerning textile and apparel products, one relates to an antidumping investigation of tomatoes from Mexico, and the other concerns the Cuban Liberty and Democratic Solidarity Act of 1996.

As of the end of August 1996, dispute settlement panels have reached decisions involving five cases. The two closed cases, which were combined into a single panel, involved a challenge by Venezuela and Brazil to a U.S. Environmental Protection Agency regulation setting forth the methods by which importers of gasoline were to determine characteristics of gasoline imported and sold in the United States in 1990. The panel found that the regulation was inconsistent with a GATT 1994 provision concerning national treatment of imported products. On appeal, the dispute settlement Appellate Body modified the panel's report but upheld the panel's conclusion. The other three cases, also combined into one panel, were brought by the United States, Canada, and the EU against Japan's liquor tax. The panel found the Japanese tax to be inconsistent with GATT 1994, on national treatment grounds.[3] Japan has filed an appeal, which is currently pending.

It is unclear to what extent the ministers at the WTO Singapore meeting will analyze the implementation of the new dispute settlement process and what criteria they would use to do so. USTR officials view this process as a success, in part because complaints can be resolved even before a panel hears the case. In addition, USTR has recently testified that the new mechanism is proving to be a very effective market-opening tool. However, it may be difficult to objectively evaluate the results of a dispute settlement process. We observed in our previous work on 5 years of dispute settlement under the U.S.-Canada Free Trade Agreement (CFTA)[4] that it may take many years before a sufficiently large body of cases accrues to permit statistically significant observations about the process. In that report we focused on the possible effects of panelists' backgrounds, the types of U.S. agency decisions appealed, and the patterns of panel decision-making. We learned that any effort to evaluate the functioning of the dispute settlement process presents significant analytical challenges.

IMPLEMENTATION OF THE AGREEMENT ON TEXTILES AND CLOTHING

Implementation of the Agreement on Textiles and Clothing is likely to be the subject of debate at the Singapore ministerial meeting. In the Uruguay Round negotiations, the United States and other developed countries agreed to liberalize textile trade despite potential economic losses in exchange for commitments from certain developing countries to, for example, increase market access in key sectors and improve protection of intellectual property rights.[5]

---

[3]National treatment is the act of treating a foreign product or supplier no less favorably than domestic products or suppliers.

[4]See U.S.-Canada Free Trade Agreement: Factors Contributing to Controversy in Appeals of Trade Remedy Cases to Binational Panels (GAO/GGD-95-175BR, June 16, 1995).

[5]See The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains (GAO/GGD-94-83, July 29, 1994).

Under the Uruguay Round Agreement on Textiles and Clothing, textile quotas are to be phased out over a 10-year period beginning in January 1995. Because of the 10-year phase-out, the effects of the textiles agreement will not be fully realized until 2005, after which textile and apparel trade will be fully integrated into WTO and its disciplines (practices). Integration is to be accomplished by (1) completely eliminating quotas on selected products in four stages and (2) increasing quota growth rates on the remaining products at each of the first three stages. By 2005, all bilateral quotas maintained under the agreement on all WTO members are to be removed.

During the first stage of product integration (1995 through 1997), virtually no quotas were removed by the United States and other major importing countries. The United States is the only major importing country to have published a list of products to be removed from quota for all three stages; other countries, such as the EU and Canada, have only published their integration plan for the first phase. Under the U.S. integration schedule, 89 percent of all U.S. apparel products under quota in 1990 and 67 percent of textile and apparel products combined will not be integrated into normal WTO rules until 2005. Importer and retailer representatives have expressed concern about the delay in lifting the majority of textile and apparel quotas until the end of the phase-out period. However, U.S. officials have pointed out that the Statement of Administrative Action accompanying the U.S. bill to implement the Uruguay Round agreements provided that "integration of the most sensitive products will be deferred until the end of the 10-year period."

During the phase-out period, the safeguards provision of the textiles agreement permits a country to impose a new quota only when it determines that increased imports of a particular textile or apparel product are seriously damaging, or present an actual threat of serious damage to, its domestic industry. The agreement further provides that any quotas imposed during the phase-out period be reviewed by a newly created Textiles Monitoring Body (TMB) within WTO, which is to supervise the textile agreement's implementation. TMB consists of individuals from 10 countries, including the United States.

The United States and Brazil are the only WTO members thus far to have imposed new quotas on imports they found were harming their domestic industries under the agreement's safeguard procedures.[6] In 1995, the United States issued 28 requests for consultations (or "calls") to impose quotas and has issued 2 calls thus far in 1996 to a total of 19 countries (11 WTO members and 8 nonmembers).[7] Brazil has issued calls to four countries to date.

As of August 1996, TMB had reviewed the imposition of seven quotas (where no agreement was reached with the exporting country). All of these quotas had been imposed by the United States. TMB found that the threat of serious damage to domestic industry had been demonstrated in one case. In three cases, TMB found that the threat of serious damage had not been demonstrated, and the quotas were subsequently rescinded; in three other cases, TMB could not reach consensus. TMB has not published details about the reasons for its decisions. Three of the cases TMB reviewed were subsequently brought before the Dispute Settlement Body by the countries subject to the U.S. safeguard action. The United States rescinded one action, and the other two cases are currently pending.

WTO members will review implementation of the textiles agreement at the Singapore ministerial meeting. In July 1996, major exporting countries, led by Pakistan, asked the WTO's Committee on Trade in Goods to examine 10 items of concern to them regarding the agreement's implementation, including importing countries' delays in lifting quotas, the number of quotas imposed since the agreement took effect (with a clear concern regarding the number of U.S. quotas), and the need to improve transparency in TMB processes. Further, they asked the

---

[6]We recently prepared a report reviewing how the United States is implementing the textiles agreement that should be released shortly. See Textile Trade: Operations of the Committee for the Implementation of Textile Agreements (GAO/NSIAD-96-186).

[7]Six of the 28 calls had originally been made in 1994 and were unresolved; they were reissued in 1995 under the new textiles agreement.

Committee to identify and assess the elements necessary for "faithful implementation of the agreement." The United States and the EU oppose the exporting countries' request and have asked the Committee to review two different issues--the ease of access to developing countries' textiles markets and the adequacy of measures adopted by these countries to prevent quota circumvention. (The agreement states that all member countries are to improve access to their textiles markets and to take measures to prevent quota circumvention.) The Committee on Trade in Goods is scheduled to report on the textile agreement's implementation to the WTO General Council in early November.

IMPLEMENTATION OF AGRICULTURAL COMMITMENTS

Liberalizing agricultural trade was a key U.S. objective during the Uruguay Round. The United States anticipated that better rules and disciplines on government policies in this area would foster a more market-oriented trading system and improve the competitive position of the U.S. agriculture sector. Therefore, monitoring other members' implementation of their Uruguay Round agricultural commitments is essential to securing anticipated U.S. gains.

Several important issues are likely to be discussed at the ministerial meeting, as the reports of two WTO committees and one WTO working party focus on, or relate to, agricultural trade. First, the WTO Committee on Agriculture will report on implementation of the agriculture agreement, including any aspects needing additional attention or review. This Committee's report is expected to address two other issues: (1) a decision to review the impact of the agreement on net food-importing countries and (2) preparations necessary to resume the agreement's required negotiations in 1999. Second, the WTO Committee on Sanitary and Phytosanitary (SPS) Measures will report on implementation of the SPS agreement. Third, the WTO Working Party on State Trading Enterprises will report on its efforts to better document and understand the role of STEs in WTO.

Committee on Agriculture

The Committee on Agriculture will address implementation of the agriculture agreement, which requires WTO members to reduce levels of support provided through export subsidies and domestic support and to begin opening their markets by converting import quotas to tariffs and reducing average tariff levels. The agreement provides a 6-year implementation period, meaning reductions in support and increase in market access are to be achieved gradually. To ensure members meet their commitments, they are required to provide periodic notifications to the Committee, which reviews progress toward implementation and provides a forum for members to debate their concerns. Discussions of how the agreement is being implemented in certain countries have already occurred within the Committee and will be reported on at the ministerial meeting. These include such issues as delays in starting the implementation process, inappropriate administration of market access commitments, and failure to meet export subsidy commitments. One implementation issue was discussed outside the Committee under the dispute settlement process, when the United States requested consultations with the EU to resolve its concerns about EU implementation of market access commitments for grain imports.

In addition to implementation issues, the Committee's report is expected to address its responsibility for monitoring WTO members' commitment to review levels of food aid available to net food-importing countries. This commitment recognized that least-developed and net food-importing developing countries might experience negative effects from Uruguay Round agricultural reform if it affected the availability of food supplies from external sources at reasonable terms and conditions.[8] WTO members agreed to establish appropriate mechanisms to ensure that agricultural reform does not have an adverse impact on the provision of sufficient levels of food aid. The recent rise in global commodity prices and the near-record lows in international grain reserves have increased the cost of food imports for some countries. Some least-developed and net food-importing countries have already indicated they are concerned about the impact of agricultural reform on their countries, but U.S. officials do not believe the limited

[8]See the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed Countries and Net Food-Importing Developing Countries.

reforms implemented so far are responsible for shortages or price increases. Still, net food-importing countries expect action to be taken within the Committee to review food aid levels and establish a sufficient level of aid to meet legitimate needs. The Committee is considering whether and how such a review should be conducted and hopes to resolve this issue before the ministerial meeting. However, if resolution is not achieved within the Committee, the issue is likely to be discussed at the World Food Summit in November 1996 and again in Singapore.

A third issue the Committee will likely address is the commitment that WTO members have made to begin negotiations for continued agricultural reform one year before the end of the implementation period (or in 1999). The Cairns Group countries seek a specific work program to prepare for the negotiations.[9] The EU, Japan, South Korea, and Switzerland are reluctant to begin discussing the next round of negotiations roughly 2 years after agreeing to their original Uruguay Round commitments. U.S. officials have indicated that, although their primary focus is on implementation of the agreement, preparing for negotiations to resume is also important.

Committee on SPS Measures

The second Committee report that will address agricultural issues is the Committee on SPS Measures. The SPS agreement recognizes that members have a right to adopt measures to protect human, animal, and plant life or health. However, it requires, among other things, that such measures be based on scientific principles and not act as disguised trade restrictions. The United States was a key supporter of this agreement, recognizing that the lack of sufficient disciplines on the use of SPS measures could undermine the intent of the agriculture agreement if members were allowed to replace tariffs and quotas with unscientific animal and plant health or food safety measures. The United States has signalled its intent to use WTO channels to challenge unscientific SPS measures. For example, through WTO consultations in 1995, the United States persuaded South Korea to modify its practice for determining product shelf-life, which was adversely affecting U.S. meat and other exports. Also, in May 1996, the United States requested a dispute settlement panel be convened to review the EU's long-standing ban on hormone-treated meat, which has substantially blocked U.S. beef imports since 1989.

Working Party on STEs

Finally, the Working Party on STEs will report on its efforts to better understand STEs, an undertaking which is relevant not only to agricultural trade but also to other sectors. In our work, we define STEs as governmental or nongovernmental enterprises that are authorized to engage in trade and are owned, sanctioned, or otherwise supported by the government.[10] For example, the Australian government has notified the WTO that the Australian Wheat Board meets the criteria for being considered an STE. While STEs are recognized in GATT as legitimate trading entities, their activities are subject to GATT disciplines. In order to provide some transparency over STE activities, members must report regularly about their STEs' structures and functions. However, as we noted in August 1995, compliance with this reporting requirement has been poor, and information about STE activities has been limited.[11] In our June 1996 report, we developed a framework by which one could assess an export STE's potential to distort trade.[12] This

---

[9]The Cairns Group consists of 14 countries that are exporters of agricultural products: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

[10]STEs were defined in the Uruguay Round as "governmental and nongovernmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales, the level or direction of imports or exports."

[11]See State Trading Enterprises: Compliance with the General Agreement on Tariffs and Trade (GAO/GGD-95-208, Aug. 30, 1995).

[12]See Canada, Australia, and New Zealand: Potential Ability of Agricultural State Trading Enterprises (GAO/NSIAD-96-94, June 24, 1996).

framework helps clarify that being sanctioned by the government does not necessarily mean that an STE is distorting trade; rather, a key factor is the presence of direct or indirect subsidies that can give an STE a greater potential to distort trade. We reported that another factor in evaluating the trade-distorting effect of STEs (or private commercial firms) is share of the world market.

The working party on STEs is developing an illustrative list of STE attributes and practices in WTO and continues to study the questionnaire used to collect information about them. The United States is working within the forum to develop a modified questionnaire that would help make STE activities more transparent. U.S. government and agricultural industry officials hope to negotiate additional disciplines on STEs when agricultural negotiations resume in 1999.

ONGOING NEGOTIATIONS IN SERVICES AND MARKET ACCESS

Negotiations in several service sectors and on market access for certain goods were left unfinished at the end of the Uruguay Round and may be discussed by ministers at Singapore. USTR has pursued trade liberalization and market access in these areas since the Uruguay Round, but in many cases the outcome of these efforts remains uncertain. For example, within the framework of the General Agreement on Trade in Services (GATS), negotiations covering the financial, telecommunications, and maritime service sectors have not yet resulted in final agreements. In addition, USTR hopes to achieve further market access through new tariff reductions for a variety of goods but has testified that considerably more work remains to build "the necessary international consensus" for making such reductions.

The WTO financial services agreement covers the banking, securities, and insurance sectors, which are often subject to significant domestic regulation and therefore engender complex negotiations. In June 1995, the United States made commitments to guarantee foreign financial institutions currently operating in the United States the right to continue to do so. However, the United States took a "most-favored-nation exemption," that is, held back making guarantees about otherwise discriminating against foreign financial service providers. (Such exemptions are allowed under GATS.) Specifically, the United States did not guarantee nondiscriminatory treatment for new foreign firms to establish businesses or already established foreign firms wishing to expand services in the U.S. market. The U.S. exemption in financial services was taken because U.S. negotiators, in consultation with the private sector, concluded that other members' offers to open their markets to U.S. financial services firms, especially those of certain developing countries, were insufficient to justify broader U.S. commitments (with no most-favored-nation exemption or other limitations).[13] At the end of 1997, members, including the United States, will have an opportunity to modify or withdraw their commitments. Thus, the final outcome and impact of the financial services agreement are still uncertain. USTR has testified that negotiations for a financial services agreement are expected to resume in the first half of 1997, and the ministers may discuss this at Singapore.

WTO members were also not able to reach agreement on a basic telecommunications services agreement by the original deadline of April 30, 1996, and negotiations were subsequently extended to a new deadline of February 15, 1997. The United States has noted that while some members made offers that matched that of the U.S. offer in terms of openness, many others did not, thus the United States would not accept the agreement. In addition, the United States has said that in order for the extended negotiations to succeed, "more and better" offers must be made by members, including both developed and developing nations.

Similarly, negotiations for a multilateral maritime services agreement were unsuccessful and were suspended in June 1996 until the year 2000, when negotiations for all services sectors will be reopened. When suspending the negotiations, participating members agreed to refrain from applying new measures that would affect trade in this area during this time. The United States has said that other participating members to the negotiations did not offer "to remove restrictions so as to approach current U.S. openness in this area." The United States did not submit an offer

[13]However, the United States was generally satisfied with the offers made by the EU, Japan, and other developed countries and has concluded some bilateral agreements that go beyond the GATS commitments.

in maritime services because USTR believed that other countries were not serious about liberalization.

Efforts to improve market access in certain sectors through additional tariff reductions are also unresolved. USTR is seeking an agreement covering a variety of information technology products, such as multimedia personal computers, supercomputers, and semiconductors, that will reduce tariffs in this area to zero by the year 2000. However, USTR has indicated that support from EU member states for such an agreement is still uncertain. In addition, USTR plans to pursue further tariff reductions at Singapore for several products, including wood products, white distilled spirits, nonferrous metals, oilseeds and oil products, and certain chemical and pharmaceutical products, but expects opposition in some of these areas from several major trading partners.

EMERGING ISSUES

Members are debating what work should be done by WTO on new issues related to international trade at Singapore. As tariff and nontariff barriers to trade are reduced, other areas (traditionally seen as domestic) have drawn attention as potential international trade barriers. These include (1) environmental protection, (2) investment rules, (3) competition policy, (4) labor standards, and (5) bribery and corruption issues. Although these are not traditionally discussed as trade policy topics, they reflect a broader concept of what some WTO members believe are factors affecting market access opportunities in a global economy. For example, some WTO members believe that enforcing certain environmental and labor standards can be a disguise for protectionist policies. Also, activities such as price-fixing, market sharing, and noncompetitive procurement practices can lead to market distortions and reduce access for foreign competitors. The WTO has begun to address some of these issues, but no consensus has been reached on the extent to which they should be dealt with in the WTO. Some of these negotiations in new areas could be quite controversial, based on the previous experience with including areas like agriculture and services in the Uruguay Round negotiating agenda.

Trade and Environmental Protection

Of the emerging issues, environment has developed the furthest within the WTO. At Marrakesh in 1994, members decided to establish a Committee on Trade and Environment. Trade and environment issues overlap because some government measures to balance economic growth with environmental concerns are perceived as protectionist and may conflict with WTO obligations. At the same time, some trade policies may impede the development of sound environmental policies. In the past, GATT dispute panels have ruled against measures that conflicted with national treatment principles or that appeared to apply to areas outside a country's sovereign jurisdiction. The United States believes that free trade and environmental protection policies can be mutually supportive and plans to convey this message at the Singapore ministerial meeting, in keeping with the 1992 United Nations Declaration in Rio de Janeiro.[14]

The WTO Committee on Trade and Environment is to identify the relationship between trade and environmental measures and make appropriate recommendations within the context of open and equitable trade. The Committee is expected to present a report at Singapore, but it is unclear what the report will include because of the complex issues and divergent views. Members generally agree that promoting free trade and environmental protection is not inherently contradictory; however, they have not agreed on specific ways to address these issues. Several items are under discussion, including ecolabeling programs;[15] the relationship between multilateral environmental agreements and the WTO; and the effect of environmental measures on market access, particularly in relation to developing countries.

---

[14]The United Nations Conference on Environment and Development hosted the "Earth Summit" in 1992 in Rio de Janeiro, Brazil.

[15]Ecolabeling programs, most of which are voluntary, allow businesses to obtain a label indicating a product is environmentally friendly or safe (e.g., U.S. tuna cans with a "dolphin safe" label).

Ecolabeling programs have received a great deal of attention by the Committee. Some members believe these programs act as trade barriers, and members have not reached an agreement about whether or not ecolabeling programs need greater transparency. USTR firmly believes that all forms of ecolabeling are subject to the WTO's Technical Barriers to Trade (TBT) Agreement, which requires transparency and public participation when applying product standards. Other members, however, have expressed doubts about whether all ecolabeling programs are covered by the TBT agreement. USTR anticipates the WTO Committee will need to discuss this and other issues after Singapore.

Trade and Investment Rules

Investment rules are another topic that could be discussed at Singapore. International investment has grown with the globalization of the world economy. Various multilateral and bilateral investment agreements exist to help promote an open international investment environment, for example the (North American Free Trade Agreement). Still, restrictions on foreign investment impede international trade in goods and services because investment and trade are interrelated. Therefore the Uruguay Round agreements also addressed investment issues. For example, the WTO's Agreement on Trade-Related Investment Measures (TRIMS) and GATS both have rules to facilitate market access. However, the United States achieved only some of its Uruguay Round objectives for investment issues. The TRIMS agreement is limited to a few selected measures that apply only to trade in goods. GATS covers investment practices only in a limited sense, through broad provisions concerning the ability to provide a service in a foreign market through a commercial presence. Further, GATS covers only specific service sectors, including business services and construction and engineering services.

Countries are debating in which forums to pursue further liberalization in investment. Therefore, any Singapore proposals to establish a work program for WTO on investment issues will have to take into account negotiations in other forums. Most notable is the OECD, whose members are working to establish a Multilateral Agreement on Investment in 1997 that would be open to both OECD and non-OECD members. Nevertheless, the EU and Canada favor discussing investment rules in the WTO because its membership is larger than the OECD. There is a wide divergence of views among other members; some lesser-developed members oppose negotiations in the WTO, according to USTR. On the other hand, the United States and other nations would like to continue focusing on the OECD negotiations rather than negotiating in the WTO, believing that (1) the OECD has the potential to achieve a higher standard of liberalization (that is, on a par with NAFTA and U.S. bilateral investment treaties) than the WTO could and (2) some WTO members are not ready for such an agreement. Still, the United States supports creating a modest work program to educate WTO members on these issues.

Trade and Competition Policy

National competition or antitrust policies of other countries can affect opportunities and benefits for U.S. exporters and consumers. For example, price-fixing, market sharing, and other monopolistic business practices have been recognized as potential trade barriers. By distorting market competition, these practices can diminish market access opportunities, consumer choices, and other intended benefits of liberalized trade. Anticompetitive practices can also lead to trade disputes. For example, the United States has initiated two WTO dispute settlement proceedings against Japan in cases involving photographic films and paper and distribution services.

The United States and its major trading partners have not reached a consensus on how competition policy and the enforcement of antitrust law should be handled within the WTO. One issue is whether any possible work program should focus on the practices of private firms or on government actions (or the lack thereof) that restrict competition, and/or on both. The EU and Japan have recently proposed that competition be added to the WTO program for future work at the Singapore ministerial meeting. USTR believes more work and study must occur within the U.S. government, including consultation with Congress and the private sector, before determining whether any sort of negotiating program in the WTO is appropriate. USTR has emphasized that the United States will not accept any initiative in the WTO that would threaten U.S. antitrust or

antidumping laws. The United States has participated in creating guidelines and in undertaking studies of competition policy issues at the OECD, along with Japan and EU member states.

Trade and Labor Standards

WTO members are currently considering the role of labor standards in the international trade regime. The desire to link international trade and labor issues is not new, but labor issues have been the province of the International Labor Organization (ILO), a specialized agency of the United Nations created in 1919. ILO, whose purpose is to improve working conditions and living standards for workers throughout the world, provides a forum for consideration of various labor issues including the establishment of core labor standards, which currently vary from country to country.

At the conclusion of the Uruguay Round negotiations, several members, most notably the United States and some members of the EU, proposed that labor issues be formally brought into the world trading system. However, other WTO member countries in both the developed and the developing world have been concerned that mandated international labor standards may either inhibit their economic development or act as protectionist barriers to their exports. The United States, based on a provision of the Uruguay Round Agreements Act, recommended that the WTO establish a working party to examine the relationship between trade and internationally recognized worker rights.[16] The U.S. proposal does not envision negotiations but seeks to begin discussions limited to how core labor standards and trade can be mutually supportive in promoting growth and development. Thus far, no consensus currently exists either on bringing labor issues into the WTO, or on developing potential linkages between the WTO and ILO, a possible first step.

Trade and Bribery and Corruption

The United States has proposed indirectly addressing bribery and corruption issues at Singapore by encouraging WTO members to enhance transparency in government procurement. Bribery and corruption increase the cost and risk of conducting business in foreign countries. The difference in the way that U.S. and foreign laws treat these activities can also reduce U.S. companies' access to foreign markets. For example, U.S. legislation passed in 1977 prohibits U.S. companies from engaging in bribery of foreign public officials.[17] In contrast, some other countries do not have criminal penalties for engaging in the bribery of foreign public officials, and in some countries businesses are allowed to take tax deductions for bribery expenses. Other multilateral organizations have already taken steps to address bribery and corruption, with U.S. encouragement. For example, OECD members have agreed to criminalize the acceptance and payment of bribes. Members of the Organization of American States have entered into a treaty that would make this conduct criminal. The OECD has also recommended that member countries eliminate tax deductions for the payment of bribes. The Association of Southeast Asian Nations foreign ministers in a recent forum on the WTO agenda rejected the U.S. proposal to include corruption and other "social clauses" that they did not consider trade related.

The United States is promoting efforts to reduce bribery by foreign companies and government officials by encouraging WTO members to sign the Agreement on Government Procurement. To date, only 22 industrialized countries, including the United States, have done so; and none of the least developed countries are signatories. The provisions of the new agreement, which went into effect in 20 countries on January 1, 1996, promote transparency in government procurement

---

[16]Congress provided guidance for U.S. negotiators in the act by specific reference to 1984 amendments to the U.S. Generalized System of Preferences legislation. This legislation defined internationally recognized worker rights to include (1) the right of association, (2) the right to organize and bargain collectively, (3) a minimum age for the employment of children, (4) prohibition of forced labor, and (5) acceptable conditions of work. See Public Law 98-573, sec. 503, Oct. 30, 1984, 19 U.S.C. sec. 2462 (a) (4).

[17]See Foreign Corrupt Practices Act of 1977, Public Law 95-213, Dec. 19, 1977, 15 U.S.C. sec. 78dd-2.

procedures and require that countries not discriminate against foreign or foreign-owned suppliers or otherwise allow practices that would preclude competitive procurement.

ACCESSION OF NEW MEMBERS

The accession of new members to the WTO is an important part of the WTO's work agenda and an issue of great interest to the United States. Although existing WTO members account for about 90 percent of world trade, important U.S. trading partners, including China, Taiwan, Saudi Arabia, and Russia, are not WTO members. Nonmember states or separate customs territories may apply for admission to the WTO. A working party composed of WTO members negotiates with the applicant concerning its domestic laws and obligations to join the WTO, a process that can require considerable time. For example, China's and Bulgaria's requests for accession date from 1986. Separately, applicants may undertake bilateral negotiations with individual WTO members over tariff and market access commitments. After these negotiations are concluded, the working party submits a Protocol of Accession and a report to the Ministerial Conference for approval. Accession is approved by a two-thirds majority vote of WTO members.

The United States expects the Singapore ministerial meeting to address the broad range of accession applications--rather than single out any particular application for attention. USTR reports there are 31 countries whose applications for accession have been accepted; active negotiations are under way on about 20 of them. Four nations have completed accession negotiations since the WTO entered into force.[18]

The United States supports accession of countries capable of and willing to (1) undertake WTO obligations and (2) provide commercially viable market access commitments for goods and services to the WTO. The United States also uses the negotiations to address outstanding bilateral trade issues covered by the WTO. For example, USTR reports that Taiwan[19] has made significant concessions in its bilateral negotiations with the United States over market access, services, and government procurement. Nevertheless, significant issues remain outstanding.

The accession of China to the WTO is an issue of intense U.S. interest. China gained observer status to the GATT in 1982 and requested accession to the GATT in 1986. The United States and other nations have insisted that China's accession be approved on the basis of China's willingness to make commercially viable commitments that provide greatly expanded market access and ensure compliance with WTO obligations. U.S.-China bilateral negotiations are ongoing, and a WTO working party meeting on China's accession is scheduled for October 1996.

- - - - -

This concludes my statement for the record. Thank you for permitting me to provide you with this information.

(711225)

---

[18]These are Ecuador, which was admitted as a member in January 1996; Mongolia, which has not yet been admitted but whose accession was approved in June; and Bulgaria and Panama, whose accession packages were completed in July.

[19]This WTO accession application is formally identified as either "Chinese Taipei" or "The Customs Territory of Taiwan, Penghu, Kinmen, and Matsu."

STATEMENT FOR THE RECORD
OF THE
AMERICAN APPAREL MANUFACTURERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
REGARDING THE
SINGAPORE MINISTERIAL MEETING
OF THE
WORLD TRADE ORGANIZATION
SEPTEMBER 11, 1996

The American Apparel Manufacturers Association (AAMA) is strongly opposed to proposals offered by representatives of apparel and textile exporting countries that the World Trade Organization Ministerial Meeting in Singapore this December should modify the Agreement on Textiles and Apparel (ATC) by expediting the phase-out of quotas and the phased integration of products. We urge the United States to strongly oppose such a proposal. Instead, the United States should insist, if textiles and apparel are to be on the agenda for the Singapore Ministerial Meeting, it should be limited to an assessment of the performance of all countries in fulfilling their obligations under the ATC, specifically countries opening their markets to exports and preventing the type of fraud, circumvention and counterfeiting that is common in many countries.

AAMA is the national trade association of the U.S. apparel industry, representing more than 70 percent of U.S. apparel production. AAMA members make everything from socks to caps, from underwear to shirts and sweaters, to suits and overcoats. While the industry is large, most of the companies are relatively small. Most companies have sales under $20 million and many have sales under $10 million. There are approximately 850,000 apparel manufacturing jobs in the U.S. and almost every state has some apparel employment. Approximately 40% of the American apparel workers are minorities and 90% are women.

The United States textile and apparel industries still are denied effective market access to many countries throughout the world, especially countries exporting large quantities of apparel. Many of these countries are actively engaged in quota avoidance by illegally transshipping their products through third countries. In addition, many of these same countries are violating the intellectual property rights of our members by counterfeiting brand name products and designs. Also, many countries continue to subsidize their textile and apparel industries.

Representatives of the apparel and textile industries in the European Community and the United States recently met and issued a joint statement, outlining the lack of performance by many signatories of the ATC and calling for an assessment at the Singapore Ministerial of countries to determine if they are fulfilling their obligations under the ATC. A copy of the joint press release issued by the three industry groups is attached.

The United States is diligently complying with its obligations under the ATC and other aspects of the Uruguay Round Agreement. Our tariffs are being phased down according to schedule, the first round of apparel and textile integration was completed and the subsequent two phases were announced. We should demand nothing less from the other signatories of the ATC.

The ATC became effective only 19 months ago. It took more than seven years to negotiate the Uruguay Round Agreements. We do not believe now is the time to alter the basic framework of the ATC. We strongly believe, however, now is the time to assess countries' performance under the ATC and to insure they are fulfilling their obligations while they are enjoying the benefits.

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

HEARING ON THE WORLD TRADE ORGANIZATION
SINGAPORE MINISTERIAL MEETING

STATEMENT OF THE DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. (DISCUS) for inclusion in the printed record of the Subcommittee's hearing on the World Trade Organization (WTO) Singapore ministerial meeting. DISCUS is the national trade association which represents U.S. producers, marketers and exporters of distilled spirits.

I. INTRODUCTION

Over the past decade, the U.S. distilled spirits industry has become increasingly reliant upon exports for its economic well being. Faced with declining consumption of distilled spirits in the United States, U.S. companies have intensified their search for new commercial opportunities in foreign markets and have adopted global strategies for competing in these markets.

The U.S. distilled spirits industry has supported the efforts of the United States to lower global trade barriers and build a strong rules based system for the conduct of international trade. The Uruguay Round negotiations produced significant benefits for DISCUS members, including substantial reductions in foreign tariff barriers, stronger protection for trademarks, and recognition of geographical indications associated with distinctive American spirits. As a result, DISCUS actively worked for Congressional approval of the Uruguay Round Agreements and supported U.S. participation in the newly created World Trade Organization (WTO).

U.S. distilled spirits companies have a substantial interest in a fully functional World Trade Organization. A strong and effective WTO is needed to preserve the benefits already achieved and to provide a framework for securing additional trade liberalization in the future.

II. OBJECTIVES FOR THE SINGAPORE MINISTERIAL

In our view, the United States should have two principal objectives for the Ministerial conference in Singapore. First and foremost, the United States and the other member countries should utilize the meeting to take stock of the work which has been done to get the organization up and running since its inception in January 1995. While much already has been accomplished, the WTO must have a firm foundation. Ministers should pay particular attention to any problems which have arisen with respect to the operation of the WTO's institutions and should be prepared to take appropriate decisions in Singapore to resolve them.

The second principal objective of the Singapore conference should be to begin the process of building the organization for the future. The WTO must be capable of anticipating and addressing the emerging trade issues of tomorrow, while continuing to promote trade liberalization today. It is essential that the organization move forward with the work plan agreed to at the end of the Uruguay Round, while undertaking the preparatory work necessary to enable it to tackle new issues in the future.

More specifically,

A. Implementation of the Uruguay Round Agreements

The Ministers should devote considerable attention to reviewing the implementation of the various agreements and understandings reached during the Uruguay Round negotiations. Many of these agreements contain notification requirements, implementation schedules and transition periods, of all which must be respected if the full benefits of the Uruguay Round agreements are to be conveyed to U.S. exporters. In addition, many of the agreements provide

for ongoing work programs and periodic reviews of the results achieved. These also must be pursued and conducted, as agreed in the negotiations.

1. Tariffs

In no area is this more important for the U.S. distilled spirits industry than in the case of tariff concessions. In the Round, the Quad countries agreed to eliminate their tariffs on whisky and brandy over a period of ten years and to substantially reduce tariffs on other distilled spirits. Other participants also agreed to significant reductions, including the establishment of bound tariff levels by many developing countries. Ministers should agree to closely monitor these commitments, so that the liberalization achieved during the Round is actually put into practice and the anticipated benefits for distilled spirits exporters are realized.

2. Intellectual Property

The protection of intellectual property is another area of great importance to the U.S. distilled spirits industry. As purveyors of branded products, U.S. distillers rely heavily on trademarks to protect the substantial investments they make in developing markets for their products. The Agreement on Trade Related Intellectual Property (TRIPS) creates concrete obligations on the part of WTO members to provide strong and effective protection for trademarks and adequate and effective means for trademark owners to enforce their rights. It is essential for the distilled spirits industry that these obligations be strictly adhered to by all WTO member countries. This is particularly true with respect to the developing countries of Asia and Latin America which possess many of the fast growing export markets for U.S. distilled spirits. It also is equally important with regard to countries in the process of acceding to the WTO, such as Russia and China, where counterfeiting of foreign distilled spirits is rampant and effective means for enforcing trademarks do not exist.

The TRIPS agreement also provides protection for geographical indications for distilled spirits and wines. DISCUS strongly supported the inclusion of these provisions as a means of securing recognition and protection of uniquely American distilled spirits, such as Bourbon and Tennessee Whisky, in foreign markets. The inclusion of these provisions is an excellent beginning. However, more can be done within the framework of the agreement to enhance the protection provided for these distinctive American distilled spirits. The agreement specifically provides for further negotiations to strengthen the protection provided for geographical indications. With this in mind, we urge the United States to propose at Singapore that the signatories agree to launch negotiations toward establishing a register of distinctive distilled spirits entitled to protection under the agreement as soon as possible.

3. Dispute Settlement

Another important result of the Uruguay Round was the establishment of a stronger and more predictable dispute settlement mechanism. The new mechanism has already proven its value for the U.S. distilled spirits industry. One of the first complaints brought by the United States under the new system was directed at Japan's discriminatory system of liquor taxation. To our satisfaction, the dispute settlement panel ruled definitively against Japan's discriminatory system. Although presently under appeal, we have every expectation that the panel's ruling against Japan will be confirmed by the Appellate Body.

While the WTO's dispute settlement mechanism has produced several rulings in the short period of its functioning, the experience with implementing these rulings is just beginning. The commitment of member countries to abide by the results of the dispute settlement process is still untested. At Singapore, we recommend that WTO member countries renew their commitment to accept the rulings rendered and bring their practices into conformity within the time limits envisioned under the system.

B. Continued Work on the Built-in Agenda

A number of the of the Uruguay Round agreements provide for follow-on negotiations toward additional liberalization. Several are of particular importance to the distilled spirits industry. The agreement on agriculture, for example, provides for new negotiations on additional market access commitments beginning five years after implementation, *i.e.*, in 1999. Similarly, the General Agreement on Trade in Services calls for additional negotiations among signatories on new market access commitments within the same time frame. Ministers should draw attention to these provisions at Singapore and take the necessary steps to begin the preparations for these negotiations, with a view to launching them at the next Ministerial conference in 1998.

III. ADDITIONAL LIBERALIZATION

In the Uruguay Round negotiations, the U.S. distilled spirits industry strongly supported the reciprocal elimination of tariffs on trade in distilled spirits. U.S. negotiators were successful in persuading their Quad partners -- the European Union, Canada and Japan -- to eliminate tariffs on whisky and brandy. However, Japan refused to agree to elimination of tariffs on all other distilled spirits, including products of export interest to the United States such as vodka, rum, and liqueurs. It also insisted upon a period of ten years for phasing out its tariffs on whisky and brandy. In addition, despite the considerable efforts of the United States, other key WTO members countries chose not to fully eliminate their tariffs in the distilled spirits sector.

The Congress wisely included authority in the Uruguay Round Agreements Act for the United States Trade Representative (USTR) to use in pursuing the completion of tariff elimination in the various sectors identified during the Round. This authority covers the distilled spirits sector. We strongly support USTR's current efforts to use this authority to secure the elimination of tariffs on all other distilled spirits, such as "white spirits" and liqueurs, as part of the market access package under consideration for the Singapore Ministerial conference. The successful conclusion of such a package will send a strong signal that the WTO is capable of generating additional trade liberalization with resorting to the launch of another comprehensive, time consuming round of global trade negotiations.

In the run-up to the Singapore Ministerial, we urge USTR to make every effort to secure the completion of the Uruguay Round "zero for zero" agreement for distilled spirits. Specifically, we seek a commitment from other WTO members to eliminate tariffs on all other distilled spirits, such as "white spirits" and liqueurs, in addition to whisky and brandy; an agreement to a shorter period than ten years for the phase-out of tariffs on whisky and brandy and all other distilled spirits; and a commitment from WTO members not yet prepared to undertake tariff elimination to substantially reduce their tariffs on these products. The achievement of total tariff elimination in the distilled spirits sector will be of immense benefit to U.S. distilled spirits companies.

IV. ACCESSIONS

At present, some thirty countries have begun the process of acceding to the WTO. Among the applicants are such major trading countries as China, Russia and Taiwan. The entry of these countries into the WTO at the earliest possible date is both welcome and desirable. However, in certain important respects, these countries' trade regimes fall far short of meeting WTO standards. China, for example, imposes a tariff of 70 percent ad valorem on imported distilled spirits, while denying foreign suppliers the opportunity to import and distribute their own products with the Chinese market. In addition to assessing exorbitant tariffs, Russia has announced plans to impose strict quotas on imported spirits, limiting them to less than five percent of the domestic market. Taiwan continues to maintain a domestic monopoly on the production, distribution and market of alcohol beverages, although it has indicated its intention to significantly liberalize access for imported spirits upon entry into the WTO.

It is essential that each of these countries fully adhere to the various agreements reached in the Uruguay Round and that they provide market access concessions of equal value to those

made by WTO members during the Round. They must be required to bring their practices into conformity with the rules and obligations of the WTO, and any transition provisions agreed to for this purpose should be limited both in time and scope. Otherwise, the basic integrity of the WTO will be undermined, and major exporting countries like the United States will fail to receive the full benefit of liberalized access to these important markets.

V. CONCLUSION

The Ministerial Conference in Singapore provides the first opportunity for WTO members to review the work that has been done to date and to begin to outline the organization's agenda for the future. It also provides an important test of the members' commitment to the continued liberalization of world trade. By adopting a package of market access measures, including tariff elimination for distilled spirits, the WTO can send a strong signal to the international business community that is able to provide an effective framework for world trade, and a vehicle for achieving for progress toward trade liberalization in the future. DISCUS urges the United States to seek to achieve these important objectives in its preparations for and participation in the Ministerial Conference.

Thank you very.

Sincerely,

Fred A. Meister
President/CEO

NAM National Association of Manufacturers

NAM STATEMENT REGARDING THE WTO SINGAPORE MINISTERIAL

The National Association of Manufacturers strongly supported the Uruguay Round from inception to conclusion, and, under the assumption that continued market access talks would be pursued and successful, also urged Congressional approval of the Uruguay Round Agreements in 1994. It was, and still is, NAM's position that participation in the GATT/WTO advances the interests of American manufacturers, and is in the best interest of the overall global economy.

The NAM sees the Singapore Ministerial as an important stock-taking opportunity for the WTO. It appears, as the agenda is shaping up, that there are three main areas: implementation of the Agreements to date; progress on the WTO's "built-in agenda" (*i.e.*, negotiations in services, telecommunications and the like); and future issues. The latter two issues are significant in that they round out the scope of the WTO, offering a more comprehensive and transparent international trading system.

WTO Institution: As Director-General Renato Ruggiero stated last December, the WTO's first year represented an "encouraging start" in terms of implementation and administration of the various Uruguay Round agreements. It appears that institutionally, great attention was given to sorting out procedural matters and increasing transparency and efficiency within the organization. The speed and precise manner with which this has been done has fostered a smooth transition from the GATT system and lent credibility to the new institution. We encourage continued progress in this area.

Implementation: Assessing the success of implementation of the terms of the Agreements is tougher, in part because certain agreements have only been in effect since the first of this year, and in part because many Member countries have not yet complied with notification requirements. Recognizing that there are a large number of notification requirements (175) included in the Agreements, the NAM still cannot emphasize enough how important it is to ensure full and effective implementation of these Agreements. In fact, the NAM strongly encourages the General Council to concentrate on basic and full implementation of the Agreements, including the requisite notifications, to enforce a sound basis for the future viability of the WTO. Without operable and full Agreements compliance by all contracting parties, future negotiations, not to mention the Uruguay Round agreements themselves, risk being undermined, if not becoming unraveled.

Dispute Resolution: As demonstrated by the number of dispute settlement cases already being addressed within the WTO system, the Dispute Settlement Body ("DSB") is to be commended for the rapidity with which it became operational. The fact that, in the first year, twenty-two requests for consultations were notified to the DSB, and three of those cases were settled before they reached the panel stage, demonstrates the Member countries' acceptance of, and willingness to operate within, the new system.

Accession: The NAM supports and welcomes the accession of new Members to the WTO. Clearly, the fact that the WTO had 27 working groups examining new membership applications in its first year indicates the seriousness with which the WTO is being taken globally, and the U.S. should applaud the efforts and enthusiasm of those countries that have worked diligently to meet the criteria necessary for becoming Members of the WTO.

The NAM is also adamant, however, that new membership only be awarded when an applicant demonstrates a genuine capacity to accept and comply with all the responsibilities attendant to being a WTO Member. The framework that has been negotiated so painstakingly over the years is one that 120 countries have agreed to abide by, and its integrity must not be compromised. Any country that demonstrates an unflagging commitment to, and understanding of, its global responsibilities will be wholeheartedly welcomed into the WTO, by the international community, and certainly by U.S. manufacturers. The NAM would also strongly recommend that access negotiations include a commitment by the acceding country, not only to current zero for zero tariff commitments, but also to the negotiation of, if not an actual commitment to, new zero for zero tariff agreements.

Market Access: One of the most significant achievements of the Uruguay Round agreements for U.S. manufacturers was the substantial tariff reductions worldwide that were pledged, including reciprocal tariff eliminations by our major trading partners in a number of zero for zero sectors.

While substantial gains were realized, the NAM stated in 1994, and strongly reiterates today, that market access provisions must continue to be improved, with an eye specifically to tariff reduction acceleration. For example, in some zero for zero sectors, such as paper, tariffs are scheduled to be eliminated in 10 years, rather than five. The U.S. paper industry seeks accelerated elimination of tariffs on all wood and paper products within five years. The NAM also supports a successful conclusion of the current negotiations on the Information Technology Agreement ("ITA"), which will hopefully produce WTO-wide reciprocal tariff elimination for Information/Communications Technologies (ICT) product groups. Finally, the NAM strongly suggests that the WTO Ministerial commit to a standstill agreement such that current negotiated tariffs are not increased above 1996 applied rates pending the negotiation of new multilaterally-acceptable tariffs.

Trade and Investment: Unlike trade, there are relatively few multilateral rules or disciplines governing investment. This situation does not comport with the reality of increasingly global markets. A physical presence is often a pre-requisite for conducting business in many parts of the world. Manufacturers therefore need a state-of-the-art investment agreement addressing such issues as the right to establishment, performance requirements, and investment related transfers, among others.

The NAM strongly supports the completion of a Multilateral Agreement on Investment (MAI) in the OECD, followed in short order by comprehensive discussions in the WTO. The MAI should at all times remain open to non-member countries.

Trade and the Environment: The NAM believes that the pursuit of environmental objectives and international trade are mutually supportive. However, the NAM also subscribes to the principle that individual countries should not use unilateral trade measures or sanctions for environmental purposes, especially when such measures are used to address environmental problems outside the jurisdiction of the importing country.

Where environmental problems are of a transboundary/global nature, the NAM favors the negotiation of international environmental agreements (MEAs), which may under certain limited circumstances incorporate trade measures. Most importantly for manufacturers, the multilateral trade rules should not allow import restrictions or other trade measures based on the manner in which products are manufactured or produced. A criteria-based approach which would carve out an exception for MEAs under clearly defined circumstances should be a priority in Singapore.

Trade and Labor: The NAM firmly opposes a discussion of this issue at the WTO and any attempts to adopt a WTO "social clause." The International Labor Organization remains the most appropriate forum for international labor standards issues. At best, discussion of this issue in Singapore will prove extremely divisive and detract from the attainment of other more pressing U.S. objectives.

Competition Policy: The NAM recognizes the linkage between market access on trade and competition policy. That being said, considerable efforts need to be undertaken before this issue will be ripe for formal negotiations, given the divergence regarding competition policy among developed countries and its virtual non-existence in the developing world. The complexity of this area merits thorough examination both domestically and internationally before serious negotiations are pursued.

Bribery and Corruption: The corrosive effect of corruption and bribery in international transactions can no longer be ignored. The NAM supports a multi-faceted strategy to combat bribery and corruption, which should include the following measures: extending the plurilateral Government Procurement Agreement (GPA); upgrading the transparency provisions of the GPA; ensuring that the award of procurement contracts be made contingent upon commitments to refrain from bribery; implementing the OECD recommendation to eliminate tax deductibility for bribery payments; and ensuring that the OECD recommendations become part of both existing and planned regional trade initiatives. It is recognized that in most countries this strategy will likely require specific changes in domestic law regarding preventative and enforcement measures.

Regional Trade Agreements: The NAM supports the formation, in February, 1996, of the WTO Committee on Regional Trade Agreements. While NAM believes that the most effective and efficient basis upon which to conduct trading relations is through systems that enhance the role of free market forces, the NAM also supports examining the systematic implications of regional agreements to the multilateral system.

Regional agreements can, by their very nature, raise the level and detail of mutually acceptable trade parameters, which can establish strong precedents for future multilateral negotiations. However, inconsistency between a regional grouping and the WTO is potentially likely to detract from the overall WTO framework, and therefore all agreements should be consistent with the current WTO understanding.

NAM International Trade Policy Committee
June 5, 1996

STATEMENT OF POLAROID CORPORATION BEFORE THE TRADE SUBCOMMITTEE OF THE HOUSE COMMITTEE ON WAYS AND MEANS REGARDING THE WTO SINGAPORE MINISTERIAL

I. INTRODUCTION.

This statement is filed by Polaroid Corporation ("Polaroid"), headquartered in Cambridge, Massachusetts, in response to the August 13, 1996, House Ways and Means Committee invitation for public comments relating to Trade Subcommittee hearings on the World Trade Organization ("WTO") Singapore Ministerial meeting.

This statement underscores the company's priority in seeing that the WTO Ministerial reaches a market access liberalization agreement which includes the reciprocal elimination of tariffs (so-called "zero-for-zero") on camera and photographic parts and accessories (U.S. HTS 9006.91 and 9006.99).

II. ABOUT POLAROID CORPORATION.

Polaroid, based in Cambridge, Massachusetts, has annual sales of over $2 billion and invests over $150 million annually in research and development. Polaroid is the world's largest supplier of instant photographic equipment, including instant cameras and instant print film. Roughly 60 percent of Polaroid's sales are for industrial and business markets (e.g., ID systems, hospitals) while the remaining is for the retail consumer market. Polaroid's products are sold in over 150 countries through Polaroid's wholly-owned subsidiaries, independent distributors, and joint ventures in China, India and Russia. The company manufactures instant print film in Waltham, Massachusetts, as well as Mexico, the United Kingdom (Scotland), and the Netherlands. Polaroid produces instant cameras in Norwood, Massachusetts, the United Kingdom, China, India and Russia. All of the company's instant film produced abroad contains an average of 50 percent value of U.S. origin components. Thus, expanded operations abroad benefit both the home country and U.S. exports.

III. POLAROID'S WTO MINISTERIAL GOAL.

The Subcommittee hearings will address, inter alia, "further market liberalization in selected areas...." In this context, Polaroid is hopeful that the WTO Ministerial will result in a zero-for-zero agreement on camera and photographic parts and components (HTS Nos. 9006.91 and 9006.99).

IV. SUPPORTING REASONS.

First, Section 111 (b)(1)(B) of the URAA authorizes the President to proclaim accelerated reduction in U.S. tariffs on imported products "contained in a tariff category that was the subject of reciprocal duty elimination... during the Uruguay Round of multilateral trade negotiations..." Camera components and accessories fall within Chapter 90 of the Harmonized Tariff System, and thus are classified within a "tariff category" where a significant number of items (48 percent of Chapter 90 tariff headings) were subject to duty elimination in the Uruguay Round. Within the more narrow four-digit tariff heading that photographic components fall under (HTS 9006 -- "photographic cameras; photographic flashlight apparatus and flashbulbs..."), 15 out of 22 tariff product lines call for complete U.S. duty elimination.

Secondly, the Statement of Administrative Action ("SAA") implementing the Uruguay Round Agreement provides interpretive guidance relevant to the priority sectors governing "zero-for-zero" tariff elimination, including electronics. Cameras and photographic parts and accessories clearly fall within the definition of "electronics" since the overwhelming trade in these two categories includes such electronic products as

camera shutters and diaphragms, shutter releases and photographic flashlights and flashbulb apparatus.

Thirdly, a flexible interpretation of the President's Proclamation authority in this specific area is appropriate in view of the non-controversial nature of the request. The National Association of Photographic Manufacturers ("NAPM") supports Polaroid's "zero-for-zero" initiative "because of the significant benefits it would bring to the U.S. photographic industry". Moreover, both the EU and Japanese delegations support zero-for-zero on these items.

Lastly, in light of the Proclamation authority empowered by the Congress to the Executive Branch pursuant to Section 115 of the URAA, a 60-day consultation period with the House Committee on Ways and Means and Senate Committee on Finance will be initiated prior to the time the President exercises his Proclamation authority. This consultation is an important aspect of Congress's prerogative to review the tariff cuts and accelerated staging proposed by the President. In view of the U.S. industry support and plurilateral appeal of the proposal, there is no reason to believe the Trade Committees would oppose Polaroid's initiative in this area.

V. CAMERA AND PHOTOGRAPHIC PARTS AND ACCESSORIES.

A. Product Descriptions.

Covered under HTS 9006.91 ("parts and accessories, for cameras") are parts required for all photographic cameras and camera accessories -- i.e., camera bodies, bellows, tripods, ball and socket mounting heads, shutters and diaphragms, shutter (including delayed action) releases; magazines for plates or films; and lens hoods. Products covered under HTS 9006.99 ("parts and accessories, other") include parts and accessories for photographic flashlight and flashbulb apparatus.

Most goods falling under HTS 9006.91 and 9006.99 are not finished products but rather components and intermediate products with final end-use in the assembly of finished cameras. Though U.S. production of finished cameras is minimal, U.S. camera component production and exports are significant. In 1995, U.S. exports of photographic parts and accessories (classified under HTS 9006.91 and 9006.99) were valued at over $200 million, compared to $130 million in 1990. Demand for U.S.-sourced components is high, especially with shifting camera production to destinations such as Europe, East Asia and Southeast Asia. For example, Polaroid Corporation alone exports over $60 million annually of U.S.-origin components for finished cameras produced at its facility in Scotland.

B. U.S.-EU Tariffs and Uruguay Round Market Access Offers.

Current EU tariff rates on photographic components are 5.1 percent and 4.0 percent for HTS 9006.91 and 9006.99, respectively -- see table below. By comparison, U.S. rates are 5.8 percent and 3.9 percent for HTS 9006.91 and 9006.99, respectively. However, whereas U.S. duties will remain unchanged as a result of the Uruguay Round, EU duties will be reduced in equal annual installments to final rates of 3.7 percent and 3.2 percent by January 1, 1999.

U.S. and EU Tariff Rates and Final WTO Bindings for HTS 9006.91 and 9006.99

Country	HTS No.	Description	1996 Duty	Final WTO Binding
European Union	9006.91	Parts and Accessories for cameras	5.1	3.7
	9006.99	Other photographic parts and accessories	4	3.2
United States	9006.91	Parts and accessories for cameras	5.8	5.8
	9006.99	Other photographic parts and accessories	3.9	3.9

C. APEC Tariffs and Uruguay Round Market Access Offers.

Current APEC tariffs on parts and components falling under HTS 9006.91 and 9006.99 range from duty-free (e.g., Malaysia) to 30 percent (e.g., Indonesia). Parts and accessories tariffs are especially high in countries with growing camera assembly and manufacturing industries (e.g., Thailand and Indonesia). These markets have high-growth potential for U.S. components exports.

The results of the Uruguay Round of multilateral trade negotiations will not improve market access for U.S. parts and accessories exports to APEC markets. Current APEC tariffs are already at or below the final WTO bound rates effective in 1999 for all APEC members, including the U.S. Japan and Canada bound part or all of their tariff lines falling under HTS 9006.91 and 9006.99 at current duty-free levels, but these market access offers were the exception rather than the norm. China and Taiwan are not WTO members, though they are in the process of applying.

THE
PRO
TRADE
GROUP

September 24, 1996

Phillip D. Mosely
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Mosely:

This is a posthearing submission filed in connection with our appearance at the Subcommittee on Trade's September 11, 1996 hearing on the forthcoming World Trade Organization (WTO) Ministerial Meeting. We respectfully request that this post-hearing submission, which focuses on the WTO's dispute resolution mechanism, be included in the record of this hearing.

As requested, we enclose an original and six (6) copies of this submission.

Sincerely,

Bruce Aitken

DISPUTE RESOLUTION UNDER THE WTO -- ITS HISTORY, PROCEDURES AND FUTURE

OUTLINE

I. DIFFERENCES BETWEEN THE WTO AND EARLIER DISPUTE RESOLUTION REGIMES

1. Essential Orientation -- From Negotiated Solutions Toward an Adjudicative Approach
2. Scope and Timetables
3. Range of Remedies
4. Role of Private Parties
5. Differences Between GATT & WTO Procedures

II. ANTICIPATING THE FUTURE UNDER THE WTO SYSTEM

A. THE ROLES OF PRIVATE PARTIES IN DISPUTE RESOLUTION
1. The Philosophical Background
2. The Possible Role of Private Parties in the WTO Dispute Resolution Process
3. The Role of Lawyers Vis-a-Vis the WTO

B. STANDARD OF REVIEW

C. COMPLIANCE WITH WTO DECISIONS
1. The Dole Amendment under U.S. Law
2. The Implications of the SOFTWOOD LUMBER Dispute
3. Inherent Risks in the WTO Process

D. IMPLICATIONS OF THE SINGAPORE MINISTERIAL

INTRODUCTION

The following discussion represents a preliminary draft of a paper being prepared for publication later this year in cooperation with James Holbein, the U.S. NAFTA Secretary. It's purpose is to provide an overview of the negotiating history of the World Trade Organization's Dispute Resolution provisions, to compare these provisions with earlier international dispute resolution regimes and, finally, to discuss issues which we anticipate may result from their implementation. This paper was presented by Mr. Aitken to the Inter-Pacific Bar Association at it May 4, 1996 Annual Meeting in Manilla.

I. DIFFERENCES BETWEEN THE WTO AND EARLIER DISPUTE RESOLTION REGIMES

1. Essential Orientation -- From Negotiated Solutions Toward an Adjudicative Approach

1. A fundamental difference exists between the WTO dispute resolution regime and its North American counterparts. This is in that the WTO aims at an adjudicative process rather than negotiated solutions. As Reisman and Weidman noted:

> "Compared to the automaticity and rigidity in the general DRM [dispute resolution mechanism] of the WTO, [the] CFTA and NAFTA have looser, swifter procedures, aimed at relatively rough-hewn solutions. Rejecting elaborate sequential procedures, these North American Agreements essentially assign the legal issue to a panel of five individuals. If the panel upholds the complaint, the agreements then a portion responsibility to resolve the conflict solely to the parties, themselves, without legalistic supervision of the resulting political interplay."[1]

2. Essentially, the WTO process attempts to move from the previous model of a mixture of legal and diplomatic methods to a system that is more institutionalized and judicialized. This reflects the need to render decisions for a far greater number of parties.

2. Scope and Timetables

1. The NAFTA and WTO regimes do not differ fundamentally in scope, but differ substantially in their timetables. A highly contested WTO dispute could take four times larger to resolve than a NAFTA dispute -- 31 or 32 months vs. 8 months.[2]

3. Range of Remedies

1. The WTO and NAFTA regimes offer comparable remedies for disputes involving alleged treaty violations. For other disputes, the WTO severely constrains the range of available remedies, and, further, creates obstacles to reaching a resolution. For example, if the WTO panel or the Appellate Body do not find an express violation, then the responding Party cannot be obliged to remove or remedy the action or measure complained of without its consent.[3] This limitation does not exist in the NAFTA system.

---

[1] Reisman and Weidman, id. at 21.

[2] See Reisman and Weidman, id. at 22.

[3] See the Agreements dispute resolution provisions, footnote 14, par. 26.

4. Role of Private Parties

1. As discussed below, the WTO contrasts markedly with the NAFTA in that the NAFTA explicitly provides a role for private parties in certain disputes while the WTO does not. However, this issue is likely to evolve.

2. As indicated, both the CFTA and NAFTA dispute resolution regimes explicitly contemplated a role for private parties in disputes, e.g., arising from antidumping and subsidy cases. That is not the case under the WTO system. The possible evolution of this system towards one in which private parties is discussed below.

5. Differences Between GATT & WTO Procedures

1. The Uruguay Round Agreement under the GATT would alter the dispute resolution mechanism. Under the WTO, the procedure to resolve disputes among contracting parties would be changed in ways designed to make it easier to use, more expeditious, and more sure to arrive at an outcome.

2. Under GATT 94, dispute resolution is based on Articles XXII and XXIII. They establish a procedure for members to take complaints before a neutral panel with expertise on such matters and to receive a ruling on the dispute.

3. Art. 22 deals with consultations and Art. 23 deals with panel establishment. The understanding on Rules and Procedures Governing the Settlement of Disputes addresses certain problems in applying Articles XXII and XXIII. Under the WTO mechanism, dispute settlement proceeds in much the same fashion as under the GATT. Dispute procedures may be invoked where a member alleges that a measure violates a WTO agreement or that a non-violative measures, nullifies or impairs benefits under an agreement.

4. A number of differences exist between former procedures and the WTO. First, the scope of the disputes subject to the dispute settlement mechanism is widened to include services and intellectual property rights, in addition to goods. Plurilateral agreements under the WTO dealing with civil aircraft, government procurement, and bovine meat also would be covered, provided that parties to those agreements concur.

5. The second, and the most important difference is that consensus is no longer required to approve a panel decision. Under former GATT procedures all reports are adopted by a consensus. In the past, this meant that one country could block an adoption of the panel report. Under the WTO, all panel reports are adopted automatically unless the Dispute Resolution Body agrees not to. This automaticity in procedures can also be seen in establishment of panels. (Understanding 6.1)

6. Third, other differences in the dispute settlement mechanism include a time-controlled consultation process and expeditious forming of panels. If consultations fail to settle a dispute within 60 days, the complaining party may request a panel establishment.

7. Also, under the WTO, a final panel report would be provided to the parties no later than six months (three months in the case of an emergency) after the panel is composed. The report will then be issued to the members after which no action could be taken for 20 days. Within 60 days after the report was issued, the Dispute Settlement Body will adopt the report or decide by consensus not to adopt it.

8. Also, under the WTO, an appellate body is established. The appellate body consists of seven persons, three of whom will serve in any one case. Decisions are required within 60 to 90 days, depending on the case. Therefore, under the WTO, one case will not exceed 9 months from the establishment of a panel, and 12 months with an appeal. This is shorter than 15 months specified under the GATT.

9. The WTO dispute settlement procedure also tightens the implementation and compensation aspects of dispute settlement. The party which must inform the Dispute Settlement Body of its intention to implement the report within 30 days from the adoption of a report. If the reports recommendation or rulings are not implemented within a reasonable period of time, the responding party, if requested, must enter into negotiations over a mutually agreeable compensation scheme. If no compensation scheme can be devised, the complainant has the right to request authorization to retaliate. The retaliation, however, would have to be the same amount as the impact of the measure at issue. However, as noted above, a highly contested WTO dispute can take substantially longer than the timetables discussed here.

II. ANTICIPATING THE FUTURE UNDER THE WTO SYSTEM

A. THE ROLE OF PRIVATE PARTIES IN DISPUTE RESOLUTION

1. The Philosophical Background

1. With regard to illicit or unfair trade practices, individuals are generally excluded from international dispute-settlement procedures such as those which are used under GATT. The same is true for the various dispute settlement arrangements which the Community has agreed to in its bi- and multi-lateral agreements.[4]

2. Thus, with regard to foreign practices, individuals are limited to the classical remedy in essence, lobbying for diplomatic protection by their home states. Having exhausted all local remedies within the legal order of foreign states, individuals may ask their own government to intervene on their behalf in order to eliminate those practices.[5]

3. However, when governments and business firms desire greater predictability of national government economic actions in an increasingly interdependent world, and greater balance and equality in actual implementation of negotiated international rules on economic matters, these factors could lead governments to be willing to accept some sort of a mechanism by which individual citizens or firms could appeal directly to an international body like the GATT to determine whether a government obligated under the GATT or one of its codes has taken an action that is inconsistent with its international obligations.[6] Thus, it may be said that the effective participation of individuals would be at least a valuable tool in the hands of governments trying to counter any form of those non-transparent foreign administrative trade practices which have become a major problem in the international trading system.[7]

---

4 Meinhard Hilf, International Trade Disputes and the Individual: Private Party Involvement in National and International Procedures Regarding Unfair Foreign Trade Practices, in, Protectionism and Structural Adjustment, at 281, citing Partsch, Individuals in International Law, in: Bernhardt (ed.), Encyclopedia of Public International Law (EPIL), Instalment 8 (1985), S. 316 et seq. and Matscher, Standing Before International Courts and Tribunals, in: Bernhardt (ed.), EPIL, Instalment 1 (1981), 191 et seq. and Hannum, Guide to International Human Rights Practice (1984) with a list of the various procedures open to individuals. For further details M. Hilf, Europaische Gemeinschaften und Internationale Streitbeilegung, in: Festschrift Mosler (1983), 387 et seq.

5 Hilf, 281.

6 John H. Jackson, Jean-Victor Louis & Mitsuo Matsushita, Implementing the Tokyo Round: National Constitutions and International Economic Rules 207-209 (1984).

7 Hilf, 281 (citing E.-U. Petersmann, International and European foreign Trade Law: GATT Dispute Settlement Proceedings Against the EEC, 22 CML Review. (1985), 441, 483).

4. Increased legalization of international trade, which would necessarily flow from private participation, is welcomed by a number of observers, whereas it is feared by others. In particular, there are no reliable estimates as to the long-term benefits of a more legalized system.[8] From a lawyer's perspective a rather positive attitude towards a more rule-oriented world trading system should prevail. Judicial activism of individuals will not necessarily influence or even dominate actual commercial policy and a more rule-oriented trade policy will only mean that individual interests are taken into account according to clearly pre-established administrative or judicial procedures.

2. The Possible Role of Private Parties in the WTO Dispute Resolution Process

1. During the Uruguay Round negotiations, Singapore proposed that private parties (persons and companies) be afforded rights through domestic law to have their interests considered in hearings, decisions and implementation of dispute resolution. However, the proposal did not progress far since many countries did not wish to broaden the GATT's essential character beyond that of agreement between states.[9]

2. In the Spring of 1995, certain U.S. industry groups proposed to U.S. government officials that private parties be afforded a role in the WTO dispute resolution process. It appears highly unlikely that a formal role could result from WTO implementation -- this concept was considered and passed over during the negotiations. Yet is conceivable that a formal advisory mechanism could be established, perhaps at the national level. A model for this exists in the United States, where so-called "Industry-Sector Advisory Committees" (ISACs) exist to afford private firms access to confidential governmental information and to obtain their comments. ISACS exist to aid the U.S. government regarding its trade negotiations.

3. Theoretically, private participation in trade policy procedures may serve to increase the effectiveness of government administration of those instruments. It also provides private parties affected by unfair trade practices a subjective right to complain and to participate in the decision-making procedures.[10] Thus, individual interests are but one element of the general public interests to be considered by the relevant authorities in foreign trade decision-making. Is there nevertheless any legal obligation for the government to provide for active private involvement in the decision-making process? Such an obligation may be derived from international law or from national legal systems.[11]

4. Under international law, one may well find some obligations of contracting states - as is stated in Art. X:(b) of the GATT to "maintain, or institute as soon as practicable, judicial, arbitral or administrative tribunals or procedures for the purpose, inter alia, of the promotion of review and correction of administrative action relating to customs matters". This article is related only to custom matters. Similar obligation can be found in Art. 2 of the Subsidies Code.[12]

5. Both U.S.-Canada Free Trade Agreement and the North American Free Trade Agreement contain a unique procedure for international dispute settlement on issues of antidumping and countervailing duties. The procedures essentially allow private parties in each contracting party nation to appeal national administrative determinations on these subjects to a bi-

---

8 Id.

9 See Reshaping the World Trading System by John Croone, (WTO, 1995) at p. 265.

10 Hilf, 281.

11 Hilf, 282.

12 Hilf, 282.

national tribunal for determination, in lieu of appeal procedures in the national courts. The tribunals findings are supposed to be directly implemented in the jurisprudence of each nation.[13]

6. Under European Community and its national law, ex-post-protection is the general rule. Individuals are entitled to administrative or judicial relief if their interests are affected by public action. This protection is often insufficient, however, especially in foreign trade matters. Individuals may be moved to petition their own government to take protective measures on their behalf. In addition, they may have a legitimate interest to intervene or to participate somehow in the decision-making procedure before certain trade measures are taken. Such an interest seems to be predominant, if an ex-post-protection would be insufficient to remedy all the injury which might have been cause to private interests.[14]

7. Even in the absence of constitutional obligations, a close look at national and constitutional law shows a strong trend towards private involvement in foreign trade decision-making. Jackson[15] has listed fourteen major U.S. import trade regulations which provide for various degrees of procedural involvement. The more important ones are the procedures concerning escape-clauses, antidumping and countervailing duties, unfair practices in import trade and the procedure concerning unfair trade practices of foreign governments. Some observers think -- according to Jackson -- that these complex procedures reflect the state of the "litigious society" which the United States are considered to be.[16]

8. In the European Community - influenced by the American example -- some similar procedures have been adopted. The more important ones are the common rules for imports and exports and especially the antidumping/antisubsidy regulations and the regulations on the strengthening of the common commercial policy, particularly with regard to protection against illicit commercial practices (the "New Instrument"). The very title of the latter instrument indicates the main objective of this regulation to strengthen the common commercial policy, to serve the objective interests represented by the institutions involved in order to ensure the full exercise of the rights of the Community. It is not intended to serve individual interests in particular.[17]

9. However, the GATT rules for substantive and procedural "due process" in the administration of national trade laws do not appear to be based on a mutually consistent "legal policy."[18] A comparison of the various Tokyo Round agreements, for instance, reveals large differences among their various trade policy procedures. The Customs Valuation Codes grants comprehensive guarantees of procedural "due process" while other agreements are vague or have no provisions at all on individual rights of appeal and judicial review.

10. By contrast, the Subsidy Code and the Antidumping Code set out detailed rules on domestic antidumping and countervailing duty proceedings without making provision for rights of appeal and judicial review. This omission seems particularly unwarranted in view of the fact that the number of antidumping and countervailing duty proceedings has rapidly increased since the adoption of the 1979 GATT Antidumping Agreement (e.g., over 600 cases in the USA from 1980 through 1986) and judicial review of antidumping and countervailing

---

13 NAFTA Article 1904 § 5,7.

14 Hilf, 282.

15 J.H. Jackson, Perspectives on the Jurisprudence of International Trade: Costs and Benefits of Legal Procedures in the United States, 82 Michigan Law Review (1984), 1570, 1584.

16 Id. 1570.

17 Hilf, 285.

18 Petersmann, 82.

duty determinations is now available in most OECD countries, albeit with important differences in major trading countries.[19]

11. Government regulation of transnational trade transactions has become the most regulated area of many national economies. The international and national foreign trade rules and procedures are ultimately designed to promote efficient decentralized economic decisions of individual economic agents and also increasingly recognize individual rights of private traders and producers. There is a rapidly rising number of court decisions on the protection of these individual rights in customs, licensing, antidumping, countervailing duty and other foreign trade proceedings in the European Community.[20]

12. However, in Practice, domestic foreign trade laws sometimes confer individual rights to import protection on domestic industries interested in import restrictions, but hardly even recognize individual rights to trade liberalization. And they tend to focus one-sidedly on "injury to domestic producers" without balancing these producer interests against the gains from trade to consumers. As a result of these various "protectionist biases" in national trade policy procedures, discretionary government powers risk to be captured by special interest groups (e.g., of politicians, bureaucrats and import-competing producers) and to be abused to advance protectionist group interests at the expense of the "public interest".[21]

13. But is it compatible with the obligation of governments to serve the "public interest" that the safeguard clauses of GATT as well as of domestic producers" (Article XIX) without a "public interest proviso" requiring a balancing of the protectionist self-interests of import-competing producers against the liberal interests of consumers, taxpayers, export industries and the public interest at large.[22]

14. Allowing private traders to institute legal proceedings against foreign governments before a GATT "supercourt" are hardly realistic means of extending the rule of law over foreign trade.[23] Jackson's proposal "to accept some sort of a mechanism by which individual citizens or firms could appeal directly to an international body like the GATT to determine whether it is a inconsistent with its international obligations"[24] has been criticized on several grounds. Tumir has voiced the fear that securing direct access of private persons to the international GATT dispute settlement procedures "would be destructive of international order, crippling diplomacy be bringing into a head-on conflict with the national judicial process, the effort should be directed to securing more perfect national justiciability of the personal rights

---

19 Id. at 83, referring E.A. Vermulst, Antidumping Law and Practice in the United States and the European Communities, 1987; H.C. von Heydebrand und der Lasa, Der gerichtliche Rechtsschutz bei der Einfuhr gedumpter Handelsware in den USA und der EWG, 1986; Beseler/Williams, Antidumping and Antisubsidy law: The European Communities, 1986.

20 Petersmann, 84 (citing the 1983 FEDIOL judgement, E.C.R. 1983, 2913 and the 1984 Allied corporation judgment, E.C.R. 1984, 1005 which have opened up a comprehensive system of judicial review of antidumping determinations enabling complainants, foreign exporters and producers who have participated in the investigation, related importers, member states and E.C. institutions to challenge antidumping determinations by means of "direct actions" under Article 173 of the EEC Treaty).

21 Ernst-Ulrich Petersmann, Possibilities and Problems of Making GATT Rules Effective in Domestic Legal Systems.

22 Petersmann, at 84.

23 Petersmann, at 110.

24 Jackson/Lois/Matsushita, pp. 140.

which it is the ultimate function of international agreements to protect".[25] The issue before WTO remain the same.

15. Additionally, according to Trimble, "the future of effective international rule making lies in more extensive involvement of domestic political institutions, not in the impartial dispensations of an international court" because all law-making authority must be politically accountable to representative democratic control and must rest on the "consent of the governed."[26]

16. Furthermore, it is not clear that international litigation to enforce rules will even serve to promote and open trading system. In theory it may sound desirable. U.S. exporters could strike down Japanese Quotas maintained in violation of Article XI of the GATT. A German exporter of speciality steel could sue to force U.S. revocation of escape clause relief recently granted to the specialty steel industry. There is no problem for free trade as long as the suit is brought against an inefficient producer hiding behind an illegal practice.[27] On the other hand, suits by competitors to enforce rules against "unfair" actions (like subsides) are just as likely. Thus, the threatened U.S. steel industry could sue to halt illegal Brazilian subsidies. Such litigation may simply lead the defendant government to do whatever is necessary to stop the lawsuit, and not necessarily to change its practices to conform to the rules. Even if one believes the classic argument that subsidization (or dumping) is unfair, and therefore ought to be eliminated, the range of opinion among nations about subsidies and dumping is so wide, and the practices subject to attack so entrenched, that it seems extremely doubtful that litigation to resolve the differences of opinion would be tolerated. Therefore, domestic adjudication may offer a more acceptable means of clarifying the often vague GATT (WTO) provisions (e.g. on subsidies and countervailing duties) than an international "supercourt". The risk of differing national interpretations and uneven domestic implementation does not pose much of a problem from a liberal perspective which links the national gains from trade to a country's own trade liberalization and less to the reciprocal trade liberalization of foreign countries.[28] The result of domestic litigation by the steel industry has been the effective cartelization of world steel trade through "voluntary" restraint agreements. The likely result of establishing a supercourt would simply be more "voluntary" agreements, serving protectionist rather than free trade objectives. The "high degree of legalization" of this system has itself been seen by some observers as a non tariff barrier.[29]

3. The Role of Lawyers Vis-a-Vis the WTO

1. Irrespective of the foregoing, both governments participating in the WTO dispute resolution process, and firms potentially affected by these negotiations, are likely to rely on the expertise of outside counsel. This certainly has been the case in such cases as the EC challenge of the U.S. automotive tax regimes and in the current dispute over EC market access for imported bananas. Clearly, counsel with an understanding of the nuances of the dispute, and of WTO procedures, can add value to their clients who may be participating in, or affected, by these disputes.

B. STANDARD OF REVIEW

---

25 J. Tumir, Conceptions of the International Economic and Legal Order, in The World Economy 1985, pp. 85, 87.

26 Philip R. Thimble, International Trade and the Rule of Law, 83 Mich.L.Rev. 1020 (1985) (book review of J. Jackson, J. Louis & M. Matsushita, Implementing the Tokyo Round: National Constitutions and International Economic Rules (1984). Reprinted by permission of the Michigan Law Review Association.

27 Id. at 1016, 1026.

28 Petersmann, at 110, FN121.

29 Id.

1. It probably is inevitable that dispute resolution panels will attempt to define their roles. In a series of CFTA and NAFTA panels, the issue of standard of review has been discussed, with varying results. Some panels may determine that the panel should afford great deference to governmental bodes by adopting a standard of review that only "patently unreasonable" governmental actions are properly reviewable. Other panels may adopt a standard of review that affords much less deference to the entity whose actions are under review.[30]

2. U.S. firms seek certainty and predictability from trade case decisions. If only in integrity of the decisions of the U.S. Department of Commerce and the U.S. International Trade Commission were at stake, then U.S. firms might seek a WTO standard of review that affords great deference to administrative tribunals. However, in countries such as Canada, there is not the tradition of legislative history which exists in the United States and which helps dispute resolution panelists to determine whether particular administrative decisions have been arbitrary. Therefore, in the interests of both transparency and predictability, we urge the Congress and the Administration to seek commitments as clearly as possible the legislative and regulatory intent of their trade laws. This, in turn, should result in more predictable WTO decisions.

C. COMPLIANCE WITH WTO DECISIONS

1. Perhaps the most serious issue that will emerge from the WTO dispute resolution process is the issue of member party compliance with adverse decisions.

1. The Dole Amendment under U.S. Law

1. During consideration of U.S. UR implementing legislation, a debate occurred over alleged or feared loss of sovereignty due to the automaticity of WTO procedures. As a result Sen. Robert Dole proposed, and the U.S. Congress accepted, language under which three (3) WTO decisions adverse to the United States could result in the appointment of a panel of retired judges to assess whether the United States should withdraw from the WTO.

2. The Implications of the Softwood Lumber Dispute

1. Perhaps nowhere will the temptations to fail to comply with adverse WTO decisions be taken more seriously than occurred with respect to the Softwood Lumber dispute. This resulted in a NAFTA panel decision which was the subject of an Extraordinary Challenge by the United States. In its challenge, the United States claimed that the panel "manifestly exceed its powers, authority and jurisdiction by ignoring the Chapter 19 standard of review, including substantive law and facts."[31] American softwood lumber producers, after losing at the international level, then filed a suit in the Court of Appeals for the D.C. Circuit, asserting that Chapter 19's cut-off of judicial review violated their rights due process under the U.S. Constitution. The suit was dropped after the governments of Canada and the United States agreed on the formation of a consultative body to mediate the dispute.[32]

3. Inherent Risks in the WTO Process

1. The implications of the Softwood Lumber dispute are obvious. Should economically more powerful nations find the greater automaticity of the WTO dispute resolution process too restrictive, and reject its results, then their actions could undermine the WTO's authority and damage the credibility of the process.

---

30 See generally the NAFTA Panel Decisions on Cold Rolled Steel.

31 See U.S. request for an Extraordinarily Challenge Committee, April 6, 1994, at 29 Secretariat File No. EEC-94-1904-01 USA, 1994 Ftapd Lexis 11.

32 See 11 International Trade Reporter, 21 Dec. 1994, at 1981.

D. IMPLICATIONS OF THE SINGAPORE MINISTERIAL

1. In December, 1996, the First Ministerial meeting of the WTO will be held in Singapore. It coincides with the intended conclusion of the WTO implementation period and will result in action-oriented reports from a variety of WTO Committees.

2. Since the implementation of the WTO dispute resolution process is likely to be evolutionary, it may be appropriate for the Subcommittee to attempt to produce a document which highlights issues that may be of concern to U.S. companies. We would be pleased to assist the Subcommittee in that regard.

* * * *

This paper represents an adaption for this conference of a very preliminary draft of a law review article being prepared by the U.S. NAFTA Secretary, James Holbein, and this co-author. I wish to acknowledge the contributions of several members of our firm's staff: Curtis Knauss, Thiemo Roeher, Mimi Dai and David Park.

September 24, 1996

Mr. Phillip D. Moseley
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Moseley:

Re: Written Statement on World Trade Organization Singapore Ministerial Meeting (TR-30).

I am a lawyer in Washington whose practice is largely focused on international trade and customs issues. My law firm has actively monitored developments in the GATT and now the WTO for many years. Our firm has for nearly 40 years helped domestic companies and industries and their workers with international trade issues. I am the editor of several books on the World Trade Organization and the Uruguay Round negotiations, and have written many articles on international trade and the trading system over the years. This statement is submitted on my own behalf and does not necessarily reflect the views of my firm or any of our clients.

I. Overview

I have had the opportunity to review the prepared statements of the witnesses who appeared at the hearing on September 11th. I would agree with those who believe that the WTO has gotten off to a reasonable start during its first twenty-one months, although expectations for many U.S. industries were for greater accomplishments than those achieved to date.

The launch of the WTO was surrounded by substantial tension and controversy, as reflected in the seemingly regional breakdown of support in who should be the Director-General and who should be on the appellate body and by the long delay in the constitution of the Textile Monitoring Body. The extent of the notifications required by the Uruguay Round has been monumental, generally far outstripping the ability or willingness of countries to respond, with the result that the timeliness and completeness of responses has not always been what might have been hoped. At the same time, areas for continuing negotiations in services have to date not resulted in the type of liberalization commitments hoped for by the United States. Even in areas where there has been progress (e.g., transparency), the WTO has taken a very long time to develop agreement on the derestriction of documents. While agreement to derestrict most documents finally has been made, the documents are not yet available to the public keeping the mantle of secrecy that surrounds the WTO still largely intact.

Nonetheless, at this early point in the new organization:

- there is a functioning Secretariat and appellate body;
- the dispute settlement system seems to be functioning reasonably smoothly (though with less public participation/involvement than is desired by many in the U.S.);

- thousands of notifications of laws, regulations and existing practices have in fact been made to the various Committees;
- the Committees have at least gotten started on the difficult task of vetting legislation of member countries;
- tariff liberalization has commenced;
- substantial changes in national legislation for many countries have been undertaken;
- negotiations have been undertaken in various areas, including the technical work on the harmonization of rule-of-origin/ substantial transformation criteria and the various negotiations in the services area;
- global and U.S. trade are both increasing;
- there is some improvement in transparency of the WTO, including the dispute settlement process.

As the Singapore Ministerial approaches, it is important to consider what this first biannual event should be. In my own opinion, it is critical that the WTO secure its base before launching on an expansion of purpose or a revisiting of recently concluded agreements, most of which are just being implemented or are yet to be implemented by many members because of transition provisions. Thus, the Singapore Ministerial should largely be limited to (1) an intensive review of the state of implementation, (2) the work program needed to pursue the built-in agenda, and (3) investigation of whether additional resources may be needed and whether international cooperation can be expanded to help developing and least developed countries fulfill their obligations under the WTO and to help countries seeking admission to the WTO identify and implement the changes needed for an early accession. This does not mean that some expansion of the work program cannot be considered. I believe that Ambassador Barshefsky's articulation of objectives under the new work program during the September hearings is a reasonable one. But the new areas should not divert attention from the tremendous effort still needed to make the WTO function as envisioned and to assure that there are neither free riders nor agreements honored mainly in the breach.

While an agenda for Singapore limited to the areas identified above would not have the press appeal of the announcement of a new round or a very ambitious agenda of new areas for negotiation, it does hold out the hope for a more meaningful end product.

Let me turn now to just a few of the issues in greater detail.

II. Implementation as the focus

The Uruguay Round was not only the most ambitious trade agreement in history in terms of subject matter, but also in terms of participation by developing and least developed countries. Unlike prior agreements which countries could choose to adopt or not, the Uruguay Round was largely a single undertaking. The digestive problems of complying with the Uruguay Round obligations for large developed countries like the United States, the European Union, Japan and Canada are substantial. For some developing and many least developed countries, the problems border on the undoable. Many countries are having great difficulties getting their arms around the obligations undertaken and making the requisite notifications, let alone legal changes.

subscription or otherwise the detailed decisions in the rules area (customs valuation, rules of origin, safeguards, subsidies, antidumping, etc.) for public understanding. If the United States is serious about our trading partners implementing their obligations, we should insist that all information received by the WTO be made available to the public at nominal cost. This will let the private sector help identify possible problem areas in implementation or construction of rights/obligations.

Finally, there have been requests by many in the private sector for greater private party participation in the panel process and greater oversight. I generally concur with the views expressed in the LICIT paper on these topics.

Because transparency was a major issue in the Uruguay Round, consideration of the above issues should be folded into the area of implementation.

IV. Built-in agenda

The WTO has a very ambitious built-in agenda for continued negotiations. Some areas, such as the three-year program on harmonization of rules of origin for non-preferential purposes, seem to be proceeding apace (although with less public understanding of issues being considered than is desirable). Other areas where the U.S. has major interests in other-country liberalization have to date been disappointments. Ambassador Barshefsky's discussion of the service sector negotiations reviews the time extensions in each area which were taken when original deadlines did not produce offers deemed adequate by the U.S.

New rounds in agriculture liberalization and in services as well as review of the dark amber and green light subsidy provisions require some preparatory work, particularly in light of early experience/problems under the agreements in question. In agriculture, several countries have reduced their support programs for budgetary reasons including importantly, the U.S. Particularly in an area like agriculture, where certain countries maintain such extraordinary subsidy programs, and where budget pressures force cutbacks, it would be appropriate to seek an acceleration of liberalizations on the identical products from at least major trading partners to prevent a substantial skewing in competition flowing from unilateral disarmament. Whether viewed as part of the built-in agenda or as a new liberalization negotiation, the U.S. should pursue the issue as part of the Singapore Ministerial effort.

V. Further liberalizations

Part of the U.S. mandate is to continue to pursue improvements in the zero-for-zero sectoral initiatives started as part of the Uruguay Round package. Chemicals, wood products, and construction equipment are just a few of the sectors where major benefits could arise from significant expansion of the existing tariff reductions and participation. The Information Technology Agreement is a supplemental initiative which appears to have significant support not only within the United States but also within the other Quad countries. However, as with some of the problems in the enforcement of the TRIPS Agreement and the zero-for-zero coalition, agreement among the Quad countries only, is simply not sufficient in terms of the existing market dynamic. Broad participation in the ITA is critical to success for domestic producers.

While individual countries and the WTO generally have offered seminars and technical assistance, the task facing many countries will require consistent and focused attention if the WTO will in fact be a system that all countries can use and observe. The first ministerial would be a good point to review the state of implementation and the extent to which implementation can be improved through greater technical assistance and how such assistance can be mobilized.

In agreement after agreement, there are rumblings that countries have not brought themselves into conformity with WTO obligations, that barriers are not coming down to the extent committed, and in some cases that the facts are not really known. At the HWMC hearing earlier this month, U.S. producers identified possible problems in the compliance of our trading partners in the textiles and apparel area and the perceived inadequate implementation of TRIPs obligations. While trade in agriculture is up significantly in the last two years, there have been significant concerns about the implementation of agriculture obligations by a number of countries. In Safeguards, apparently all non-conforming measures have been eliminated by WTO countries -- a remarkable outcome if true, but is it? In Subsidies, constructions of terms have resulted in a much smaller number of notifications than anticipated. Discussions with a number of delegations over the last two years raise suspicions about the completeness of many notifications, footdragging on areas sensitive to particular countries, and an overwhelming amount of work with too few bodies to effectively review incoming information not only in Geneva but back at the capital. In many areas, large numbers of questions have been posed on such legislation as has been notified. The answers received may or may not resolve the underlying concern about compliance with new obligations.

While it is correct to characterize the state of play as likely anticipated and not inconsistent with forward progress, it is also correct to say that much work remains to assure full implementation of commitments. Hence, the primary focus of the Singapore Ministerial must be the progress in implementation, a discussion of what needs to be done, practical problems that have arisen, acceptable solutions for resolution and an aggressive work program to bring the WTO into full implementation.

III. Public access to information

The WTO has taken some steps to improve the transparency of its operations. Sensitive areas such as trade and environment have resulted in improved public availability of information. NGOs are also receiving at least modest recognition within the WTO (they are being offered the opportunity to register for certain events at the Singapore Ministerial as an example). In addition, the leadership position taken by the United States in making information about dispute panel proceedings available to the public and soliciting public views is at least a partial step forward in public awareness and opportunity to understand and comment on matters of potential significant public interest. The recent decision by the WTO to derestrict documents in a more timely manner and not to restrict certain documents at all is long overdue. The question now will be how quickly a program is actually put into place to release the documents to the public and how easy it will be for the public to obtain the documents. Moreover, the decision is limited to WTO documents. The United States should seek an extension of the decision to all GATT and WTO documents. Additionally, the U.S. should pursue making copies of all decisions and other documents forwarded to the WTO (excepting truly confidential information) available to the public. Many nations do not have public reading rooms or do not make available through

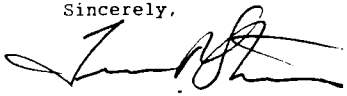
VI. New Agenda

There have been a number of issues floated as possible agenda items. I am in general agreement with the position taken by Ambassador Barshefsky. In addition to possible agenda items a proposal has been put forward to reopen the Rules, a proposition with which I strongly disagree. During the Uruguay Round negotiations the Rules were debated for close to eight years. Comprehensive agreements in several new areas were adopted. Those agreements are just starting to be implemented. Even in large developed countries like the United States, implementation is only in the early stages. In some cases the implementing regulations are not yet in place. Before an examination of the basis of the WTO takes place a reasonable amount of time must pass in order to see the effect the new structure will have on the new agreements. At this point it is premature and unnecessary to open the Rules; instead it is much better to wait and see how the WTO will operate under the current rules. Once a reasonable amount of time has passed and enough information is gathered on the performance of the WTO under the current Rules, then and only then can an appropriate inquiry be made into opening up the Rules to possible revision and replacement. Discussion of the Rules does not mean that certain issues should not be addressed, for example restrictive business practices. While addressed from time to time in GATT, Restrictive Business Practices, Arrangements for Consultations, June 2, 1960, GATT B.I.S.D. (9th Supp.) at 170 (1961), is an area of significant interest to U.S. businesses and yet there is no defined agreement in the WTO on the issue. In addition, an issue such as Competition Policy may warrant examination.

VII. Conclusion

The Singapore Ministerial Conference is the first opportunity the WTO has to benchmark its performance. It is appropriate for the Ministerial Conference to use this opportunity to focus on the fundamentals, namely implementation of the basic agreements and progress on the built-in agenda items. While other issues may warrant examination, they should not distract the organization from establishing a solid base and assuring full implementation of obligations and rights.

Sincerely,



Terence P. Stewart

Statement of

U.S. Integrated Carbon Steel Producers

on

The Singapore WTO Ministerial

Submitted to the Committee on Ways and Means
Subcommittee on Trade

September 24, 1996

This statement describes the views of the six major integrated U.S. producers of carbon steel products -- Bethlehem Steel Corp., U.S. Steel Group a Unit of USX Corp., LTV Steel Co., Inland Steel Industries, Inc., National Steel Corp. and AK Steel Co. -- on the Singapore WTO Ministerial. We appreciate the opportunity to submit this statement for inclusion in the record of the hearing held by the Subcommittee on Trade on September 11, 1996.

The U.S. agenda for the WTO, beginning with this year's Ministerial in Singapore, is a matter of great importance to the domestic flat-rolled steel industry. We supported the Uruguay Round, and the implementation of its results, but not without some serious concerns. The WTO agreements had the effect of making unfair trade remedies less reliable and, at the same time, costlier to use. In this and other areas, there were numerous provisions in the agreements that we considered unnecessary and inappropriate. Nevertheless, we concluded that launching the WTO was important from a broader trade policy perspective, and that the agreements (if properly implemented in U.S. law) held out the prospect of net benefits despite their flaws.

Future discussions within the WTO, however, concern us greatly. Any further erosion of existing remedies against unfair trade practices could turn support from our industry -- and probably many others -- into opposition.

Our comments here are confined to four Singapore topics of chief importance to our industry: antidumping, subsidies, competition policy, and dispute settlement.

I. The Antidumping Agreement

Our message on this issue is simple: the United States should neither permit reopening of the Antidumping Agreement, nor retreat from the commitment to strong trade law enforcement on which U.S. ratification of the WTO agreements was predicated.

Do not reopen: Hong Kong has proposed new talks on antidumping. This proposal should be definitively rejected. We commend the Administration for doing just that and urge continuation of this response.

WTO antidumping rules were just recently renegotiated. The new rules and the new Committee on Antidumping should be given a chance to work. Moreover, U.S. regulations implementing the new Agreement have not even been finally promulgated yet. Nor is there domestic consensus on how, if at all, the Agreement could be improved. The existing agreement reflects complex and difficult tradeoffs that ultimately proved manageable only in the context of a broad round like the Uruguay Round.

Do not disarm unilaterally: Flexibility under international rules to act in defense of legitimate U.S. trading interests is important, but it is not enough. We also need domestic measures to ensure that we take full advantage of the international agreements. This means, for example, that the Commerce Department's regulations implementing the Uruguay Round Agreements Act should be reinforced by an unflinching commitment to vigorous AD/CVD enforcement. Congress, for its part, should continue to reject trade law-weakening proposals, particularly the current effort to superimpose a "short supply" or "temporary duty suspension" mechanism on the existing antidumping and countervailing duty laws.

II. The Subsidies Agreement

Although the trade remedy rules should not be reopened as a general matter, there are some provisions that expire by their own terms after a certain number of years unless extended. Dealing with these provisions is part of the "built-in" WTO agenda. While actual decisions on extension may be a few years away, it is not too soon to start establishing appropriate parameters.

One example is the new category, which expires after five years unless extended, of non-actionable or "greenlighted" subsidies in the SCM Agreement. This hole in the multilateral anti-subsidy rules only encourages the trade-distorting behavior of other governments. The idea that ***admittedly*** trade-distortive subsidies should be exempt from remedy simply because they are designed for particular (favored) "uses" is an unsound one that the United States should never have accepted in the first place.

Greenlighting was added to the SCM Agreement in the Uruguay Round along with other new provisions, including new subsidy notification and "serious prejudice" rules. However, there is no sound policy reason why the latter aspects of the SCM Agreement, which improve subsidy discipline, should continue to be paired with greenlighting, which weakens it.

Accordingly, at Singapore and during the months that follow, our negotiators should make clear that the United States will not permit extension of the greenlight category after the initial 5-year trial period.

III. Competition Policy

The steel industry is concerned about the problem of private anticompetitive practices abroad, as well as government support for, and toleration of, such practices. Our industry has direct experience in this area. International cartel arrangements in the steel industry have been extensively documented. Restrictive agreements among foreign steel producers effectively minimize competition in their home markets and turn the U.S. market, where law and custom preclude such activities, into a dumping ground. Foreign steel cartels have proved, with narrow exceptions, impervious to government action.

We would certainly benefit from multilateral progress on anticompetitive practices. However, we see two major risks associated with pursuing this matter in the WTO, and these risks define our recommendations for the Singapore Ministerial. One risk is that a competition policy initiative could be misused as a way of reopening the Agreement on Antidumping. The second risk is that we might find ourselves immersed, prematurely, in a rule-oriented negotiation without sufficient empirical preparation or domestic industry consensus.

Focus on competition policy, not antidumping: Logically and conceptually, these are two distinct issues. This distinction should be maintained. There is no reason why competition policy discussions need to involve any consideration of antidumping or other trade policy measures. Moreover, "compromise" language in the Ministerial communique should be avoided. Too often, international efforts to begin addressing the competition policy problem have resulted in statements that improperly focus on both antidumping and anticompetitive practices, as if both were "problems" in need of correction. The United States should not sign on to any such statement at Singapore.

Pursue modest, achievable goals: For now, multilateral efforts in this area should focus on fact-gathering rather than rule-making. The goal should be to identify barriers to market access for goods, services and investment that are not adequately covered by international commitments, and that may not be reachable under current rules and dispute settlement. This is the proper focus for OECD discussions and for any near-term consideration of this issue within the WTO. Rule-oriented negotiations will need to await further preparatory work by both the private sector and the U.S. Government. In the meanwhile, the United States must continue to address bilaterally (through section 301) foreign government toleration of private restraints that block U.S. exports to, or investment in, foreign markets. As with intellectual property rights, such an approach will enhance our government's ability to bring this important issue into the multilateral system with appropriate rules at a later date.

IV. WTO Dispute Settlement

The new rules embodied in the WTO Dispute Settlement Understanding (DSU) are subject to review after an initial four-year trial period. Here again, it is not too soon to begin establishing parameters for this review at the Ministerial level. How can WTO dispute settlement -- the very heart of the system -- command U.S. industry's support?

Improve transparency: The United States was only partially successful in its effort during the Uruguay Round to increase the transparency of the WTO/GATT dispute settlement system. We support continuation of the U.S. Government's effort and applaud the USTR's recent announcement of progress in this area.

- DSU rules should make all briefs and arguments available to the public, except for those (rare) portions of a clearly business-proprietary nature. The renegotiated DSU should require parties to release non-confidential summaries of their briefs ***during*** the dispute settlement proceeding to which they relate.

- Meetings of dispute settlement panels should generally be open to the public, subject to temporary closure only when material of a clearly business confidential nature is being reviewed.

- The United States should seek recognition, if any is necessary, that national delegations in the dispute settlement process may include representatives of private sector interests. The DSU should also be amended to permit the submission of amicus briefs by non-governmental parties generally supportive of their government's position and having a clear and direct interest in the outcome of a case.

- WTO panels should be permitted to consult outside experts only with the knowledge, and at the request, of the litigating governments.

Protect sovereignty: The intent of the DSU is to allow Members to adjudicate which practices violate WTO rules or nullify or impair WTO benefits. Members retain the sovereign right to keep in effect measures found to violate WTO rules, and to compensate injured trading partners or accept trade retaliation. A country can comply fully with its WTO obligations by negotiating a compensation package deemed acceptable by the complaining country. This flexibility is a cornerstone of the WTO system and must not be eroded in any way.

Defend bilateralism: The WTO agreements do not address all the important barriers in the world. U.S. Government market-opening efforts must continue in areas where WTO disciplines do not apply, and the WTO agreements cannot be allowed to operate as an impediment. Our delegation at Singapore should reiterate that section 301 continues to be available in this context and ***will continue to be used***. They should also make clear that extension of the new DSU rules is not a foregone conclusion, and that a key factor influencing the U.S. position on extension will be the degree to which those rules have impeded U.S. efforts to address trade barriers that cannot be effectively addressed under the WTO's substantive rules.

Establish WTO Review Commission: There is also a domestic measure, fully consistent with WTO rules, that the United States can take to promote the proper functioning of the WTO dispute settlement system. Congress should promptly enact (and the President promptly sign) the WTO Review Commission bill so that this new body -- which is critical to the WTO's credibility in the United States -- can begin its important work immediately.

UNITE! A MERGER OF THE AMALGAMATED CLOTHING & TEXTILE WORKERS UNION & THE INTERNATIONAL LADIES' GA

September 24, 1996

To the Subcommittee on Trade
House Ways and Means Commitee

Comments Regarding the World Trade Organization
Singapore Ministerial Meeting

Chairman Crane and Members of the Subcommittee:

If the international trading system is to have a rules-based structure, which the WTO agreement sets out to do, then all aspects of competition must come under the system. The whole rational of the topics being addressed today, of the three areas where negotiators failed to reach agreement this year, of the additional new topics being proposed for discussion by the WTO, point to the overall purpose of why there is a world trade organization -- to set the fundamental ground rules necessary for private free markets to function effectively and efficiently.

Ignoring workers and the standards under which they produce products in the rules for this new globalized economy is simply incomprehensible. The economics I learned in school said that labor was one of the three fundamental factors of production, and I've seen nothing since to refute that principle. Thus, just as we set standards for intellectual property protection, or antidumping actions, or sanitary conditions in agricultural production, we must set basic limits to the exploitation of human beings to gain competitive advantage.

This is not new. The concept of products produced by forced labor, or child labor, or under inhumane physical conditions as being not fit for international commerce is what motivated the international community to set up the International Labor Organization (ILO) after World War I. Even though the ILO is a tripartite body of government, employers and workers, it has virtually no powers except moral suasion. In today's world we need something more.

In the U.S., the proposal to include worker rights in the GATT goes back to President Eisenhower. Every Congress going back to 1974 has mandated that worker rights or labor standards be one of our negotiating goals. They understood that failure to have minimal labor rights and core labor standards as part of international competition and global trading rules would undermine the basic consensus we have established in our country on this issue. If we are horrified by the factory slavery discovered in El Monty, Calif. last year, or the brutal exploitation or immigrant workers in underground sweatshops in New York this year, why aren't we equally horrified by their existence abroad?

Brutality and human suffering and rampant child labor are not necessary conditions of underdeveloped countries or the first stages of industrialization. They are merely government created attempts to attract investment and produce at artificially lower costs than their neighbors. That the WTO is silent on this matter is a glaring disgrace.

This is why both the Bush and Clinton Administrations sought to have a working party on labor rights established in the Uruguay Round negotiations. This is why the U.S. government continues to work very hard trying to get it on the Singapore Ministerial Agenda.

The Congress has been consistent in setting forth to the Executive Branch its important trade negotiating objectives. I would ask that the full Ways and Means Committee continue to stand behind the long standing position that the relationship of trade and labor standards must be addressed by the WTO, and that a forum for such discussion be established at the Singapore Ministerial meeting. The U. S. Proposal, which is attached, is a very modest proposal that deserves our endorsement.

Sincerely,

Jay Mazur
President

U.S. Paper on Trade and Labor

Decision on Trade and Core Labor Standards

Ministers

Meeting on the occasion of the first Ministerial Conference of the World Trade Organization at Singapore on 9-13 December 1996,

Recalling the preamble of the Agreement Establishing the World Trade Organization (WTO) which states that Members' "relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services,

Noting that, as Members of the WTO and the International Labor Organization (ILO), they consider that there exists a set of "Core Labor Standards" which are both human rights and preconditions for the achievement of better working conditions and that these Core Labor Standards are comprised of:

- freedom of association;
- the right to organize and bargain collectively;
- the prohibition of forced labor;
- the elimination of exploitative forms of child labor;
- non-discrimination in employment;

Noting that there is a positive, mutually re-inforcing relationship between trade liberalization and implementation of Core Labor Standards, and that observance of these standards could strengthen the economic performance of all countries,

Considering that furthering the observance of Core Labor Standards is consistent with and, indeed supports, the WTO goal of promoting an open, nondiscriminatory trading system,

Considering that it would be desirable for the WTO to cooperate with the ILO, the international organization having primary responsibility for the development and monitoring of Core Labor Standards, to find ways the two organizations can be mutually supportive in the promotion of Core Labor Standards, while reflecting the mandate and necessary autonomy in the decision-making of each institution,

Decide

To establish a Working Party on Trade and Core Labor Standards open to all Members of the WTO to report to the 1998 meeting of the Ministerial Conference and that this Working Party should:

(i) examine the relationship between the WTO trading system and the ILO system in order to promote the further observance of Core Labor Standards and improved standards of living in Member countries,

(ii) recommend ways in which WTO member governments might cooperate within the WTO and ILO frameworks to promote the further observance of Core Labor Standards to advance WTO members stated objective of raising standards of living through ongoing trade liberalization, and

(iii) make recommendations as to how the WTO could contribute to the promotion of Core Labor Standards, taking into account, in particular;

— the need to ensure the open, equitable, and non-discriminatory nature of the system, and

— the activities of the ILO and other mechanisms to promote adherence to core labor standards.

ACCESSION OF CHINA AND TAIWAN TO THE WORLD TRADE ORGANIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

SEPTEMBER 19, 1996

Serial 104–95

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

45–592 CC WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-057040-9

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, New York

PHILLIP D. MOSELEY, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON TRADE

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California
E. CLAY SHAW, JR., Florida
AMO HOUGHTON, New York
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JENNIFER DUNN, Washington

CHARLES B. RANGEL, New York
SAM M. GIBBONS, Florida
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts

CONTENTS

	Page
The advisories announcing the hearing	2

WITNESSES

U.S. Trade Representative, Hon. Charlene Barshefsky, Acting U.S. Trade Representative	27

AFL–CIO, Mark A. Anderson	116
American Chamber of Commerce in Taipei, Christian Murck	62
American Textile Manufacturers Institute, Charles V. Bremer	135
Anderson, Mark A., AFL–CIO	116
Bremer, Charles V., American Textile Manufacturers Institute	135
Brownback, Hon. Sam, a Representative in Congress from the State of Kansas	21
Cox, Hon. Christopher Cox, a Representative in Congress from the State of California	15
Economic Strategy Institute, Greg Mastel	100
Hall, Robert, National Retail Federation	129
Hatano, Daryl, Semiconductor Industry Association	120
Kapp, Robert A., United States-China Business Council	54
Lardy, Nicholas R., Brookings Institute	107
Latham, Hon. Tom, a Representative in Congress from the State of Iowa	11
Mastel, Greg, Economic Strategy Institute	100
Murck, Christian, American Chamber of Commerce in Taipei	62
National Foreign Trade Council, Inc., Hon. Michael A. Samuels	92
National Retail Federation, Robert Hall	129
Samuels International Associates, Inc., Hon. Michael A. Samuels, and National Foreign Trade Council, Inc	92
Semiconductor Industry Association, Daryl Hatano	120
United States-China Business Council, Robert A. Kapp	54

SUBMISSIONS FOR THE RECORD

American Apparel Manufacturers Association, Arlington, VA, statement	141
American Oilseed Coalition, John Long, letter and attachments	142
Campbell Soup Company, Camden, NJ, statement	149
Distilled Spirits Council of the United States, Inc., Fred A. Meister, statement	151
Health Industry Manufacturers Association, statement	156
International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), Steve Beckman, statement	159
Labor-Industry Coalition for International Trade, statement	162
Meat Industry Trade Policy Council, Alan Tank, letter	164
Solomon, Hon. Jerry, a Representative in Congress from the State of New York, statement	166

ACCESSION OF CHINA AND TAIWAN TO THE WORLD TRADE ORGANIZATION

THURSDAY, SEPTEMBER 19, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:55 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
August 22, 1996
No. TR-31

CONTACT: (202) 225-1721

Crane Announces Hearing on Accession of China and Taiwan to the World Trade Organization

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee, as part of its series of hearings on the future direction of U.S. trade policy, will hold a hearing on the accession of the China and Taiwan to the World Trade Organization (WTO). **The hearing will take place on Tuesday, September 17, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

Oral testimony will be heard from Acting U.S. Trade Representative, Charlene Barshefsky, as well as other invited and public witnesses.

BACKGROUND:

Article XII of the Agreement Establishing the World Trade Organization states that any State or separate customs territory may accede to the WTO "on terms to be agreed between it and the WTO." In practice, China, Taiwan and other applicants must negotiate terms for membership in the WTO in the form of a Protocol of Accession. Through the operation of a Working Party, the United States and other WTO members have an opportunity to review the trade regimes of applicants to ensure that they are capable of implementing WTO obligations. In negotiating terms of accession to the WTO, members also work to secure commitments and concessions on tariff levels, agricultural market access, and trade in services.

China applied for accession to the General Agreement on Tariffs and Trade in July 1986, and work has proceeded sporadically in the China Working Party since that time to negotiate the conditions upon which it will enter the WTO. Taiwan, known in the WTO as Chinese Taipei, applied for accession in January 1990, but negotiations did not commence until September 1992.

In announcing the hearing, Chairman Crane said: "Given the size and annual growth rates of the economies of China and Taiwan, and the importance of achieving agreements that open markets for U.S. products and services, it is essential the Trade Subcommittee monitor progress of these accession talks closely. Congress will insist on strong protocol packages which ensure that the disciplines of the Uruguay Round Agreement are firmly established and protected, and that our market access objectives are accommodated."

FOCUS OF THE HEARING:

The focus of the hearing will be to examine the problems and opportunities associated with the entry of China and Taiwan into the WTO. Testimony will be received on objectives for the negotiations with China and Taiwan, as well as on the anticipated impact of their WTO membership on U.S. workers, industries, and other affected parties.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Friday, September 6, 1996. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House

Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 2:00 p.m., Friday, September 13, 1996.** Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Tuesday, October 1, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

*****NOTICE -- CHANGE IN DATE AND TIME*****

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
September 13, 1996
No. TR-31-Revised

CONTACT: (202) 225-6649

Change in Date and Time for Subcommittee Hearing on Accession of China and Taiwan to the World Trade Organization

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee hearing on Accession of China and Taiwan to the World Trade Organization scheduled for Tuesday, September 17, 1996, at 2:00 p.m., in the main Committee hearing room, 1100 Longworth House Office Building, **will be held instead on Thursday, September 19 at 10:30 a.m.**

All other details for the hearing remain the same. (See Subcommittee press release No. TR-31, dated August 22, 1996.)

*****

Chairman CRANE. Good morning. This is a meeting of the Ways and Means Subcommittee on Trade to review the process and requirements for countries to accede to the WTO, World Trade Organization.

There are currently 31 countries and territories seeking WTO membership, so it is appropriate that the Trade Subcommittee take a detailed look at what constitutes an adequate package of commitments for accession.

The WTO derives its strength and effectiveness from an integrated system of rules and disciplines that are honored by its members, irrespective of political considerations that hinder bodies such as the United Nations.

A major achievement of the Uruguay round agreement, the so-called single undertaking, has helped to standardize the process of developing packages of trade commitments for WTO applicants. Since WTO members agree to abide by all WTO agreements, the same must be expected of applicants.

I am committed to ensuring that all countries enter the WTO on comparable and commercially sound terms. To countenance a WTO accession process that selects favorites, depending on political might and other considerations, would ultimately unravel the system of WTO rules, which this Subcommittee, under Republican and Democrat administrations, has worked years to put in place.

There can be no doubt that the two cases on which we have requested testimony today, China and Taiwan, represent starkly different stages of readiness to undertake the necessary economic reforms and trade policy commitments.

Taiwan, a vibrant market economy, should be commended for the admirable progress it has made thus far in its negotiations, and I urge Taiwan to address the few outstanding issues promptly, particularly those which will require legislation and sensitive economic adjustments.

Purchasing over twice the amount of United States products as China, Taiwan is a key market for our exports, in addition to being a loyal friend and ally.

I am interested today in hearing Ambassador Barshefsky's thoughts on the status of China's application. I am not convinced that China has turned its full attention to the economic restructuring that will be necessary for it to gain entry into the WTO.

If it is our best judgment that the internal political situation in China is preventing progress for the time being, we may need to consider waiting until China takes some concrete steps to demonstrate flexibility.

I believe permitting Chinese accession before this country is ready, would be more harmful to our industries in the long run.

I look forward to today's testimony, which will be useful to the Subcommittee as we evaluate the market and access commitments and other trade concessions that these two important countries are willing to make in order to join the WTO.

[The opening statement follows:]

OPENING STATEMENT OF
CHAIRMAN PHILIP M. CRANE
SEPTEMBER 19, 1996
HEARING ON THE ACCESSION OF CHINA AND TAIWAN TO THE WORLD TRADE ORGANIZATION

Good Morning. This is a meeting of the Ways and Means Subcommittee on Trade to review the process and requirements for countries to accede to the World Trade Organization (WTO). There are currently 31 countries and territories seeking WTO membership, so it is appropriate that the Trade Subcommittee take a detailed look at what constitutes an adequate package of commitments.

The WTO derives its strength and effectiveness from an integrated system of rules and disciplines that are honored by its members, irrespective of political considerations that hinder bodies such as the United Nations. A major achievement of the Uruguay Round Agreement, the so-called "single undertaking," has helped to standardize the process of developing packages of trade commitments for WTO applicants. Since WTO members agree to abide by all WTO Agreements, the same must be expected of applicants.

I am committed to ensuring that all countries enter the WTO on comparable and commercially sound terms. To countenance a WTO accession process that selects favorites depending on political might and other considerations would ultimately unravel the system of WTO rules which this Committee, under Republican and Democrat Administrations, has worked years to put in place.

There can be no doubt that the two cases on which we have requested testimony today, China and Taiwan, represent starkly different stages of readiness to undertake the necessary economic reforms and trade policy commitments. Taiwan, a vibrant market economy, should be commended for the admirable progress it has made thus far in its negotiations. I urge Taiwan to address the few outstanding issues promptly,

particularly those which will require legislation and sensitive economic adjustments. Purchasing over twice the amount of U.S. products as China, Taiwan is a key market for our exports, in addition to being a loyal friend and ally.

I am interested today to hear Ambassador Barshefsky's thoughts on the status of China's application. I am not convinced that China has turned its full attention to the economic restructuring that will be necessary for it to gain entry into the WTO. If it is our best judgment that the internal political situation in China is preventing progress for the time being, we may need to consider waiting until China takes some concrete steps to demonstrate flexibility. I believe permitting Chinese accession before this country is ready would be more harmful to our industries in the long run.

I look forward to today's testimony which will be useful to the Subcommittee as we evaluate the market access commitments and other trade concessions that these two important countries are willing to make in order to join the World Trade Organization.

Chairman CRANE. I now recognize our distinguished Ranking Member, Mr. Rangel, for any statement he would like to make.

Mr. RANGEL. Mr. Chairman, thank you for calling this very important Subcommittee hearing. And I, too, welcome Ambassador Barshefsky and thank her for her tireless efforts in this area.

I ask unanimous consent that my statement be entered into the record, and I would like to be associated with your opening statement.

Chairman CRANE. Without objection, so ordered.

[The opening statements follow:]

OPENING STATEMENT
CONGRESSMAN CHARLES B. RANGEL
SUBCOMMITTEE ON TRADE
HEARING ON
ACCESSION OF CHINA AND TAIWAN
TO THE WORLD TRADE ORGANIZATION
SEPTEMBER 19, 1996

Mr. Chairman, thank you for holding today's hearing on the accession of China and Taiwan to the World Trade Organization. Our trading relationship with China has become one of the most important and complex of all our trading relationships. Consequently, I would submit that negotiation of the terms and conditions for China's entry into the WTO will be the most important trade negotiation in which the United States is involved in the coming years.

Clearly, the economic stakes with China are high. China is now the world's eleventh largest trading country. Given the impressive growth of the Chinese economy and a population of 1.2 billion people, China's presence as a world trader will only increase. Unfortunately, as the commercial importance of China has grown, so has our bilateral trade deficit. Indeed, in July of this year, our monthly bilateral trade deficit with China surpassed that of Japan for the first time ever. Last year our bilateral trade deficit had grown to $33 billion and it will be larger this year. One of the best ways to reverse this deficit is through greater access to Chinese markets and continued reform of the Chinese economic system. One of the best ways to achieve these objectives is through China's accession to the WTO on sound commercial terms.

In this regard, Mr. Chairman, let me again reiterate for the record, as I did at a Trade Subcommittee hearing on March 9, 1995, my support for the positions set forth in two bipartisan letters sent in 1994 by the leadership of the Committee on Ways and Means to then USTR Mickey Kantor. In those letters, it was stated that the United States should support Chinese accession to the WTO provided it is done on commercially sound terms and with full acceptance by China of the basic obligations of the WTO system. Moreover, our trade negotiators and the Administration should take whatever time is necessary and pursue whatever negotiating options are appropriate to ensure that this negotiation is done properly.

As for negotiations on Taiwanese accession to the WTO, I understand that this negotiation is well advanced. At the same time, there remain several key issues that must be resolved in order to complete this negotiation. I look forward to hearing the testimony of our friends from the American Chamber of Commerce in Taipei on this matter.

In concluding, Mr. Chairman, let me welcome Ambassador Barshefsky to the Trade Subcommittee and thank her for tireless efforts on behalf of the commercial interests of this country. Ambassador Barshefsky and her team are doing a splendid job in conducting these negotiations. I look forward to working with her on these difficult negotiations and being helpful in any way that I can.

Thank you.

STATEMENT OF REP. JIM RAMSTAD
WAYS AND MEANS SUBCOMMITTEE ON TRADE
HEARING ON THE WORLD TRADE ORGANIZATION'S
SINGAPORE MINISTERIAL MEETING
SEPTEMBER 19, 1996

Mr. Chairman, thank you for calling this hearing today to discuss the accession of China and Taiwan to the World Trade Organization (WTO).

As we discussed during last week's hearing, further progress to reduce and eliminate barriers to trade and increase market access for American exports is very important for the continued growth of our economy.

China and Taiwan are currently very important trading partners for the U.S. In 1995, China was our thirteenth largest export market and Taiwan was the seventh largest. Since the economies and populations of these two countries will certainly be experiencing significant growth in the coming years, it is imperative that we discuss the opportunities that could be realized with their accession into the WTO.

We must also, however, keep in mind the obstacles associated with the entries of these countries into the WTO. For example, China's trade regime remains heavily regulated by the central government. As you know, earlier this month, the USTR cited China for illegal transshipment practices which violate our 1994 bilateral trade agreement on textile and apparel trade. While Taiwan has agreed to reform many of its trade practices that are inconsistent with the WTO, additional changes still need to be discussed.

Mr. Chairman, thanks again for calling this hearing. I look forward to listening to the testimony of today's witnesses and learning more about the problems and opportunities involved with bringing China, Taiwan and other nations into the WTO.

Chairman CRANE. Now we will start with our distinguished colleagues first, and I would ask all of you gentlemen to please keep your oral presentations to 5 minutes. Any further statements will be made part of the permanent record.

And we have with us Hon. Chris Cox of California, Sam Brownback of Kansas, and Tom Latham of Iowa. And if you two gentlemen, Mr. Cox and Mr. Brownback, do not mind, Mr. Latham has an appointment, and he is not going to be able to hang in here.

So you proceed, if you will.

STATEMENT OF HON. TOM LATHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. LATHAM. Thank you, Mr. Chairman, and Members of the Subcommittee, and I appreciate my colleagues allowing me to proceed here.

I do appreciate the opportunity to appear before you. I am here today to underscore the importance of obtaining meaningful market access to China and Taiwan for United States exports of pork.

I represent the second largest hog-producing district in the country, and my State of Iowa is by far the largest hog-producing State in the Nation. The pork industry is Iowa's largest industry. However, pork production is not limited to Iowa or even to the Corn Belt. Significant production is found in many States across the country.

According to a 1993 Iowa State University study, the U.S. pork industry is responsible for over $66 billion in total domestic activity and supports over 764,000 jobs.

USDA forecasts agricultural exports to reach $60 billion with imports expected at approximately $30 billion. According to USDA, each billion in agricultural exports supports over 17,000 good-paying jobs for American workers in production, processing, packaging, transportation, and related industries and services.

The record for pork is even more impressive. The Economic Research Service of USDA calculates that for each dollar of exported pork, a value-added commodity, $1.63 in additional U.S. economic activity is generated, compared to $1.08 for each dollar of bulk grain exported.

However, every $1 billion in pork exports creates an additional 23,000 new jobs in the U.S. economy. Perhaps no industry has benefited as much from the Uruguay round agreement of NAFTA as the U.S. pork industry. During 1995 when the Uruguay round agreement went into effect, United States pork exports to the world increased by approximately 50 percent from 1994 levels.

U.S. pork exports are growing for a number of reasons. First, the United States is the technological leader and low-cost producer of pork in the world.

Second, U.S. producers can boast of a product which is second to none in terms of global quality.

Third, demand for pork is exploding as vast populations across the globe increase their incomes.

Many of you may not realize it, but pork is the world's meat of choice. Pork represents 44 percent of the daily meat protein intake in the world. But, no matter how efficient the production process and no matter how high the quality, no matter how large the de-

mand, U.S. pork producers are unable to export pork without market access.

Unfortunately, China and Taiwan, which collectively account for approximately 52 percent of global pork consumption, are almost completely closed to pork imports. China is estimated to annually consume nearly the same amount of pork per capita as is consumed in the United States. China supplies approximately 80 percent of its market through backyard producers. China, with a minimal exception, does not permit the importation of pork.

Recently released statistics reveal that in June 1996, China surpassed Japan as the single largest source of the United States trade deficit. If China liberalized its pork market, United States pork could quickly garner significant market share in China. Without question, United States pork exports could make a large dent in the United States-China trade imbalance.

Taiwan is also a very significant pork-consuming nation. Taiwan's per capita consumption of pork, which is higher than per capita consumption in the United States, is the highest in Asia.

Variety meats represent the largest part of Taiwan's pork consumption. For the most part, this market is closed to imports. The government of Taiwan does not permit the importation of pork variety meats and selectively restricts other cuts of pork. If Taiwan liberalized its pork market, United States exports would gain significant market share.

I urge the administration and Congress to take all appropriate measures to open Taiwan's and China's pork markets. At a minimum, these markets must be opened to pork imports as a condition to China and Taiwan becoming members of the World Trade Organization with tariffs bound at zero or very low levels to guarantee meaningful market access.

And I thank the Chairman, and I will be glad to answer any questions.

[The prepared statement follows:]

TOM LATHAM
5TH DISTRICT, IOWA

Congress of the United States
House of Representatives
Washington, DC 20515-1505

Statement by
Congressman Tom Latham
5th District of Iowa
to the
Committee on Ways and Means
Subcommittee on Trade
September 19, 1996

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you. I am here today to underscore the importance of obtaining meaningful market access in China and Taiwan for U.S. exports of Pork.

I represent the second largest hog producing district in the country. My state of Iowa is, by far, the largest hog producing state in the nation. The pork industry is Iowa's largest industry. However, pork production is not limited to Iowa or even to the corn belt. Significant production is found in many states across the country. The contribution of the pork industry is far reaching throughout our economy. According to a 1993 Iowa State University study, the U.S. pork industry is responsible for over $66 billion in total domestic economic activity and supports 764,080 jobs.

USDA forecasts agricultural exports to reach $60 billion this year with imports expected at approximately $30 billion. Thus, agricultural trade results in a huge surplus for the United States. According to USDA, each $1 billion in agricultural exports supports over 17,000 well-paying jobs for American workers in production, processing, packaging, transportation, and related industries and services. The record for pork is even more impressive. The Economic Research Service of USDA calculates that for each dollar in exported pork -- a value-added commodity -- $1.63 in additional U.S. economic activity is generated compared to $1.08 for each dollar of bulk grain exported. Moreover, every billion dollars in pork exports creates an additional 23,000 new jobs in the U.S. economy.

Perhaps no industry has benefitted as much from the Uruguay Round Agreement and NAFTA as the U.S. pork industry. During 1995, when the Uruguay Round Agreement went into effect, U.S. pork (muscle meat) exports to the world increased by approximately 50 percent from 1994 levels. As a result of NAFTA, U.S. pork exports to Mexico increased by 74 percent in 1994 compared to 1993 levels. Even with the devaluation of the peso, U.S. exports to Mexico remain significant. Moreover, the U.S. pork industry will gain further market share in Mexico as the NAFTA phase-in period proceeds. In 1996, U.S. pork exports continue to soar. During the period January through June 1996, U.S. pork exports increased by 40 percent compared to the same period in 1995.

U.S. pork exports are growing for a number of reasons. First, the U.S. is the technological leader and low-cost producer of pork in the world. Second, by virtue of such things and the Pork Quality Assurance Program and the relentless pursuit of a lean product with outstanding taste, U.S. producers can boast of a product which is second to none in terms of global quality. Third, global demand for pork is exploding as vast populations across the globe increase their incomes. Many of you may not realize it but pork is the world's meat of choice. Pork represents 44 percent of daily meat protein intake in the world. But no matter how efficient the production process, no matter how high the quality, no matter how large the demand, U.S. pork producers are unable to export pork without market access.

Unfortunately, China and Taiwan, which collectively account for approximately 52 percent of global pork consumption, are almost completely closed to pork imports. China, a country with a population of approximately 1.2 billion, is estimated to annually consume nearly the same amount of pork per capita as consumed in the United States making it a vast pork consuming market. China supplies approximately 80 percent of its market through "backyard" producers. China, with minimal exception, does not permit the importation of pork.

Over the last four years the Chinese economy has grown by 10 to 14 percent per year. Last year, China's Gross National Product exceeded Japan's GNP. China's economy is growing at a pace to surpass the United States and become the world's largest economy by 2010. As incomes rise in China, pork consumption in the nation will continue to soar.

Recently released statistics reveal that in June of 1996, China surpassed Japan as the single largest source of the U.S. trade deficit. If China liberalized its pork market, U.S. pork would quickly garner significant market share in China. Without question, U.S. pork exports could make a large dent in the U.S. - China trade imbalance.

Taiwan also is a very significant pork consuming nation. Taiwan's per capita consumption of pork, which is higher than per capita consumption in the U.S., is the highest in Asia. Variety meats (e.g. tongues, kidneys) represent the largest part of Taiwan's pork consumption. For the most part, this market is closed to imports. The Government of Taiwan does not permit the importation of pork variety meats and selectively restricts other cuts of pork. If Taiwan liberalized its pork market, U.S. exports would gain significant market share.

I urge the Administration and Congress to take all appropriate measures to open Taiwan's and China's pork markets. At a minimum, these markets must be open to pork imports as a condition to China and Taiwan becoming members of the WTO with tariffs bound at zero or very low levels to guarantee meaningful market access.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.
Mr. Cox.

STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. COX. Thank you, Mr. Chairman.

I want to take just a brief moment to thank not only Chairman Crane, but all the Members of the Trade Subcommittee for holding hearings on a pending sense of the congressional resolution supporting the admission of Taiwan to the WTO.

The Chairman has a long and distinguished record of anticommunism and support for free and fair trade, not to mention an abiding interest in both the PRC and Taiwan. It was my pleasure and privilege to visit Taiwan with the Chairman for meetings with President Lee early this year, shortly after Taiwan conducted the first free and fair elections for the head of government in over 4,000 years of Chinese history.

This hearing is an important step in moving us beyond the annual ritual of debate over MFN renewal for the PRC; MFN denial, like other sanctions, inescapably injures the United States. Admission of one of America's largest trading partners to the WTO, on the other hand, is an advantage of the United States, and it does injury to no one. By rewarding the kind of changes, progress, and liberalization that America so strongly supports, rather than placing exclusive reliance on sanctions and punishment, we may well accomplish far more.

The point of my testimony today is that helping Taiwan to enter the WTO, the World Trade Organization, will send the right signals, both to Taipei and to other nations that we are urging to follow the path toward greater economic and political freedom.

Taiwan deserves to become a member of the WTO on its merits. Unlike the People's Republic of China, Taiwan has a free market economy. The economy has been progressively liberalized over the last three decades.

Taiwan is currently the 14th largest trading nation in the world. Taiwan's foreign exchange reserves are among the world's largest. Taiwan is the world's seventh largest foreign investor. She is the largest importer of U.S. goods who is not currently a member of the WTO. And unlike the PRC, Taiwan is a now a full-fledged democracy with a freely elected parliament and chief executive.

Conditional on its admission to the WTO, Taiwan has already agreed to further reduce the tariff levels of many of its products, so that admission of Taiwan to the WTO would be a great advantage to us in that respect. It has likewise agreed simultaneously to eliminate many other nontariff barriers.

Larry Summers, our Deputy Treasury Secretary, recently concluded meetings in Taiwan with trade officials and with President Lee, and his description earlier this week on September 16 and 17 was that they were "very constructive."

This amply summarizes Taiwan's consistent efforts to negotiate toward WTO admission in good faith. I am told by both the State Department and officials in Taiwan that Taiwan will surely wish to cooperate further in admission to the WTO and to fulfill the de-

mands of the WTO working party members, including the United States, when and if WTO membership is in sight.

Mr. Chairman, Taiwan's case should be considered on the merits. Taiwan should no longer be held hostage to Communist China's suitability for WTO membership because, as the Chairman so correctly pointed out, there are serious concerns about the suitability of the PRC for admission to the WTO at this juncture or in the foreseeable future.

Some who are not as well briefed in these matters as Members of the Subcommittee and many of your witnesses today might believe that the controversy over Taiwan's sovereignty would pose a problem for their admission to the WTO ahead of the PRC. Of course, this concern is entirely unfounded because WTO membership in no way connotes sovereignty, and membership in the WTO is not limited to nation-states. Pursuant to its charter and rules, membership in the WTO is neither limited to nations nor indicative of sovereignty.

That policy is illustrated by Hong Kong's current membership and the fact that Hong Kong will maintain its membership in the WTO as a separate customs territory after becoming part of the People's Republic of China in July of next year.

Taiwan likewise has applied for membership in the WTO not as a separate nation, but as a separate customs territory.

With regard to this particular economic organization, therefore, questions as to whether there is one China or two, or some amalgam of those alternatives, are irrelevant.

The arguments about the merits of Taiwan entering the WTO and the PRC entering the WTO ought to be treated separately. They are laid out in some detail in the preamble to H. Res. 490, which I have introduced with many of our colleagues in cosponsorship.

H. Res. 461 has a bearing on the work of this Subcommittee and to the Subcommittees on Banking, International Relations, and National Security as well. This resolution was expressly designed to move American policy beyond the singularity of annual MFN debate and instead move us forward to policy tools that can help increase trade among and between our allies and also advance our interests in democratization and trade liberalization.

A statement of support for Taiwan's entry into the WTO and by this House I believe is an important step forward in our China policy, indeed in the development of a new China policy better suited to the 21st century, as anticipated in H. Res. 461. Taiwan deserves to become a member on the merits, while the PRC as yet does not.

The United States should work for Taiwan's membership in the WTO for which sovereignty is not, by definition, a prerequisite for participation, in order to reward Taiwan's progress in economic growth and democratization and to hold out Taiwan as a model, both for the PRC and for other emerging economies and democracies in the region.

Quite simply, approval of the Taiwan model for Chinese civilization will signal the mainland that embracing economic growth through free markets and the rule of law is the better course. Far better than MFN, the symbolic measure of the passage of the resolution that I have described, H. Res. 490, will deliver the message the PRC should hear.

As such, I ask that this Subcommittee report out H. Res 490, and favorably, and I thank the Chairman.

[The prepared statement follows:]

Testimony of Christopher Cox
on the Accession to the World Trade Organization by
Taiwan and the People's Republic of China
Before the
Subcommittee on Trade
of the
Committee on Ways and Means
on
September 19, 1996

I want to thank Chairman Crane and the other members of the Subcommittee for allowing me to speak to the issue of Taiwan's and Communist China's suitability for membership in the World Trade Organization. As you know, I have a particular interest in this matter, having introduced two bills, H.R. 3569 and H. Res. 490, in the 104th Congress. I am also pleased that the Committee is following up on the mandate for the committees of jurisdiction to hold hearings by September 30, 1996 on the whole range of issues regarding the U.S.. the PRC, and Taiwan--legislation which I also introduced in an effort to move away from using Most Favored Nation status as Congress's singular instrument for conducting China policy.

Let me begin by treating Taiwan. I believe it is essential for the United States to work to reward Taiwan for the strides it has made in economic development and expanding political freedom. Its enormous economic growth, and the culmination of its progress toward full democratization--the first free and direct election for a head of state in nearly 5,000 years of Chinese civilization--both follow the international trend toward freedom and democracy in the last two decades. As a result, American credibility is on the line. We must now work to help Taiwan assume a place in the world commensurate with its status as a strong free-market economy and a fully democratic polity. To my mind, helping Taiwan enter the World Trade Organization will send the right signals both to Taipei and to other nations that we are urging to follow the path toward greater economic and political freedom.

Moreover, Taiwan manifestly deserves to become a member of the WTO on the merits. Taiwan has a free-market economy that has been progressively liberalized over the last three decades, and is currently the 14th largest trading nation in the world. Taiwan has a GNP that is the world's 20th largest, its foreign exchange reserves are among the largest in the world; and it has become the world's seventh largest foreign investor.

Taiwan has already agreed to reduce the tariff levels of many products, and to eliminate other nontariff barriers as a condition of its admission to the WTO. Deputy Treasury Secretary Larry Summers' description of his meetings with trade officials and President Lee Teng-hui in Taiwan earlier this week (on September 16 and 17) as "very constructive" aptly summarizes Taiwan's consistent effort to negotiate in good faith. I am told by both State Department analysts and officials in Taiwan that Taiwan will surely fulfill the demands of members of the WTO Working Party on "Taiwan, Penghu, Kinmen, and Matsu"--including the U.S.--when and if WTO membership is in sight. But the KMT government of Taiwan will only be willing to spend the political capital involved in exposing powerful domestic constituencies to international competition when they know that WTO membership, and the international status accompanying it, are imminent. like the alcohol, tobacco, and automobile industries and agriculture.

Taiwan's progress in moving toward free trade is particularly striking when compared with that of the People's Republic of China.

As a function of Taiwan's substantially more liberal trade practices, Taiwan's purchases of United States exports are more than 50 percent greater than those of the PRC. This is not accidental.

Although I know that some may disagree, in my mind, the PRC does not belong in the WTO. First of all, the basic prerequisite for free trade is largely absent in Communist China: *the rule of law.* Failure to live up to international standards on intellectual property rights is just the most striking example of its failure to fulfill its agreements. Taiwan has largely complied with the United States' wholly justified demands to respect intellectual property rights. while the PRC has been strikingly deficient. Acting U.S. Trade Representative Charlene Barshefsky came to an understanding with the PRC on June 17, 1996 that the PRC would live up to the terms of the March 11, 1995 agreement on curtailing piracy--which it had utterly failed to enforce. Yet at the time the June 17, 1996 understanding was reached, the People's Liberation Army-run South Electronics Audio and Video factory in Foshan in Guangdong province was reopened for production of pirated material. The United States Trade Representative's 1996 National Trade Estimate Report on Foreign Trade Barriers indicates that "Despite its commitment under the 1992 market access Memorandum of Understanding to publish all laws and regulations affecting imports, some regulations and a large number of directives have traditionally been unpublished, and there is no published, publicly available national procurement code in China." In other words, in the PRC, rules are arbitrarily formulated and applied, and by no means transparent.

The Communist government of the People's Republic of China maintains an intricate system of restrictive and punitive tariff and nontariff administrative controls to implement its centrally-planned industrial and trade policies, with tariffs on foreign goods, such as automobiles, as high as 150 percent, even though Beijing made commitments in the 1992 MOU, reaffirmed in March 1995, to reform significant parts of its import regime. There are systematic barriers to U.S. access to the Communist Chinese market, from the PRC's 35-40% MFN-level tariffs (compared to about 2% MFN-level tariffs on goods entering the U.S.) to the unpublished regulations serving as non-tariff barriers. Troubling regulations constraining foreign engagement in the PRC's market include:

- So-called "export performance requirements," whereby Communist Chinese authorities frequently force foreign manufacturers operating in Communist China to export 50 to 70 percent (and sometimes more) of their goods to other markets, as a condition of approving the investment.

- Requirements that foreign investors not just build factories in Communist China but transfer a significant amount of state-of-the-art technology to their PRC partners in joint ventures. The aircraft-production sector is a prime example of Communist China's practice of conditioning American joint ventures upon building facilities in the PRC designed to enhance the flow of high technology to that nation. The technology-transfer requirement could lead U.S. producers to compete against their own products in the future, with the possibility of goods for exports being produced by Chinese manufacturers using stolen American technology.

These barriers to trade have contributed to the U.S. trade deficit with the PRC ballooning from $10 million in 1985 to $33.8 billion in 1995. In the last decade, U.S. exports to the PRC have tripled, but by comparison the PRC's exports to the U.S. have grown 11 times. In June of 1996, for the first time, the PRC surpassed Japan as the nation with the largest trade surplus with the United States, as the PRC sold $3.33 billion more in goods to the U.S. than the U.S. sold the PRC (as compared to Japan's surplus of $3.2 billion).

Taiwan should no longer be held hostage to Communist China's suitability for WTO membership, or more precisely, its lack of suitability for such membership.

To those who say that the controversy over Taiwan's sovereignty renders should prevent Taiwan from acceding to the WTO before the PRC, let me respond that their concern is altogether unfounded. Pursuant to its charter and rules, membership in the WTO is not limited to nations nor indicative of sovereignty, a policy illustrated by the fact that Hong Kong will remain a full member of the WTO as a separate customs territory after becoming part of the People's Republic of China on July 1, 1997. Taiwan likewise has applied for membership in the WTO as a separate customs territory. With regard to this particular economic organization, questions as to whether there is one China and where it is found on the map are irrelevant.

These arguments about the merits of Taiwan's and the PRC's relative cases for accession to the WTO, and about why Taiwan ought not wait for the PRC to become a WTO member, are set out in H. Res. 490, a Sense of the House resolution which I introduced on July 26, 1996. H. Res 461 urged the Committee on Ways and Means--along with the Committees on Banking, International Relations, and National Security--to report out appropriate legislation to address the full range of issues in the relations between the U.S., the PRC, and Taiwan. This Resolution was expressly designed to move beyond using MFN renewal as the only instrument for addressing this panoply of issues, because I think we can all agree that MFN cannot and should not bear the weight of our entire China policy. H. Res. 490 is just such an appropriate piece of legislation.

A statement of support for Taiwan's entry into the WTO is an important step forward in China policy. Taiwan deserves to become a member on the merits, while the PRC, as yet, does not. The U.S. should work for Taiwan's membership in this economic organization, for which sovereignty is not by definition a prerequisite for participation, in order to reward Taiwan's progress in economic growth and democratization. And approval of the Taiwan model for Chinese civilization will signal the mainland that embracing economic growth through free markets and rule of law is the proper course. Far better than MFN, this symbolic measure regarding WTO membership will deliver the message the PRC should hear. As such, I ask that your committee report out H. Res. 490, and favorably.

Chairman CRANE. Thank you, Mr. Cox.
Mr. Brownback.

STATEMENT OF HON. SAM BROWNBACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. BROWNBACK. Thank you very much, Mr. Chairman. It is a delight to be here with you and in front of your Subcommittee as well.

Chairman Crane and distinguished Members of the Ways and Means Trade Subcommittee, thank you for this opportunity to appear in front of you today to address the issue of China market access barriers, particularly related to the imports of United States beef.

Let me be direct. China must remove its barriers to trade and especially the barriers to United States beef before it should be allowed to enjoy the full benefits of WTO membership.

In addition, China should be required to meet all standards and requirements of current WTO members with no exceptions for agriculture. China should not be rewarded for denying reasonable market access to United States agricultural and manufactured products. China should be required to make substantial tariff concessions and other reforms before it is allowed into the WTO. Access to our market must be accompanied by uninhibited access to China's market, a price that China thus far has seemed unwilling to pay.

U.S. beef is enjoyed by consumers around the world. Exports of U.S. beef have skyrocketed over the past 5 years. In 1996 U.S. beef exports were forecast to reach 962,000 metric tons; that is an increase of 78 percent since 1991. And throughout East Asia, barriers to imported beef have been falling. Japan has increased its imports of beef nearly 91 percent. South Korea has increased its imports of beef nearly 31 percent.

However, even while Japan and Korea have begun to open their markets to United States beef, China has still essentially remained closed. China has one-quarter of the world's population, yet it is only 36th—it is the 36th largest consumer of United States beef, and that is even behind Bermuda and Barbados, which buy more beef than China.

The United States is not the only victim of China's barrier to imported beef. China's meat imports from all sources have been relatively flat over the past 5 years and remain less than one-tenth of 1 percent of total domestic consumption.

The United States should not support China's accession to the WTO until China removes the unfair trade barriers that are currently imposed on imports of American beef.

China maintains one of the highest rates of import protections for its beef industry in all of Asia, but unlike China—or excuse me—unlike Japan and Korea, China's domestic beef prices are very low, which makes China's high degree of import protection somewhat puzzling. Because of the availability of cheap domestic beef, imported beef poses little threat to domestic producers.

Nevertheless, published ad valorem rates of 50 percent for bone-in beef cuts and 55 percent for boneless cuts do not include an additional 17 percent value-added tax, which is calculated on the duty

paid; in addition the value-added tax is applied in a manner that discriminates against imports, and including other minor customs clearing charges and handling charges, the effective rate of protection is approximately 90 percent.

I am also concerned that China uses sanitary regulations as a disguised barrier to imports of United States beef. While the United States and China signed a memorandum of understanding in 1992 on these measures, the USTR has determined that China's sanitary inspections of meat products are—meat products and lengthy veterinarian quarantines are "often overly strict, unevenly applied, and not backed up by modern laboratory standards."

United States beef exports to China are unlikely to increase significantly until China stops unfairly protecting its beef industry, and this is unfortunate. With its 1.2 billion people and its rapidly growing economy, China should be the United States largest export market for beef and other agricultural products. But, until China eliminates its barriers to United States beef, our exports to China will never reach a reasonable level. If China is not willing to eliminate its barriers, the United States should not support its accession to the WTO.

Thank you very much.

Chairman CRANE. Thank you, Mr. Brownback

Before we get to questioning our witnesses, I would like to remind one and all that this is the last meeting of the Trade Subcommittee in the 104th Congress, and we have distinguished colleagues who have served faithfully and very well in the trade arena, and other arenas as well, that I would like to acknowledge before we begin questioning our witnesses.

First of all is our Grover Cleveland Democrat, Sam Gibbons, one of the most knowledgeable and effective freetraders that we have ever had in Congress, and pay tribute to him.

And Mel Hancock, over here on my right, who is retiring, too.

And L.F. Payne down here, sitting in on his last meeting of the Trade Subcommittee.

And Dick Zimmer, who is going off to pursue other objectives.

I salute my colleagues. And, I would like to now yield to Charlie Rangel for any questions.

Mr. RANGEL. Let me join with you in tribute. All of the Members that are leaving are really going to be missed, notwithstanding the fact that this has not been the friendliest Congress that I have served in, but at least I think we have tried a little harder on this Subcommittee.

I was just telling Sam Gibbons that he has given so much to his country in establishing with foreign countries a credibility as relates to trade policy that I do hope that there is some way that we can keep this historic continuity as we move forward into the next century. And since he is going to be in Washington, I know I will be calling upon him a lot, and I hope that you would join with me to see whether it is possible within the rules to set up something that is a little more permanent in terms of his relationship.

But, it has been good knowing all of you, and I certainly hope the fact that you will not be here officially, that you come back and visit with us.

Thank you.

Chairman CRANE. Thank you.

Mr. Hancock.

Mr. HANCOCK. Well, thank you, Mr. Chairman, and thanks for the opportunity to say it has been an honor and a privilege to serve with you and the other Members of the Subcommittee.

We are talking about trade. And I recall, Charlie, some trips that we made at one time to New York with the New York—congressional delegation. It was the first time I had ever been in New York. It was a very exciting place to be.

Branson is a big tourism area, too. So, maybe we can work out a little trade deal here where we could promote both New York for tourism and Branson, Missouri, for tourism.

I appreciate the opportunity to have served with you, Mr. Chairman. And I would just like to say, the people sitting behind us here have been—you and those people—have been very courteous and supportive and helpful to me. There are a lot of people up here that, frankly, next year I am going to miss. And that is the staff, both Members, all sides of the aisle.

Thanks again. Very few people have ever had the opportunity that we have had. Fewer than 12,000 people have ever served in the U.S. Congress. Very few of those have ever served on the Ways and Means Committee. Very few of those, again, have ever served on this Subcommittee. And I just want to thank you.

Thank you.

Chairman CRANE. Well, we thank you and commend you for your service and at least promise you that we will come back and visit occasionally, if nothing more.

And now, our distinguished retiring Minority Member here, Mr. Gibbons.

Mr. GIBBONS. Thank you, Mr. Chairman, and Mr. Cox and Mr. Brownback and Mr. Latham.

I learned a lot from your testimony here today, and I am glad to see how seriously you are considering what I think is a very important problem for the United States and for really the people of the world.

The integration of one-fifth of the world's population and a rising economic power into the brotherhood and fellowship of the civilized and more industrialized nations on Earth is really an important step. And certainly, Taiwan plays a very important role in all of this, and they have been our good, loyal friends for a long time, and we owe them and we owe to the wonderful people of China an opportunity to welcome them fully into the family of nations.

What we do and how we do it, and what they do and how they do it will affect history for a long time, because anytime we make these changes, we have got a lot of old history, and sometimes not very good history, to overcome in these integration efforts.

And so, I want to welcome your testimony and welcome the ideas that you had. They are certainly worthy of serious consideration by this Subcommittee. I look forward to perhaps working with you and others on this problem in the future. Even though I will not be on this side of the microphone, I will be out on the public side of the microphone, out there listening.

Mr. Chairman, I want to say that my years of service here have been a great educational opportunity for me. I have learned a lot

from the witnesses, from the Subcommittee Members, and from our excellent staff, about what our responsibilities are here. They are awesome, and they are very challenging, and I think we will all profit if we listen to each other and try to learn from history what the significant role of all this is.

Having said that, let me say to Mr. Cox and Mr. Brownback, you have made some interesting proposals here and very well-reasoned proposals.

How can we get all of this done as quickly as possible, yet bringing into this the responsibilities that you have outlined in your testimony to the people in the United States? Is there anything that you see that we can do about removing the sterile and often harmful debate on MFN from this arena?

Would either one of you like to tackle that or both of you like to tackle that question?

Mr. BROWNBACK. I would be happy to make just a brief comment on that, and probably you, Congressman Gibbons, would be wiser on this than I would be, by some distance.

It seems to me—in representing my district—that what the people want is, to be able to trade back and forth, but they want to make sure that everybody is playing on the same bit of ground here, and that nobody has got an advantage or a disadvantage in it.

What I have outlined, particularly on the issue of beef, which is an issue that I am very familiar with, it is not a fair field, that we are not going into, and that hurts the overall atmosphere for people as they look to trade.

I support an expanded trade environment. But, it has got to be very balanced, and it is one that whenever any of us, as Members, or other people in the public find an area where it is not balanced, we really ought to go at it and be very specific and pointed and very direct and aggressive on dealing with it.

I think we need to go at the specifics rather than just dealing in these big cloudy areas and issues where we do not get much resolution. There is not much discussion of points that ever can be resolved.

Mr. GIBBONS. Well, thank you for your answer.

And, Mr. Cox, would you like to elaborate?

Mr. COX. Sustainable, long-term trade relationships have to be based on mutual advantage rather than one party taking advantage of another.

What the United States has made almost the entirety of its focus in our trading relationship with the People's Republic of China is MFN renewal. And may I substitute for "the United States" as I just said, "the Congress," because, of course, we have a role in policy relating to intellectual property and on each of the disputes that arise in the course of our trading affairs with the PRC.

This dates to a different era when the Jackson-Vanik legislation addressed different problems than face us just now.

As I said in my testimony, if that is our exclusive focus, we have disadvantaged the United States, not just the country upon whom we wish to impose sanctions, because sanctions, by their very nature, will disadvantage the party that imposes them, as well as the party that is subjected to them.

Admission to the WTO, on the other hand, is a carrot. It is a carrot that has not yet been extended to, nor received or accepted by, either the PRC or Taiwan.

Because of the rather dramatic differences between the circumstances of the governments of the island of Taiwan and of the PRC and because of the difference in the way that their economies respectively operate, it is rather clear that Taiwan is a model for the PRC and not the other way around.

I think we can advantage ourselves by admitting the largest purchaser of U.S. exports not yet a member of the WTO, and at the same time hold out that carrot for the PRC, because emulation of what Taiwan has done would be in their interest and ours.

And I would suggest specifically, in terms of hurrying this along and doing something concrete and positive, that the sense of the Congress resolution to this end, H. Res. 490, is a perfectly appropriate vehicle.

Mr. GIBBONS. Well, I want to thank both of you for good answers.

Mr. Cox, I thought that was a very interesting point you raised about the symmetry between Hong Kong and Taiwan, that neither one come in—Hong Kong is already a member of the WTO, and it is there not as a sovereign nation, but as a tariff area.

And, that is the same sort of status that you think we ought to apply to Taiwan; is that correct?

Mr. COX. That is exactly correct.

Mr. GIBBONS. Well, that makes good sense. Thank you.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. I have no questions.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman. And I, too, would like to thank you for the kind comments you made as we started this session.

It has been a real honor and privilege for me to serve on this Trade Subcommittee and on the Ways and Means Committee, and I appreciate what you and Mr. Rangel and Mr. Gibbons have done, the kind of leadership you have provided and the kind of bipartisan leadership on an issue that most definitely needs to remain bipartisan as we take up important matters of trade.

I want to thank, too, the staff, because they have been very helpful to us, as we have had many deliberations on this Trade Subcommittee in this and other sessions of Congress. I also want to thank the administration and the folks who are here from the USTR's office, because of the close relationship that we have and need to continue to have.

I think that the work that this Subcommittee does is extremely important. The hearings that we are having today on the WTO and accession of China, we will be having these kinds of hearings more and more as time goes on, because the public policy of how it is that the United States transacts with other nations in terms of trade will largely be determined right on this panel and with the members of the administration who are here. This will be increasingly important as we move more and more into our global economy.

So, thank you very much. It has been a real privilege for me to serve.

I want to thank my colleagues for being here, for what they have had to say, and I have no questions and yield back the balance of my time.

Chairman CRANE. Thank you very much.

Ms. Dunn.

Ms. DUNN. No questions.

Mr. RANGEL. Mr. Chairman.

Chairman CRANE. Yes. Mr. Rangel.

Mr. RANGEL. Congressman Cox, I certainly concurred with your idea and Sam's supporting it that Taiwan, for WTO purposes, be treated like Hong Kong.

But, what hits me between the eyes is the political problem that we face even in talking about it. I would not know whether Taiwan would want that kind of help right now, being faced with the People's Republic of China.

And so, sometimes the economic solution does not have a political solution to it. But, I am certain that Ambassador Barshefsky will have some views that would help both you and me to see how we can be supportive to have a transition that is beneficial to both countries.

Mr. COX. If I might respond to that, anticipating that what Taiwan might wish to do would be of special interest to the Members of the Subcommittee, I solicited the advice of the Taipei Economic and Cultural Representative's Office in the United States, and I received the following statement today from Hon. Jason Hu, the representative in the United States.

"It is the set policy," he writes, "of my government to enter the WTO at the earliest possible date. With its large and liberalized economy and open trade policy, my country is ready and deserves to be a member of the WTO. Moreover, the evaluation and consideration of our application should be based strictly and entirely on its own merits without being linked to any other applications."

I do not think there is any question from the standpoint of the government on Taiwan that what we are talking about here would be entirely acceptable.

Mr. RANGEL. Well, that clears that up.

Do you have any idea of the feelings of the People's Republic?

Mr. COX. Well, I think it is manifestly clear that the PRC has in effect, at every turn, blocked the attempt of Taiwan to gain admission to the WTO on the ground that Taiwan shall not become a member before the PRC.

That is the question really that is before us. And because the circumstances of the two are so different, it strikes me that sound American policy would be based on the notion that Taiwan ought not to be held hostage to the relatively less developed and highly mercantile of the PRC.

Mr. RANGEL. Thank you.

Chairman CRANE. And, gentlemen, I want to thank you for your testimony, and we continue to solicit your input and information and background as further negotiations continue.

Thank you.

Mr. COX. Thank you, Mr. Chairman.

Mr. BROWNBACK. Thank you.

Chairman CRANE. Our next witness is Hon. Charlene Barshefsky, the Acting U.S. Trade Representative.

STATEMENT OF HON. CHARLENE BARSHEFSKY, ACTING U.S. TRADE REPRESENTATIVE

Ambassador BARSHEFSKY. Thank you.

Mr. Chairman, thank you very much. It is a pleasure to be here. Of course, I ask that my full statement be accepted into the record.

Chairman CRANE. Without objection, so ordered.

Ambassador BARSHEFSKY. Thank you.

Mr. Chairman, if I may, before I begin, on behalf of the administration, pay particular tribute to Mr. Hancock and Mr. Payne and Mr. Gibbons. Of course, Mr. Payne has worked tirelessly with USTR on behalf of constituents in his district who have had difficulties with globalization, with the new rules of international trade.

Mr. Payne, you helped us work out very difficult and thorny issues with respect to textiles and tobacco, in a way that served the interests of the United States, but also served the interests of your constituents so well, and I want to pay special tribute to your efforts in that regard, and it has been a real privilege to work with you. And, I say that on behalf of all of USTR and the administration.

Of course, Mr. Hancock has had a very long and distinguished record of public service representing his constituents, including the auto industry in his district, and we have had great pleasure working with him.

And then we get to Mr. Gibbons, who is so unique and recognized as such by the administration. I wanted to simply say, Mr. Gibbons, on behalf of the administration, that we recognize so well your distinguished service to our country and to the Congress. In our narrow area of trade, of course, you have been a champion of trade reform and trade liberalization throughout the world. It has been the very greatest privilege to work with you, and I want to thank you so much.

Mr. GIBBONS. Thank you.

Ambassador BARSHEFSKY. Mr. Chairman, it is a pleasure to be here to discuss the efforts by China and Taiwan and indeed other nations to join the World Trade Organization. Let me first chat briefly about China and then Taiwan.

As I have said to this Subcommittee before, the United States-China relationship is complex and multifaceted. We, of course, have a wide range of issues with China that go beyond trade, including human rights, including nuclear nonproliferation, and environmental protection. But, of course, trade does play a central role in our relationship with the world's largest nation.

China is now the world's 11th largest trading nation. It is the United States fifth largest trading partner. In 1995 our exports to China increased by about 27 percent. They have doubled since 1990, but, of course, the trade deficit is of significant concern to us.

The Clinton administration's policy toward China has been consistent and unchanging. It is a policy of engagement, but by that, I do not mean we ignore our differences. "Engagement" means that

we work with China to resolve our differences, and it also means that we protect our interests when consultations are not fruitful.

Of course, we have had a vigorous bilateral agenda with China in a number of areas, and we have made some important progress in a number of areas, and let me just touch on those briefly.

First the protection of intellectual property rights. Earlier this year, after a threat of retaliation, we were able to make some important progress in getting China to enforce the provisions of our 1995 IPR agreement.

This past year, China has closed 15 CD, compact disk, factories. I am pleased to report to the Subcommittee that they remain closed. China has destroyed equipment; it has made substantial numbers of arrests; it has prohibited the importation of CD presses; and I received a report yesterday—I have a team in China now that there have been a number of confiscations of CD presses. That is good news. It has engaged its police forces in intensified raids and taken the other steps required by our accord.

With respect to market access, the market access memorandum of understanding, China has taken, I think, important steps to make its trade regime more transparent. It has eliminated over 1000 nontariff barriers in a variety of sectors. But, of course, concern remains with existing barriers and with the erection of new barriers to replace from time to time ones that have been removed.

In services, China has pledged to begin serious discussions on market access, in value-added telecommunications, and in insurance, and we have a team in China now.

On agricultural products, the United States continues to experience very serious market access problems, not only in beef and pork, but also with respect to wheat, citrus, and other products. We now have a USDA team in China discussing these issues this week.

We will continue to engage China bilaterally on these and additional issues, because, of course, the goal is reciprocal market access for United States goods, services, and agriculture.

With respect to China's WTO accession, let me say that the process of negotiating accessions for new members—there are 30 pending accessions—has been a major focus for us with respect to expanding market access for United States exports, as well as strengthening existing multilateral rules.

President Clinton, as you know, has repeatedly affirmed United States support for China's accession in the WTO, but only on the basis of a commercially viable protocol that commits China to expand market access and that will ensure compliance with WTO obligations. WTO members, in general, have proceeded from the principle that China's membership needs to be accomplished on terms that provide market access and provide a strengthening of WTO rules. There is a consensus among the major WTO members for a tough and principled approach to the accession process.

Last February, as you know, we prepared a document that has since become referred to as the "road map" for China's WTO accession, and it crystallized for China the basic decisions it would have to make in order to accede to the WTO on each area covered by the WTO.

While China has responded preliminarily to the road map, we have yet to receive a full response and, of course, look forward to that.

With respect to its offers currently on the table in Geneva, China's offers on market access for goods and market access for services are not acceptable in their current form.

In addition, there are a number of important rules-based issues such as the right to trade, removal of nontariff measures, the role of State enterprises, disciplines on agricultural supports and subsidies, China's industrial policies. These rules-based issues remain unresolved as well.

In addition, with respect to agriculture market access, China will need to sharply improve its offer. We have made a number of concrete suggestions in all of these areas to China, beyond and in addition to the road map paper, and we look forward to working with China on these critical issues.

Let me just say that we are committed, of course, to a pragmatic and realistic accession process for China. As President Clinton has said to President Jiang, we stand ready to negotiate a balanced, commercially base accession agreement.

Mr. Chairman, let me turn briefly to Taiwan. Taiwan is the 13th largest trading economy. It is the United States six largest trading partner. Of course, in the last decade, Taiwan has reformed its political structure and moved toward the democratic mainstream. Bilateral negotiations between the United States and China have laid the foundation for a more liberalized trade regime in Taiwan. Of course, there are difficult issues that remain, and I have detailed the bilateral issues that are outstanding.

In addition, as you may know, Mr. Chairman, the United States runs about a $10 billion trade deficit with Taiwan, and that is an issue on which we have also focused significant attention.

Although not a participant in the Uruguay round, Taiwan has moved toward freer markets in recent years. Taiwan's trade accession plan, which was self-initiated in 1989, reduced industrial tariffs to an average of 8.6 percent. And last year, Taiwan's legislature enacted a law to reduce tariffs by an average of 21 percent on particular items of United States export interest.

The unresolved issues in Taiwan's accession bid concern various market access matters. They relate to a number of areas that are of critical importance to the United States—for example, Taiwan's tariffs and quotas on automobiles and other industrial goods; their tariff and distribution arrangement on certain agricultural commodities; their tariffs, taxes, and other arrangements on products that are within the province of the Taiwan Tobacco and Wine Monopoly Board. And Taiwan has yet to address United States concerns with respect to its services offers, particularly with respect to legal and financial services, as well as the question of whether Taiwan will accede to the aircraft agreement after accession.

We work closely with the Taiwan delegation, but there is no question that significant outstanding issues remain with respect to our bilateral negotiations with Taiwan.

I would add, however, that Taiwan has not finalized its bilateral consultations for accession with any of its major trading partners—not with Europe, not with Japan, or others. Each of these individ-

ual negotiations must be completed before Taiwan's accession is ripe, and indeed, as well as these negotiations, China's protocol of accession, the rules of accession, must also be completed. That drafting has only just begun.

In conclusion, Mr. Chairman, let me say that we look forward to working with you and Members of the Subcommittee as these accessions proceed and as, of course, our bilateral agenda with these countries proceed.

We, of course, must ensure market access for our companies, as well as movement by the Taiwan and Chinese trade regimes toward a rules-based system.

Thank you.

[The prepared statement follows:]

Testimony of
Ambassador Charlene Barshefsky
Before the Ways and Means Committee
Subcommittee on Trade
September 19, 1996

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today to discuss the efforts by China and Taiwan to join the World Trade Organization (WTO). While I will focus on our bilateral relationships with China and Taiwan and the negotiations for China and Taiwan to accede to the WTO, I would also like to take this opportunity to describe the accession process and briefly report on the work being done with the other applicants for WTO membership.

CHINA

Now let me turn specifically to China. The U.S.-China relationship is complex and multifaceted. The United States has a wide range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, worker rights, and a range of other areas from non-proliferation to environmental protection.

Increasingly, however, trade plays a central role in our relationship with the world's largest nation. We cannot ignore the fact that the United States has a significant commercial stake in China. China is the fastest growing major economy in the world, with annual growth rates of more than 10 percent for each of the past four years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

China is the world's eleventh largest trading nation, the United States' fifth largest trading partner. In 1995 alone, U.S. exports to China increased by nearly 27 percent, and -- at $11.8 billion -- these exports were more than double their 1990 level. That is why more than 170,000 American workers owe their jobs to U.S. exports to China.

The Clinton Administration's policy toward China remains consistent and unchanged. It is a policy of engagement. But let me be clear about what we mean by engagement, Mr. Chairman. Engagement with China does not mean *ignoring* our differences. It means actively engaging China to *resolve* our differences and it means *protecting our interests* when consultations are not fruitful.

In June of this year, President Clinton urged Congress to renew MFN for China for another year. He did this -- and the Congress supported him -- because the United States' interests are best promoted and achieved if we maintain MFN as the foundation for our trade relationship with China.

When the President delinked human rights and MFN in 1994, he said that his Administration was prepared to use a whole array of legislative and administrative methods to address specific issues with China. In the President's words, "We must enforce our trade laws and our trade agreements with all the tools and energy at our disposal." I can assure you that we have consistently used all of the tools at our disposal to open China's market.

Since the outset of the Clinton Administration, we have pursued a vigorous bilateral trade agenda with China, and we have sought and achieved real results. By working successfully with Congress and the private sector, we have opened markets ranging from heavy machinery to telecommunications technology.

We have made important progress but it is clear that there is much more work to be done. Before I specifically address China's WTO accession, let me review some of the areas in which progress has been made with regard to opening China's vast market:

1995 Intellectual Property Rights Agreement

U.S. copyright industries employ more than 5 percent of the U.S. work force -- roughly equal to the auto industry -- and are growing three times as fast as the rest of the economy. The copyright industries contribute more than $350 billion a year to the U.S. economy, accounting for more than 6 percent of GDP. The U.S. computer software industry alone maintains a 75 percent market share worldwide, and created almost 60,000 jobs in 1995. Therefore, when firms in China pirate American products, they are stealing the ideas of these industries. We will not tolerate the theft from our leading industries.

Since the signing of the IPR Agreement in February 1995, U.S. government delegations traveled to China nine times to ensure enforcement and held more than forty formal and informal consultations from Beijing to Shanghai to Guangzhou. However during 1995, there was a great deal of talk on the part of the Chinese, but little concrete action on important aspects of the Agreement. That is why, in May 1996, the Clinton Administration threatened to take action against China as a result of China's failure to enforce satisfactorily its commitments under the 1995 agreement on intellectual property protection.

In June 1996, after substantial verification activities on the part of a U.S. government delegation, it was determined that a critical mass of enforcement actions in connection with the 1995 IPR Enforcement Agreement had been taken by the Chinese, and sanctions were averted. Our discussions in June confirmed that China had begun to take action in a number of key areas. China had closed a total of 15 CD factories, and had begun a new initiative targeting underground CD plants. The Ministry of Public Security now plays a leading role in these efforts. China also put a moratorium on the establishment of any new CD factories, and issued regulations which virtually ban the importation of CD presses and other manufacturing equipment. The Chinese strengthened border enforcement by executing seizures during the past several months -- netting tens of thousands of pirated CDs, VCDs, LDs, and other pirated goods. Chinese Customs officials continue cooperative efforts with Hong Kong Customs and continue to work with U.S. Customs. China also had clamped down on the import of illegal CD presses. And finally, significant progress was been made to secure opportunities in China for American IPR industries -- for sound recordings, motion pictures, and software.

Of course, the ultimate test is real and ongoing implementation. The United States will continue to monitor the situation and ensure that our economic interests are protected. To that end, a USTR team is in China now to verify that the Chinese are continuing to take the agreed-upon steps to crack down on piracy and provide market access.

The 1992 Market Access Agreement

In October 1992, the United States and China signed a market access agreement that committed China to make sweeping changes in its import regime. To its credit, China has done much to implement the 1992 agreement. It has taken important steps toward making its trade regime more transparent. It has made a major commitment to eliminate non-tariff barriers, and since the end of 1993, it has eliminated or substantially reduced the several thousand barriers that existed. Once these barriers are eliminated, the markets in China for computers, medical equipment, heavy machinery, textiles, steel products, chemicals, pharmaceuticals, and other products will open.

While China has removed a substantial number of non-tariff barriers, we are concerned with China's tendency to give with one hand and take away with the other. In some instances, China has substituted new barriers in the place of those removed. For example, quotas have been replaced with "tendering requirements" or "registration requirements." In sectors such as medical equipment and film, new regulations have prevented the market access we anticipated as a result of the 1992 agreement. China must live up to its agreement and eliminate these impediments to fair trade.

A number of other market access problems remain, most importantly for U.S. agricultural

products. In the Agreement, China committed to eliminate unscientific sanitary and phytosanitary restrictions used as barriers to market access. However, China has failed to scientifically justify restrictions which block exports on a number of important agricultural products, particularly wheat and citrus fruit. Even where China has taken positive steps, for example with cherries and apples, subsequent phytosanitary requirements or tariffs have blocked meaningful access to the market. In order to continue to engage the Chinese on these important issues of market access for our agricultural exports, our agricultural officials are currently in China.

Services

The United States is the largest exporter of services in the world, and producer of the highest quality services that range from financial services to engineering and construction. We are pursuing discussions with China on services, both bilaterally and multilaterally, in particular in the areas of value-added telecommunications and insurance.

In addition, USTR continues to pursue market access for other services sectors. This includes efforts in the areas of business facilitation, distribution, travel services and advertising.

Xinhua Control over Financial News Services

Xinhua News Agency, also known as the New China News Agency, has recently been authorized to control the release of economic information in China by foreign news agencies. We are very concerned about this development which could adversely affect U.S. commerical presence in China, impinge on U.S. intellectual property rights and constitute yet another significant WTO-related issue. We are now in consultations with the Chinese on the regulations and their implementation.

The World Trade Organization

In the twenty months that the WTO has been in existence, the process of negotiating the terms of accession to the WTO Agreement for new members has become a major focus of our efforts to expand market access for U.S. exports and to strengthen the existing rules of the international trading system. This is nowhere more relevant than in the negotiations for China's membership.

A signatory to the Marrakesh Agreement Establishing the World Trade Organization, China formally applied for WTO membership in late 1995, and participated in the first meeting of its WTO Accession Working Party in March 1996. From the beginning of this process, WTO members have proceeded from the principle that China's membership must be accomplished on terms that provide for meaningful market access and the incorporation of the disciplines of WTO provisions into China's trade regime. While recognizing the importance of China's accession to the WTO, there is consensus among the major WTO Members for a tough and principled approach to this process.

President Clinton has repeatedly affirmed U.S. support for China's accession to the WTO on the basis of commercially viable commitments that provide greatly expanded market access and ensure compliance with WTO obligations. We have worked hard, both bilaterally and multilaterally, to organize and facilitate China's accession process.

Unfortunately, China's offers on market access for goods and services are not acceptable in their current form. In addition, a number of important rules issues, such as the right to trade, the removal of non-tariff measures, how state trading is conducted, disciplines on agricultural supports and subsidies, and China's industrial policies, remain unresolved.

China also needs to give special attention to market access for agricultural products. We and other WTO Members continue to carefully review China's proposals on how its state trading system will work, how it will discipline subsidies and internal supports, and how it will implement its sanitary and phytosanitary rules. We have made a number of concrete suggestions,

and look forward to China's responses.

The operation of China's state trading system is one clear example of the important relationship between WTO rules and basic market access issues. We must ensure that state trading does not operate as a barrier to imports and that it provides fair market opportunities for U.S. exporters. Congress has provided important guidance to our negotiators in this area. Completion of China's accession process requires that these and other difficult outstanding issues be addressed.

On the President's instructions, we prepared a document that has been referred to as a WTO roadmap for China. The roadmap crystallizes for China the basic actions it must make to make progress in each substantive area covered by the WTO. It draws on the draft protocol text that was tabled and negotiated in Geneva in 1994.

China has responded with a preliminary presentation in Washington on February 12, but we expect further, more detailed responses at a later stage. WTO issues were also discussed during meetings of China's Accession Working Party that took place in late March. The next meeting of China's Accession Working Party, where non-tariff measures will be discussed, is scheduled for late October.

To move the accession process forward, China's intentions in each of the areas identified need to be expressed in terms of specific, contractual commitments to implement WTO rules. China must also provide for substantial improvement of market openings in goods, in services, and in agriculture. Without progress in all these areas, none of the major countries negotiating China's accession terms will be prepared to complete the accession.

We are committed to a pragmatic and realistic accession process. As President Clinton made clear to President Jiang, we stand ready to negotiate a balanced, commercially-based accession agreement.

Let me stress a key point about moving this process forward. To make progress, China must stop erecting new trade barriers to replace those previously removed. And it must cease implementing policies that move it further away from WTO consistency.

Of course, China must also fully implement its existing bilateral trade agreements. The Administration's actions this spring to ensure satisfactory implementation of the 1995 Intellectual Property Enforcement Agreement demonstrate our commitment to enforcing our trade agreements. Complete and timely implementation of the IPR Agreement, as well as our market access, textiles, and other agreements, will help to put our bilateral trading relations on a more stable, long-term foundation.

TAIWAN

Taiwan is the world's fourteenth largest trading economy, and the United States' eighth largest trading partner. The United States and Taiwan have a bilateral trade relationship of long standing that has benefitted both economies. U.S.-Taiwan bilateral trade reached $48 billion in 1995. In the last decade, as Taiwan has reformed its political structure and moved toward the democratic mainstream, bilateral negotiations between the U.S. and Taiwan have laid the foundation of a more open and liberalized trade regime in Taiwan. Difficult bilateral issues of market access, protection of endangered species (Pelly Amendment), and intellectual property protection have been addressed and resolved.

Before turning to the WTO accession, I would like to review our ongoing bilateral efforts.

Market Access

Although not a participant in the Uruguay Round, Taiwan has in the past several years taken steps to provide greater market access. Taiwan is engaged with the United States in negotiations

for WTO accession that will further open Taiwan's goods and services markets to a significant degree. Taiwan's Trade Action Plan, self-initiated in 1989, reduced industrial tariffs to an average of 8.6 percent. Taiwan's Legislature enacted a law in late June 1995 implementing an Executive branch commitment made in February 1994 to reduce tariffs by an average of 21 percent on 483 items of prime U.S. export interest valued at $890 million.

Telecommunications

In February, Taiwan approved a plan to transform its monopoly telecommunications agency to a strictly regulatory role, spinning off its operational arm as a newly privatized entity. The plan opened up the telecommunications sector to domestic and, with some limitations, foreign competition in providing equipment and services. U.S. equipment and service providers were concerned with certain aspects of the plan, in particular restrictions on foreign investment and the possible continuing influence of the newly-privatized telecommunications entity, including a ceiling of twenty percent on foreign investment, an 11.9 percent cap on return on investment, limits on debt/equity ratios, and limited spectrum allocation on which to develop a customer base.

Bilateral consultations with Taiwan authorities in July succeeded in securing commitments to removal of the profit cap and of restrictions on debt equity ratios. It was also confirmed that the newly-privatized telecommunications entity would not be able to cross-subsidize its wireless services with revenues from its remaining basic telecommunications monopoly activities, nor discriminate in pricing of connections for its own wireless subsidiaries and new competitors in that sector.

We are continuing to monitor the implementation of our July Understanding with Taiwan to ensure that U.S. firms are permitted to compete fairly in the Taiwan telecommunications market. In addition, we are working with U.S. equipment and services suppliers to assure that our concerns are taken into account as regulations are developed to implement further this element of the liberalization.

Intellectual Property Rights

As a result of many years of bilateral Special 301 work with the United States, Taiwan has made significant improvements in its IPR protection as it has worked to bring this effort up to TRIPS standards. These improvements have resulted in movement from a Special 301 designation by USTR as a "priority foreign country" in 1002, to watch list in 1995. This year, we have removed Taiwan from the U.S. Special 301 lists to the category of special mention.

Last April, the U.S. and Taiwan reached agreement on an 18 point Action Plan outlining enhanced IPR enforcement commitments in areas of concern to U.S. industry. Taiwan's commitment to implement the Action Plan within six months resulted in a USTR downgrading Taiwan's status from the special 301 "Watch list" to the "special mention" category. At the urging of the United States, Taiwan has worked to prevent cross-strait investment in PRC-based CD manufacturers, required all Taiwan CD manufacturers to use a source identification code on all products, and has recommended simplification of the power of attorney provision under Taiwan law to the Ministry of Justice. We remain concerned, however, that Taiwan's money and equipment continues to foster CD piracy in China. We will conduct an out-of-cycle special 301 review, tentatively scheduled for October, to assess Taiwan's continued efforts to protect IPR.

Medical Devices

Taiwan's efforts to contain costs under its National Health Insurance Program have led to implementation of brand-name based price lists for determining reimbursements which reportedly favor domestic medical devices and generic pharmaceuticals over imported or foreign invested manufactured products. U.S. medical device manufacturers and pharmaceutical companies allege that prices assigned their leading products are arbitrary, non-transparent and may deny national treatment due to pricing formulas designed to benefit local producers of

competing products. The Health Industry Manufacturer's Association (HIMA) filed a petition on July 2 on the concern in response to the Federal Register notice requesting comments for practices to be considered under Super 301. The issue was raised during bilateral consultations with the Taiwan authorities in mid-July and most recently during subcabinet-level meetings in Taiwan last week. We will continue to work with our suppliers to persuade Taiwan to establish more transparent, non-discriminatory formulas.

Sanitary and Phytosanitary Issues

The United States and Taiwan have been able to resolve several outstanding sanitary and phytosanitary (SPS) concerns on plants and plant products over the past several years. However, Taiwan still implements several unnecessary quarantine restrictions on livestock and meat. Taiwan also has a restrictive performance testing system for breeding swine which effectively prevents imports of certain breeds of swine. In addition, they subject dietary supplements to a registration process such as that used for pharmaceuticals.

The World Trade Organization

The United States and Taiwan have resolved many issues relating to Taiwan's efforts to accede to the WTO but critical issues remain. Taiwan has negotiated some significant commitments and concessions on market access (tariffs and non-tariff barriers), trade in services (including financial services), and adherence to the WTO Government Procurement Agreement. However, major issues remain outstanding. They relate, for example, to the tariffs and quotas for automobiles and other industrial goods, tariffs and trade and distribution arrangements on certain agricultural commodities; and tariffs, taxes, and other aspects of market access on products that are currently the responsibility of the Taiwan Tobacco and Wine Monopoly Bureau (TTWMB). Another major element of the accession negotiation is agreeing on reforms to the TTWMB so that Taiwan meets WTO requirements of national treatment, MFN, and transparency. Taiwan also needs to address U.S. requests for commitments in legal and financial services, and to respond positively to our request for their adherence to the WTO Aircraft Agreement after accession.

At the close of Taiwan's last accession Working Party meeting in Geneva, it was agreed that the next task to be undertaken by the group would be the discussion of issues for a protocol text based on a checklist developed by participants in the negotiation last year. Contacts with the Taiwan delegation on remaining issues continue, and we will meet with them prior to the next Working Party meeting.

WTO ACCESSION, IN GENERAL

I would now like to turn to specifics of the WTO accession process and efforts by other countries seeking to join the WTO. Increasingly, Congress is taking an interest in the accession process, and we have been responsive to the provisions established in U.S. trade law, seeing them as a baseline for all the negotiations. Section 121 of the URAA gives guidance on objectives related to Uruguay Round results, and section 1106 of the Omnibus 1988 Trade Act speaks to the issue of state trading and accession. More broadly, we have been responsive to the general objectives set in the Uruguay Round legislation in areas such as market access, (e.g. the zero-to-zero tariff harmonization proposals and in our continuing negotiating authority under section 111).

Accession Process

In the twenty months that the WTO has been in existence, the accession process conducted under Article XII of the WTO Agreement has become a major focus of our efforts to expand market access for U.S. exports and strengthen the existing rules of the international trading system.

There are 31 countries and customs territories in various stages of the WTO accession process at this time, with the accessions of China and Taiwan among the most important of them. Among

the other twenty nine applicants are Russia, Ukraine, Kazakhstan, and six other former Soviet republics of the Commonwealth of Independent States (CIS); the Baltic States, Saudi Arabia, Jordan, and Vietnam.

The United States and other WTO Members adopted the Uruguay Round as a single undertaking--all aspects of the Agreements that emerged from the Uruguay Round negotiations were mandatory for all who wished to become WTO members. Through the accession process, we maintain the integrity of that commitment for future WTO members as well as for original ones.

The rules for joining the WTO are stated in Article XII of the Agreement, and are functionally identical to those that operated for accessions to the GATT 1947, i.e., that

> "Any State or separate customs territory possessing full autonomy in the conduct of its external commercial relations and of other matters provided for in this Agreement and the Multilateral Trade Agreements may accede to this Agreement, on terms to be agreed between it and the WTO. Such accession shall apply to this Agreement and the Multilateral Trade Agreements annexed thereto."

As was the case under GATT 1947, the negotiations required for membership provide broad opportunity for current WTO members, including the United States, to ensure that new memberships take place on terms that reduce barriers to trade and support the credibility and strength of the WTO. In practice, this means that applicants must negotiate terms for membership in the organization, giving current WTO members an opportunity (1) to ensure that applicant trade regimes can implement WTO obligations and (2) to secure commitments and concessions on specific issues and for enhanced market access on tariff levels, agricultural market access, and trade in services.

The accession process involves a two part negotiation:

-- bilateral negotiations to identify specific goods and services market access commitments and

-- multilateral discussions in a Working Party composed of all interested WTO members to identify aspects of the applicant's trade regime conflicting with WTO provisions so they can be amended.

To initiate the WTO accession process, the applicant describes its foreign trade regime to WTO members, responds to questions, and provides any other information on its trade practices and laws requested by WTO members. There is a long list of basic information that all applicants for WTO accession are required to provide for WP review. The WP will meet as many times as is necessary to complete the review of the applicant's trade regime, and to discuss concerns expressed by WTO members on the consistency of the applicant's trade regime. The pace of these discussions traditionally depends on the applicants willingness to identify the problems with WTO-consistency in its trade regime, and to provide assurances or commitments to bring these measures into line with the WTO Agreements. Ultimately, the WP makes a collective assessment of where changes or commitments to change must be made in the applicant's regime to meet WTO obligations.

These assessments, and specific requests for changes or commitments to change to bring the applicant's trade regime into conformity with WTO provisions, are reflected in the final accession package approved first by the Working Party and then by the full WTO:

-- a Protocol, listing the commitments undertaken by the applicant concerning WTO rules;
-- a Working Party report elaborating on the commitments;
-- a schedule of initial market access commitments for trade in services; and
-- a schedule of market access concessions for goods, including an agricultural country schedule with commitments on export subsidies and internal supports.

These elements constitute the accession applicant's "entry fee" to bring them up to a level of commitment to WTO provisions and to trade liberalization commensurate with that of current WTO members. Because every trade regime is different, and because every applicant has its own views on how rapidly it is willing or able to respond in the negotiations, there is no way to tell how long the negotiations will take. The accession process can be very detailed and take time, particularly if the trade regime of the applicant is very complex or in the process of transition from a state-trading basis to a regime based on market principles.

The U.S. traditionally has taken a leadership role in developing the terms for acceding countries. This is as true for Mongolia and Bulgaria as for China and Taiwan. Over the past several years we have worked hard in Geneva to develop a strong multilateral consensus on the elements of a commercially viable protocol package in the accession process, including with China, and we intend to continue to provide leadership to building that consensus.

Results of Other Accessions

Since WTO implementation in January 1995, four countries have completed their negotiations under Article XII to accede to the WTO. These are: Ecuador, which became a member in January 1996; Mongolia, whose accession was approved by the WTO in June 1996; and Bulgaria and Panama where approval is expected this fall of the accession packages completed before the summer break. In all four cases, the commitments and concessions in both goods and services market access and in implementation schedules for the WTO Agreements exceeded those generally accepted by countries with similar economies in the Uruguay Round, particularly in market access for goods and services, and in full implementation of WTO commitments on an accelerated basis.

The commitments included:

full binding of all tariff lines, industrial as well as agricultural, with full or partial acceptance of chemical harmonization;

elimination upon date of accession or with very short transitions of most existing practices inconsistent with GATT 1994 or other WTO Agreements, including: minimum import valuation; non-tariff taxes and charges on imports, customs charges, or internal taxes also applied to similar domestic goods; and several categories of restrictions on imports, including quotas, minimum import prices, and restrictive licensing schemes;

broad initial commitments by all four countries to market access and national treatment for foreign service providers in key sectors of interest to the United States, including value-added telecommunications and a wide range of financial services (including insurance), as well as in accounting, management consulting, construction, engineering, wholesale distribution, and hotel services and tourism;

early implementation of TRIPs and the Agreements on SPS and TBT without recourse to transitions, and immediate implementation of the Customs Valuation Agreement by Mongolia, Panama, and Bulgaria

commitments from Mongolia and Bulgaria (the first transforming economies to complete accession to the WTO) that the state foreign trade monopoly was abolished and to provide additional periodic reports on privatization and reforms and enhanced transparency for remaining price controls.

CONCLUSION

In conclusion, let me return to the topic of China. The U.S.-China relationship is as important as any bilateral relationship in the world. But relationships are a two-way street. For China, the potential of the U.S. market is great. Roughly one third of China's exports go to the U.S., including tens of billions of dollars of textiles and footwear. In addition, Chinese companies --

like all foreign companies -- are allowed to establish freely in the United States. No one restricts their right to do business with American customers.

For the United States, it is certainly true that China offers unmatched potential. Unfortunately, while progress has been made, for the United States, the potential of the Chinese market remains largely untapped in many respects. China's highly restrictive import policies mean that less than 2 percent of U.S. exports go to China. China must open its markets, and the first step is to ensure compliance with commitments already made.

The Chinese feel that is only "fair" that China -- the country with the largest population and the fastest growing major economy, the country that may soon be the world's largest economy -- be admitted to the WTO. The United States also sees accession to the WTO as a matter of fairness. Fairness is abiding by rules and living up to one's commitments. Fairness is a matter of meeting agreed-upon standards and eliminating unfair barriers. Accession to the WTO *is* a matter of fairness. In fact, it is a matter of fair trade.

Chairman CRANE. Thank you, Ms. Barshefsky.

To open up, why would you think it is in China's interest to join the WTO?

Ambassador BARSHEFSKY. I think the interests are many and varied. Of course, only the Chinese can ultimately judge whether they wish to join the WTO. But, let me give you a few thoughts on the way, at least, we could look at it.

First off, of course, China appears to have a desire to move into a leadership position with respect to international economic matters and to move toward greater political acceptability, if you will. WTO accession, of course, would be very important on both of those counts.

Second, of course, China is a major exporting nation. China exported in 1995 what Japan exported in 1980 at a per capita GDP a fraction of that of Japan's in 1980. This is a country whose exports have risen by double digits in every year for at least the last 5 or 6 years, a country whose growth rate hovers around 10 percent, and a country that is amassing technology at a rapid rate. It is, in short, an export powerhouse.

Without WTO accession, China remains quite vulnerable to the imposition of restrictive trade measures by other countries, measures which cannot be challenged in any forum. For China to better protect its own export position, China should wish to be a member of the WTO.

Of course, the flipside of that is, as a member of the WTO, China's trade regime would be subject to dispute settlement, and arguably that cuts against the desirability of accession for China.

But for both economic reasons, as well as political reasons, accession may well be of importance to China.

I would add one further point, and that is: There is a significant reform movement in China, a movement toward market economics, toward less State involvement in the economy, a movement away from arbitrary decisionmaking by government. And in that regard, the reformers in China strongly support WTO accession as a means of furthering the process of economic reform in China.

Chairman CRANE. You have indicated in prior testimony that 50 to 70 percent, as I recall, of the Chinese economy is State-owned and controlled. And, what kind of an issue does that represent as far as China's eligibility for WTO accession?

Ambassador BARSHEFSKY. Well, this presents a very complicated set of issues. We have some experience with heavily State-controlled economies. If we think through for a moment that we have previously seen the accession, for example, of Poland—this was to the GATT; of Romania; and to a lesser extent of Hungary. We now have had the accession to the WTO, for example, of Bulgaria.

We do have some experience. But, of course, the range of State enterprise is very massive in China. The scale, of course, is fundamentally different from these other countries.

We know that State enterprise participation in the economy can distort trade, both imports as well as export trade. We also know that the presence of State enterprises reduces significantly the transparency of a country's trade regime. It is very difficult to get at the practices utilized that inhibit imports and that expand ex-

ports, and it is very difficult sometimes to fashion appropriate remedies.

This entire area of State enterprise is one that we, as well as our trading partners, are looking at very carefully with respect to the China accession.

We are also looking at the issue carefully with respect to the accessions, for example, of Russia and the Ukraine and others of the former Soviet Republics whose economies have been under varying degrees of State control.

There are no easy answers here. This requires a fair amount of thoughtful analysis. But to be sure, there is no question that the higher the percentage of State involvement and State enterprise involvement in the economy, the greater the opportunity for trade distortion and the greater the risk of market access barriers.

Chairman CRANE. Thank you very much.

Mr. Rangel.

Mr. RANGEL. Let me join with those who thank and congratulate you for the great work that you are doing, and this is especially so as relates to your patience in dealing with the politics and trade policies of China.

Do you think that the WTO would have any unique means of removing some of the severe restrictions and barriers to trade that China has put up for United States exporters?

Ambassador BARSHEFSKY. I think the WTO accession process provides a potentially excellent opportunity for the United States, as well as other countries, to work to reduce, on a structural level as well as on a cross-sectoral level, trade barriers that exist in China.

Our alternative is sectoral, bilateral negotiation, which is, as you know, a long process. It is arduous. We are committed to it; you know that we have negotiated just shy of 200 trade agreements in 44 months, all of which toward market access for U.S. exports. But, it is an arduous process.

In the WTO, of course, accession would require not only the lowering of tariff barriers across the board, but the identification and removal of nontariff barriers on goods, the opening up of the services market across sectors, the opening up of the agriculture market across the range of agricultural commodities, not just one or two but the range of agricultural commodities, and, of course, the accession by China and other countries to the international rules of the road with respect to trade.

So the accession does provide us with a very good opportunity. We have to be smart about it. We have to be very clear as to what we want, and I think we have been very clear as to what we want. And we have to be very dogged in our pursuit.

Mr. RANGEL. Well, that was not my question. We have been clear in what we want, and they have been clear as to what they are not going to do.

And I am just wondering, notwithstanding how more clear the WTO can be—I do not know what stories they give to you. Maybe stealing intellectual property is a cultural thing, or they do not think it is stealing, or once it is created it belongs to the world, or subsidizing their own industries and declaring that that is a national industry or putting tariffs on particular things in order to

negotiate or punishing companies that are cooperative—I mean are not cooperative with their policies.

It just seems that because they are a giant nation and becoming a major force in international trade, all you can do is try to do the best you can. But, we cannot wrestle this monster to the ground ourselves. They do what they want to do.

And my question really was, Can the WTO be more effective in dealing with China than we are?

With all credit to your negotiators, and they have done a good job in knocking out illegal CD manufactures in China; My God, that is a profile in courage, they are closing up the thieves, and we appreciate every effort they make.

But, what can the WTO do that we have not done?

Ambassador BARSHEFSKY. Well, I have already given you the picture on the market access side on the WTO.

The other side of the coin has to do with how we enforce market access commitments by China.

In the WTO context, in the accession context, we have potentially a range of tools that either complement or go beyond what we have domestically in our own legislation.

For example, in the WTO, we and Europe have said to China, There must be a special safeguard clause in your accession. So, if there are import surges, we can handle those by way of quota or other restrictive measures if need be. That is very important.

We have, of course, as a general matter WTO dispute settlement, just won our first case, the first case we have brought under the mechanism, which operates much more effectively than the former GATT system. And we are the biggest user of the WTO system on dispute settlement, as we were in the GATT, and will continue to be.

We have also, with respect to accession, the view that parties must be able to review China's economic performance each year, to review its progress in keeping its commitments, and that if China is well off track, that WTO members can take action to protect their rights, and we are working on such a mechanism with Europe.

Mr. THOMAS. I am going to——

Ambassador BARSHEFSKY. So there are, I think, some important mechanisms.

There is no question, Mr. Rangel, that China presents an extraordinary array of challenges for the United States and for the world trading system. But, we do think if the accession is the right package, it will help.

Mr. RANGEL. I am going to ask the staff to send you a series of questions that I have that you might answer.

[The subsequent questions and answers follow:]

Responses to House Ways and Means Questions Submitted by Congressman Rangel

Q: Chinese accession to the WTO, if it happens, will have a dramatic effect on the dynamic between and among contracting parties to the WTO. The bipartisan leadership of the Ways and Means Committee in 1994 sent then USTR Kantor two letters concerning China's accession to the WTO. In those two letters, it was stressed that China should be allowed to accede to the WTO only on commercially sound terms and in full compliance with WTO obligations. Moreover, it was emphasized that USTR should take whatever time is necessary to ensure that this negotiation is done properly. Are you aware of those two letters and do you agree with the recommendation made in them.

A: The U.S. position on appropriate terms for China's accession to the WTO has not changed since 1994. As then USTR Kantor responded, "our strategy in the accession talks will continue to be based upon our long-term commercial interests in China and its role in the global economy. We can be flexible and creative without undermining the system." We will continue to support China's accession on the basis of a commercially viable accession agreement and on terms that are consistent with WTO provisions. We continue to work with China to complete this negotiation on such terms, which we believe also support our bilateral agenda with China, since many of the issues overlap.

Q: How does our approach to Chinese accession to the WTO fit into the Administration's overall policy of constructive engagement with China? Is there any likelihood that we would subordinate our commercial policy goals in the accession process to our larger geopolitical objectives with China?

A: Our approach to China's WTO accession is an integral part of our strategy of constructive engagement with China. The Administration will not subordinate commercial policy goals to larger geopolitical objectives with China. Our negotiators continue to meet with their Chinese counterparts in both the bilateral and multilateral context. We continue to build on the foundations of our bilateral agreements in the areas of market access and intellectual property rights and to participate in the multilateral forum of the WTO Working Party regarding China's accession.

Q: Last year, the Administration gave the Chinese an eight-page roadmap for acceding to the WTO. Without betraying the confidential nature of that document, could you describe in broad terms what are the key elements of that roadmap? In particular, how does it address the Chinese request that they be treated as a developing country for purposes of WTO accession?

A: The U.S. roadmap document provided a comprehensive discussion of the decisions we believe China must make in order to complete its accession negotiations. In some areas,

negotiations in the WTO Working Party have already addressed many of the key issues. In other areas considerable work remains, and it is important that China address outstanding concerns and issues. Following are some, but not all, of the issues noted in the roadmap.

> It is widely recognized that China must make commitments for genuine market openings in goods, in services and in agriculture. China's current offers are inadequate. China must give special attention to elaborating on the conditions of market access for agricultural products, how its state trading system will work, how to discipline subsidies and internal supports, and how sanitary and phytosanitary requirements will be applied to imports. The roadmap also addressed specific disciplines, such as transparency, uniform application of the trade regime, the establishment of trading rights for all firms and individuals and national treatment of imports in China's internal market.
>
> We also noted the need for the development of a fixed schedule of elimination for all WTO-inconsistent nontariff measures in place, e.g., quotas, licensing restrictions, and other measures that act to block imports. The roadmap pointed out specific areas where China needs to bring its regime into line with the provision of WTO Agreements, such as Technical Barriers to Trade and Customs Valuation, and pressed for China to address new mechanisms, such as the industrial programs, that also affect trade. Finally, the roadmap noted special transitional mechanisms, such as a review mechanism and safeguards, that WTO members have requested of China. We expect a detailed response from China on these points as we continue our efforts to find acceptable terms for China's WTO accession.

We do not believe that applying labels to China as a developed or developing country is a constructive approach to addressing the issue of China's terms of accession. We have agreed to take a pragmatic approach to resolving each issue in a manner that results in a commercially meaningful protocol package.

Q: In 1994, the Chinese appeared anxious to accede to the WTO as an original member. There has been recent speculation, however, that the Chinese may be rethinking their position on WTO accession. Moreover, it could be that no decisions will be made until after the succession process in China is completed. What can you tell us about the current Chines government position on WTO accession?

A: Negotiations for China's GATT accession began over nine years ago. The duration of the discussions demonstrates the difficulty of merging China with GATT, and now WTO, institutions. While it is clear that the accessions process is extremely complex and multifaceted, we believe that China remains interested in WTO Membership, whether or not it can claim "original" member status. We will be working closely with China in the coming months to explore what China is prepared to do to meet WTO concerns and complete the negotiations.

Q: Assuming that the accession negotiations proceed, what do you think will be the most important substantive issues that will have to be resolved?

A: It is premature to begin deciding which of the many significant issues remaining unresolved are the most important substantively. Much of what the WTO has requested of China is normally requested, and agreed to, by other WTO accession applicants. We expect each of these issues (e.g., elimination of nontariff measures, basic compliance with GATT 1994 and the other WTO Agreements) to be resolved when negotiations begin moving toward completion.

Q: A major concern shared by many in this country is that many of our fellow WTO Members will treat China's accession to the WTO more as a political exercise than as an economic exercise. I understand, for example, that Japan intends to hold a "seminar" on Chinese WTO accession in October, apparently to help facilitate Chinese entry. How do you assess at this point other countries negotiating approach and will they continue to support us on insisting on a sound commercial protocol with China?

A: Other major WTO members would also like to see China's WTO accession accomplished on commercial terms with full compliance with basic WTO provisions. They look to the United States for leadership in this as in many of the other WTO accessions. All WTO members active in the negotiation, including the United States, are taking whatever steps they can to facilitate China's WTO accession within these parameters. We view Japan's offer of a seminar in this perspective.

Q: Last week, Minority Leader Gephardt introduced H.R. 4065, a bill to require prior Congressional approval before the President supports admission of China into the WTO and provides for the withdrawal of the United States from the WTO if China is accepted in the WTO without U.S. support. Does the Administration have a position on this legislation?

A: While the Administration has not articulated a formal position on the legislation, the proposed legislation as it would unacceptably impinge upon the President's constitutional authority to conduct foreign relations by requiring prior Congressional approval before the President would support the admission of China to the WTO. On this basis, we would oppose any such restraint.

Furthermore, existing legislation and Administration policy makes this bill unnecessary. The Administration has consulted closely with relevant Congressional committees on this issue, as evidenced by the hearing before the Ways and Means Committee on September 19. This consultation process will continue. Section 122 of the URAA requires the Administration to consult closely with Congress on any accession, particularly before taking any action to approve

or support an accession. Section 1106 of the 1988 Omnibus Trade and Competitiveness Act adds additional requirements for the President and Congress in considering accession of countries like China which maintain substantial state-run enterprises.

In addition, the WTO operates by consensus, so that it would be extremely difficult for China to be accepted into the WTO without U.S. support in any case.

Q: *If the Administration were to be satisfied with the Chinese WTO accession protocol,* would you ask Congress to remove China from Jackson-Vanik and give China unconditional MFN, as required by the WTO?

A: We do not want to speculate on the outcome of ongoing negotiations and the possible resultant effects. It is simply to early to tell. We can say that in its present form, China's offers on market access and the other aspects of the accession package are not satisfactory to the U.S. or to other members of the Working Party.

Q: In the Uruguay Round Agreements Act, the Congress gave the President residual authority to restore pre-Uruguay Round MFN rates to countries that do not accede to the WTO on timely basis or do not offer adequate market access. We continue to have market access problems in China, notwithstanding the 1992 Memorandum of Understanding (MOU). Are you aware of this snap back authority and do you intend to use it in appropriate circumstances.

A: The "snap-back" proposal if used to block China's access to the lower Uruguay Round rates would not be a good remedy for China's own import barriers, and would not give us much additional leverage, if any. In the first place, increasing tariffs on selected Chinese imports that benefitted from Uruguay Round reductions will not punish China, but it will harm U.S. interests. Throughout the Uruguay Round, Congress and the Administration worked so that China should not get a free ride. As a result, the package of tariff reductions Congress approved purposely did not make reductions on products of greatest interest to China. In trade jargon, this means that we did not make concessions where China was a principal or substantial supplier.

It is also the case that the United States imports some products from China that were subject to Uruguay Round duty reductions, particularly items like toys, where U.S. industry actively sought the reductions. In fact, the majority of these items had been subject to long standing duty-suspension legislation. It is in these kinds of products that China's trade is concentrated in terms of Uruguay Round benefits. Use of the "snap back" legislation on China at this time would only undermine our efforts to get China to open its market to U.S. goods and services. We argue to China that we must have a commercial, rather than political, result. "Snap back" action will undermine those efforts and U.S. leadership in keeping the negotiations focused on substance. Finally, taking away China's benefits puts at risk our bilateral MFN agreement and China's obligation to give the United States MFN tariff treatment -- for example, as it reduces its tariffs as it just did for APEC.

Q: Political control over Hong Kong will pass to China in 1997 although Hong Kong will remain a WTO Member. If China does not accede to the WTO before control of Hong Kong passes to China, what problems might arise from this new situation? For example, it has been suggested that China could use Hong Kong to circumvent world and U.S. trading rules by labeling goods made in China as originating in Hong Kong. What is your view on this?

A: Irrespective of the timing of China's WTO Accession, Hong Kong will remain an independent Customs territory for 50 years following 1997 under the terms of the agreement between the United Kingdom, Hong Kong and the People's Republic of China concerning the return of the territory of Hong Kong to China, including in economic and trade matters, such as import quotas and certificates of origin.

The United States will continue to treat Hong Kong and China separately for purposes of administering the requirements of our rules governing the origin of goods, and we will continue, for example, to maintain and administer separate quantitative arrangements governing imports of textiles and apparel from Hong Kong and China as under applicable international agreements.

Q: What is the Administration's position on Taiwanese accession to the WTO? Is it possible that Taiwan would be allowed to accede to the WTO before China?

A: WTO accessions should be conducted and approved on their merits. We continue to work with both Taiwan and the PRC, as well as with other interested members of the WTO, on acceptable terms of accession for both economies. The timing of Taiwan's accession depends on a number of factors, including agreement on outstanding issues raised by various parties in the accession negotiations. The negotiations are well advanced, but key issues remain to be resolved with most of the major WTO members in Taiwan's Working Party. It is premature to discuss a time line for completion. It should be understood that the timing of Taiwan's WTO accession cannot be resolved by the United States alone. WTO approval of accessions is a multilateral process, and requires that all current Members agree to the terms of accession.

Mr. RANGEL. As relates to Taiwan receiving the same status of Hong Kong before China's being considered, is that a reality? Is that a consideration?

Ambassador BARSHEFSKY. Mr. Rangel, Taiwan will not address seriously five or six key outstanding issues with respect to their negotiation just with the United States.

Mr. RANGEL. And if they did——

Ambassador BARSHEFSKY. Well, if I may——

Mr. RANGEL [continuing]. There is a possibility that we would review their admission before the People's Republic?

Ambassador BARSHEFSKY. Well, you know that to get into the WTO, a working party is formed. The Taiwan working party is about 35 countries.

The only way Taiwan's accession or any country's accession moves out of the working party to the floor for vote is by consensus.

Taiwan has not finished bilaterally with any of the key members in that working party. The Europe talks, the Japan talks, are far behind ours. We have been the most aggressive in pursuing these talks with Taiwan, in getting them to move, even though there are outstanding issues.

Mr. RANGEL. Is it our policy to encourage them to move forward in this process for admission?

Ambassador BARSHEFSKY. It is our policy to encourage them to open their markets and to make every conceivable commitment we can get. It is our policy——

Mr. RANGEL. Well, for the purpose of admission to the WTO?

Ambassador BARSHEFSKY. Of course, for purpose for admission to the WTO. But, Taiwan's accession bid will depend also on their responsiveness to their other trading partners as well as to finishing up with ours.

Mr. RANGEL. If I was to join you—if I was to join you in encouraging this to happen, I would not face a stone wall in terms of our policy with the People's Republic from what you are saying, then?

Ambassador BARSHEFSKY. I think that we would have to look at each accession as it proceeds on its merits. This has always been U.S. policy. But as a practical matter, Taiwan has not fulfilled the requirements we need bilaterally for their accession.

Mr. RANGEL. I understand. You are crystal clear on that. But, the fact of the merger of Taiwan and Hong Kong with the mainland is not an impediment as it relates to our policy for encouraging Taiwan to move forward for admission to the WTO; is that what you are saying?

Ambassador BARSHEFSKY. We wish to encourage Taiwan to open its markets, so that WTO accession will be possible.

Mr. RANGEL. Thank you.

Chairman CRANE. Thank you.

Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman. Thank you, Madam Ambassador, for being here.

I would just like to ask you a couple of questions. The first one is about State enterprises.

The important thing with State enterprises is that what we do is make sure that costs and prices are fairly reflected and not dis-

criminatory, and also that we have access to the markets. As they export to us, we export to them.

As we move along this World Trade Organization route, is this going to get better, or is it going to get worse?

And let me just ask another question, because once again, taking the July figures, as we have talked about—the exports to the United States have bumped up another 15 percent, and, you compound that—and we think we are doing the right things procedurally. But from a practical standpoint, are we getting at this issue, which is really getting out of balance?

Ambassador BARSHEFSKY. Let me answer both those questions.

On the State enterprise issue, I could not agree with you more with respect to your identification of the problems.

We have indicated to the Chinese that with respect to their State enterprises, those enterprises would need to operate and demonstrably need to be shown to be operating on the basis of commercial considerations with respect to price, with respect to costs, and with respect to exports and imports.

A subsidiary issue here is something called trading rights. In China, foreign importers and, foreign exporters, do not have the right to trade directly with China. The question is—and State trading enterprises, of course, are pleased to keep the situation that way, so they have a monopoly hold on the flow of imports and the flow of exports, either because they are the generator of those imports or exports or because you must trade through them, because you, as a company, do not have the right to engage in trade directly.

Part of the accession process will be to open up these trading rights, so that ultimately there is the ability of companies to import and export freely without the need to go through these enterprises, and that, in turn, will engender increased competition in the market and curb the power of the State trading enterprises. This is a very complex set of issues.

With respect to the trade deficit, I have pointed out that our exports to China have doubled since 1990. They were up about 27 percent last year. They are up this year, though admittedly at a slower rate.

We know that the rate of increase in the trade deficit with China has slowed. It had previously been a double-digit rate of increase; it has slowed to about an 8-percent increase.

I am not suggesting that we are happy with the numbers; we are not happy with the numbers. And, obviously this kind of trade performance needs to be reversed.

I would say, though, with respect to the composition of trade, the composition still strongly favors the United States. China tends to sell here low-end consumer products, toys, textiles; those are the big three items. We tend to sell to China airplanes, industrial goods, higher technology products.

But having said that, we are by no means pleased with the trade figures. We, of course, have worked very hard with respect to market access, and we have seen some significant improvement in some areas, in higher end consumer products, as well as in things like integrated circuits where we have seen very substantial increases in U.S. exports.

But, much more work needs to be done. This is one of the reasons that a good WTO accession package is important.

Mr. HOUGHTON. Let me ask you just one more question. I think the light is still on.

Now American companies invest in China, as they invest all over the world. Now they invest either directly, or they invest with royalty agreements, or they invest in turnkey operations or something like that.

Do you have any figures indicating the amount of money in terms of exports from China back into the United States from those American investments?

Ambassador BARSHEFSKY. I would have to ask our staff if we do. I am not sure that we do, because of the way our export figures are kept. Of course, they are not kept by enterprise. But, let us see if we can generate some numbers for you or estimates or see if there are data sources for that.

Mr. HOUGHTON. All right. Thank you very much.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman, and thank you very much, Ms. Barshefsky, for this testimony. I think this has been very helpful.

As you mentioned earlier in your very kind remarks about my service—and I appreciate that very much—I have a real interest in textiles and the textile industry. One of the issues there has to do with how exactly and what are the conditions upon which China would be allowed accession to the WTO. One of the issues is whether it is a developing nation or a developed nation.

And, as you started this and explained the conditions in China and their economic success and their economic growth, we know they have a very strong export capability; they have a very strong technology ability, and that is improving.

It seems that the case is pretty open and shut that it is a developed nation, and it is one that we should trade with on an equal footing.

Could you just bring me up to date on where this discussion is relative to developed versus developing nation and where you see this going as the talks continue?

Ambassador BARSHEFSKY. Mr. Payne, there is no question that China has an extraordinarily well-developed export sector. There is also no question that if you look at other indicators relative to the Chinese economy—for example, per capita GDP—it is not a developed country in the sense of that term.

What we have said to the Chinese is that we do not think it is productive to engage in a discussion of whether China is developing for all purposes or developed for all purposes. It is neither for all purposes.

But instead, we should look at each and every issue area under the WTO and try and resolve each issue area in the manner appropriate to that issue.

On intellectual property rights, for example, China must be in compliance now, not as a developing country, and its bilateral agreements with us already put it in a developed country status.

But, if we look at other areas—and I do not want to name particular areas, but other areas—we may find that China needs tran-

sitional periods, time to catch up, more akin to a developing country.

So, we have said to China that we want a good substantive resolution on each and every issue outstanding in the negotiation. At the end of the day, China can call itself what it wishes. The accession itself has to be substantively right, whatever China calls itself.

So, our aim is to look at each provision, each obligation, and work through what for the United States is the best deal and what is the most reasonable deal for China.

Mr. PAYNE. Is China in agreement with that statement and those policies?

Ambassador BARSHEFSKY. China is certainly in agreement with the notion that a negotiation will be required. China rhetorically refers to itself as a developing country and indicates that it will not accede as a developed country. Well, no one has asked China to accede as a developed country. Our position on this issue—that is, looking at every provision one by one and cracking the best deal has been our position consistently for 8 years.

Mr. PAYNE. In the broad framework of the road map that was laid out last year, one of the issues was market access.

Ambassador BARSHEFSKY. Yes.

Mr. PAYNE. Without revealing confidential information in any way, could you comment generally on what that outline contained in terms of market access, please?

Ambassador BARSHEFSKY. The outline was very brief on market access, indicating simply that China's proposed market access schedule of concessions on tariff and nontariff barriers was inadequate virtually across the board, and that it would have to substantially revise and put forward a new proposal.

We did not in the road map specify the level of tariff concessions, for example, because we have, tabled a tariff request, which is very detailed, similarly with respect to nontariff barriers. But, the road map was not designed to actually negotiate that particular point; it was designed to crystallize in every issue area the decisions China would have to take with respect to their positioning on WTO.

And in the case of tariffs, for example, on market access, we made clear that as a substantive matter, the offer by China on the table was wholly inadequate, and it ought to go back to the drawing board and start again, bearing in mind our requests.

Mr. PAYNE. When do you expect China to respond with some sort of market access offer?

Ambassador BARSHEFSKY. Well, China has provided some further information on market access and has come forward in the APEC process with some unilateral tariff reductions, but those tariff reductions only get China to the level of what they had put on the table in Geneva, which was inadequate.

So we have not yet received from China, though we have asked for it and the chairman of the working party in Geneva has asked for it, revised or modified offers with respect to market access issues.

There is a working party toward the end of October, and we would certainly hope China would come forward at that point, but we do not know if they will.

Mr. PAYNE. Relative to what is in place now, the 1992 market access agreement, how would you say that China is doing, complying with the agreement that we currently have in place?

Ambassador BARSHEFSKY. I think they are doing reasonably well. Certainly tariff reductions that they have committed to, they have put into place. Nontariff barrier reductions they have committed to, they have put into place.

However, on the nontariff barrier side, they have also imposed some new potential barriers which we are concerned may replace some of the ones removed. That is the subject of bilateral discussions this past week in China; I have a team there now. And it is a discussion in the WTO. These are measures related to industrial policy, related to tendering and registration requirements for imports which have the look of import licensing which they had previously abolished. So, we are taking a very careful look at these issues.

With respect to transparency as required by the MOU, Memorandum of Understanding, there has been improvement. China has begun to publish on a fairly wide scale trade laws and trade rules. Its tariff regime is much better known; its nontariff regime is much better known than it was before 1992; that is, before the agreement was signed.

So, I think that they have made some very good progress under the agreement. If I could pick one area under it where we are dissatisfied, seriously dissatisfied, I would say it is in the agricultural sector.

The MOU required China to use scientifically based standards with respect to agricultural product imports—whether it is pork or beef or citrus or wheat. China still does not use sound science in the development of its sanitary and phytosanitary restrictions, leading to unwarranted and unjustifiable barriers on United States agricultural exports.

That is an area of substantial dissatisfaction. There is a USDA team in China now. These issues have been under discussion for some time. And, of course, unless the situation is corrected, WTO accession would be quite impossible.

Mr. PAYNE. Well, I want to thank you very much for the good work that you are doing on this issue, as well as the bilateral negotiations that we are having with China, and to let you know that we very much appreciate your tough and right stance, and we certainly look forward to seeing some good progress as time goes on.

I want to thank your staff as well, because they have done an excellent job in this matter as well.

Thank you.

Ambassador BARSHEFSKY. Thank you so much.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Madam Ambassador, I, too, would like to thank you for your important work in this area and also for keeping members of this panel so well informed.

I would like to focus on an unfair pricing practice in Taiwan that I think could significantly hurt the medical device industry in our country.

As you know, Madam Ambassador, Taiwan's National Health Insurance Bureau, or NHIB as it is referred to, is the sole payer in that country for medical device products, and until recently their purchasing process was decentralized, and purchasers negotiated prices directly with the manufacturers and were then reimbursed by NHIB.

But under their new policy, this bureau will set prices centrally through its medical device price list.

Now I have heard from a number of medical device companies back home that the procedures that this bureau uses for determining foreign prices under the new policy are nontransparent——

Ambassador BARSHEFSKY. Right.

Mr. RAMSTAD [continuing]. And discriminate against U.S. suppliers. They are fearful that the bureau will use the new pricing list to target imported products for significant price cuts that could, of course, drive our manufacturers from Taiwan.

Now I know our medical device industry asked you to cite Taiwan under this year's super 301 review for unfair pricing practices, and I appreciate the attention that you have given this problem.

Could you tell us the response, if any, received from Taiwan when the issue was raised and what additional actions that your office plans to take?

Ambassador BARSHEFSKY. There is no question there appears to be a problem here, that Taiwan may be implementing a reimbursement system that discriminates against foreign suppliers. That is obviously unacceptable.

We had our negotiators in Taiwan about 10 days ago or 2 weeks ago to learn a little bit more about this system, the underlying facts. There were last week, as you may know, subcabinet meetings in Taiwan. The delegation was headed by Larry Summers, the Deputy Treasury Secretary, and this issue was raised.

We will be consulting internally now that we have more information on the issue. We will be consulting internally as well as with the affected industry to determine the most effective course of action at this point.

Mr. RAMSTAD. But to date, you do not have a specific strategy in mind in response to the 301 petition?

Ambassador BARSHEFSKY. We would like to—let me reserve on that right now. We would like to get together with Deputy Secretary Summers and his team in terms of what they have learned, as well as, of course, review the situation in-house.

There is a super 301 request on this to cite this particular practice, and obviously we will look at that very carefully.

Mr. RAMSTAD. Well, I am glad to see, Madam Ambassador, that you are aware and you appreciate the magnitude of this problem——

Ambassador BARSHEFSKY. Yes.

Mr. RAMSTAD [continuing]. And the possible effect on our medical device or biomedical——

Ambassador BARSHEFSKY. We do indeed.

Mr. RAMSTAD [continuing]. Industry.

Ambassador BARSHEFSKY. We do indeed. We have seen discriminatory reimbursement schemes elsewhere, including Japan, and

they are pernicious from the point of view of our industry and our export interests.

Mr. RAMSTAD. And then you will, whether or not we are in session, report back to us?

Ambassador BARSHEFSKY. Of course, absolutely.

Mr. RAMSTAD. Thank you very much, Madam Ambassador.

Ambassador BARSHEFSKY. Absolutely.

Mr. RAMSTAD. Mr. Chairman, thank you.

Chairman CRANE. I thank you. And again, we want to express our profound appreciation to you, Madam Ambassador, for the outstanding work that you have done, and we look forward to a continuing working relationship with you. Thank you.

Ambassador BARSHEFSKY. Thank you so much.

[Pause.]

Chairman CRANE. We have an upcoming panel that I know has some time constraints, because at least Mr. Kapp has a plane to catch.

But, we are on the verge of our having our final vote on the floor. And so, I think what we might do is recess the Subcommittee for one-half hour right now. That will cover the vote.

If anybody wants to grab a quick bite to eat, do so. Mr. Kapp will be the first to testify when we reconvene.

The Subcommittee stands in recess.

[Whereupon at 12:15 p.m., the Subcommittee was recessed, to reconvene at 12:45 this same day.]

Chairman CRANE. I would like to reconvene and invite up our next panel of witnesses, who represent different perspectives of China's and Taiwan's accession to the WTO: First, Robert Kapp, United States-China Business Council; Christian Murck, American Chamber of Commerce in Taiwan; Hon. Michael Samuels on behalf of the National Foreign Trade Council; Greg Mastel, vice president of the Policy and Planning Administration for the Economic Strategy Institute; and Nicholas Lardy, senior fellow for the Brookings Institute.

And if you folks do not mind, we shall go in that order since Mr. Kapp, I know, is working within tight time constraints. And if you can try and compress your oral presentations to 5 minutes or less, all of your entire written remarks will be made a part of the permanent record.

Mr. Kapp.

STATEMENT OF ROBERT A. KAPP, PRESIDENT, UNITED STATES-CHINA BUSINESS COUNCIL

Mr. KAPP. Thank you, Chairman Crane.

My approach to having to get everything into 5 minutes is usually to talk at triple speed, but I rely on you and the electrical system to tell me when my time is up, no matter what.

I want to congratulate you and this Subcommittee on holding this hearing, particularly since it is that moment of the year when we are not convulsed by the MFN debate. We need more discussion of serious issues outside of the superheated environment of the MFN situation. This is a good example of that.

Also, I want to reaffirm our Council's sense that the input and the consultation that Congress provides to the executive branch on

the negotiation of key agreements such as this and many others is extremely important.

I am sorry that Congressman Gibbons and the other Members who are leaving the Subcommittee are not here. I wanted to say a special word of appreciation to them and to former Chairman Gibbons whose influence was formative as I entered the field in which I now work.

Chairman CRANE. I agree with you wholeheartedly, and Sam is going to be back, but I think it will be after your departure, and Charlie has an organizational meeting, but he will be back later, too.

Mr. KAPP. Will you please convey our appreciation?

Chairman CRANE. I will pass it on to them both. Thank you.

Mr. KAPP. My testimony pretty much speaks for itself. It does not attempt to get down to the special terms that are or are not acceptable to individual companies or sectors of our business community as they approach the further development of the WTO negotiations.

I have tried to emphasize elements of context, and I would like to review a couple of those here.

The first is that the United States-China Business Council is strongly in favor of congressional efforts and White House efforts to achieve permanent MFN for China. We will continue to speak to that issue; I notice that it is in writing in the testimony of another one of the witnesses today, and we are pleased to make the same argument and expect to make it with considerable vigor in the months to come.

Next, the American business community, broadly speaking, continues to want to see China in the WTO on commercially acceptable terms. That is, of course, easy to say, but ultimately it will require a greater clarity of definition on specific issues.

Along the way, though, there are some things to keep in mind. The China-WTO issue should not be allowed to become a referendum on United States-China relations. And, it certainly should not become the vehicle for any kind of sustained assault on U.S. commitment to the institutions of the multilateral trading system, in this case the WTO. I have tried to make that point very strongly in my remarks.

The process of China's accession clearly "takes two to tango." That is the case between the United States and China in our bilateral discussions. It is the case between China and its other individual negotiating partners on this issue, not only the European Union and Japan, but other countries as well. And, of course, it is the case with regard to China's negotiations with the multilateral WTO working party.

We share the concerns of many of those who testified today, including Ambassador Barshefsky and some of the sectoral and other witnesses, that many aspects of China's current trade regime simply must be addressed if a commercially and politically acceptable WTO agreement is to be realized.

At the same time, I think it is important to emphasize, as Professor Lardy does to some extent in his testimony, the advantages that inclusion of China in the WTO can have if the agreement is good enough for the United States as well as for China.

It is important not to underestimate the WTO as a transformative device that will encourage and ensure a higher degree of compatibility on the part of China and its trade regime with globally established norms and practices.

We come back again and again in this debate to the question of whether the glass is half full or half empty, to whether accession to the WTO is a carrot or a stick. And the answer, of course, is that it is both: that on the one hand it is necessary, as Ambassador Barshefsky and her predecessors have argued, that the United States in its role of extraordinary influence in this matter really insist on a degree of commitment and specificity on the part of China if a successful agreement is to be realized.

But it is important—in Congress and in the White House and certainly in the business sector—that two other factors be taken into account in addition to what we might call the "not unless" factor.

One of these two additional factors is the downside that goes with China's continuing presence outside the WTO. There are downsides in terms of the lack of multilateral engagement, the lack of multilateral dispute resolution, and other things that come with membership.

And at the same time, the risk persists that the many bilateral trade concerns currently facing the United States and China are liable to be melded into the larger political conflicts that sometimes grip the two countries in ways that would be reduced if China were part of a multilateral system of dispute resolution.

It is also worth pondering, as one considers the potential valued China's WTO inclusion, that, as the Chinese have said themselves, the commitment to WTO membership on the basis of an acceptable accession package is a way of ensuring the continuation of the reforms and the very real progress that the People's Republic has made in the period since reforms began in 1978. That sense of change over time is not to be treated lightly. Membership in the WTO, I think, should also be seen as a way of ensuring the continuation of those reforms, because China would be bound by very somber and solemn international agreements.

A couple of other points before I conclude. It seems to me—and I have not done a lot of research on this—that as we look at the terms that we feel China must meet, if the United States, at least, is to be satisfied with an accession package, we have to bear in mind the terms on which other members of the WTO in good standing conduct their trade and international economic regimes.

I think it is important that the United States not hold out over China's head specific demands for behaviors and commitments that other members of the WTO, with whom we have perfectly satisfactory and bilateral trade relations, do not adhere to.

For one thing, to do that would be to render the United States liable to the countercharge from our negotiating opposite numbers in China that we are being hypocritical. We need to be consistent in our expectations and not expect that this particular nation join and make solemn commitments to a universal system of rules, if, on the other hand, we are not framing those requirements in a universal way.

Finally, I think the purpose of my written remarks today is simply to suggest that at the end of all of this, the WTO accession process is still a negotiation. And it is a China negotiation at that.

I have made the argument more times than I would like to admit: As "trade war" has threatened on one issue or negotiations with China never get serious until what I call the "final taxi ride to the airport."

This WTO negotiation is much more complicated than the average business deal. But, I think both because it is a negotiation with the PRC and because of the record of other trade negotiations at the multilateral level that we have seen in recent years, there is reason to be moderately confident that a moment comes in the negotiation when both sides understand that the time for action is at hand.

It can be a kind of divine intervention by one-third of the party that breaks a stalemate; it can be subtle political changes within one or more than one country. But, a moment comes when tough negotiating adversaries understand that the benefits of concluding an agreement are beginning to outweigh the disadvantages. And, I still am moderately confident that that time will come in the case of China's accession to the WTO.

In that regard, I do think it is important that since the summer the tone of relations at the head-of-government level between our two countries has improved quite significantly.

I do not pretend for a moment—and no Member of Congress would permit me to pretend for a moment—that it is up to the executive branch alone to simply have a closed meeting, cut a deal, and be done with it. But, I do think that there is no substitute for aggressive leadership at the head-of-government level in both of countries, despite the differences of our political systems, in making possible the final resolution of difficult negotiations.

This is not a substitute for substance; it is a guarantee, I think, that the forces of bureaucratic inertia can be, in some cases, prevented from exercising their paralyzing power.

Ambassador Barshefsky was correct in not pretending to speak for China this morning in response to a question, and I will not either. We are all watching very carefully to see whether, as relations seem to be improving at the head-of-government level and the near head-of-government level between the two countries, it will be possible for the Chinese Government to achieve a degree of coherence and forthcomingness in the WTO accession negotiations that unfortunately has not been as evident thus far as many of us would like to see.

But I am hopeful on that score. And, if and when we do begin to see the ice floes breaking up, the logjam beginning to move, I hope and trust that Congress will be as interested as the executive branch in progress toward a constructive WTO resolution, whose benefits clearly outweigh the benefits of continued stalemate and China's exclusion from the WTO.

Thank you.

[The prepared statement follows:]

STATEMENT OF
ROBERT A. KAPP, PRESIDENT
US-CHINA BUSINESS COUNCIL

Mr. Chairman, members of the Subcommittee:

Thank you for inviting me to offer remarks before you today on behalf of the US-China Business Council. As many of you know, the US-China Business Council is the principal organization of American companies engaged in trade and investment activities with China. Founded at the dawn of modern U.S.-China relations in 1973, the Council is currently supported by more than three hundred leading U.S. firms of all sizes. We maintain headquarters in Washington, and offices in Beijing and Hong Kong. We have been privileged to cooperate closely with Members and staff members of this Subcommittee on many occasions, and look forward to continuing our important contact with you in the future. I hope that all Members of the subcommittee will look upon the Council as a nonpartisan source of responsible perspectives, and of accessible factual information, on U.S.-China trade and economic relations as well as broader issues affecting our two great nations.

We gather today to focus on the complex of issues surrounding China's potential accession to the World Trade Organization. From virtually nothing in 1978, when China embarked on its historic path toward a market economy and toward full engagement with the world economy, China's foreign trade has risen to $280 billion in 1995, making China the eleventh-largest trading nation in the world. China's foreign trade sector is a key driver of China's remarkable economic growth, which has achieved so much in raising popular living standards in such a short time. China has also become a leading target of the world's investment, standing second only to the United States in the level of incoming investment in 1995.

U.S.-China trade, as this subcommittee has heard so often, approached $60 billion (by U.S. calculations) in 1995, with U.S. exports up as much as 29% over the preceding year, and figures for early 1996 suggest continuing robust expansion. The benefits of U.S.-China trade now extend into all corners of our country in the form of hundreds of thousands of jobs, enhanced business competitiveness, and affordable consumer products. In China, the presence of U.S. companies plays a modest but very significant role in the gigantic transformation of Chinese society now underway, toward improved popular living standards and a wider range of personal freedom of choice.

With China already established as one of the world's major trading nations, its absence from the key institution of the global trading system, the WTO, seems increasingly anomalous and worrisome to many observers. The People's Republic, since its decision to "Open to the Outside World" in 1978, has become an integral and generally responsible participant in many key global economic institutions, including the World Bank and the IMF, the other two legs of the three-legged global economic structure erected at the end of World War II. As China's representatives, and many non-Chinese figures have observed, a World Trade Organization without China is incomplete on the face of it.

The People's Republic of China is a nation in profound economic and social transition, from a rigid, centrally-planned, highly autarkical Soviet-style economic system before the initiation of reforms in 1978 to a much more heavily marketized and globally-integrated economy today. The instruments and practices of socialist planning have given way massively, but by no means entirely, to market-driven price mechanisms, profit incentives, nascent labor and factor markets, and a rapidly expanding array of commercial and economic laws. Much of the impetus behind this emergent rule of law, however incomplete it may be, has been the need to improve the Chinese environment for foreign investment and business. While many aspects of China's domestic and international economic system today are a far cry from those that most Americans would want in a perfect world, China has already progressed far along the road to effective integration into the global marketplace. As more and more economic activity devolves into non-government hands, and as more and more PRC business people gain the linguistic and commercial fluency with which to operate in the international arena, China's ability to work effectively with global business partners will continue to grow.

China has long sought to become a full-fledged member of the global trade regime, first by "resuming" the seat in the GATT which the Chinese Nationalist government departed in the late 1940s, and more recently by acceding as a new member to the World Trade Organization. To date, neither the plurilateral negotiations conducted by the WTO Working Party on China's accession nor the bilateral negotiations between China and the U.S. or China and other trade partners have produced a workable agreement on the specific terms of China's accession. China has claimed that, since it signed the 1994 Marrakesh Agreements concluding the Uruguay Round negotiations in its official capacity as an Observer to the

Round, it has already demonstrated to the world its willingness to live by the many important commitments required by the Round. China's negotiators have urgently argued as well that admission to the WTO is the surest possible guarantee that China will continue its massive program of economic reform, since the government will be bound by solemn international agreements to behave in ways prescribed by the WTO.

Many of China's trade partners, on the other hand, including the U.S. negotiating team and many in the U.S. business world but also including authoritative spokespersons from such key WTO members as Japan and the European Union, have argued that in any Accession Protocol China must make explicit, and in detail, its commitments for "getting from here to there," the "here" being its current economic and commercial practices and the "there" being a range of truly WTO-compatible practices. Although some progress has been made in repeated rounds of multilateral and bilateral negotiations, to date no breakthrough has occurred that would permit the crafting of a final accession package.

I don't need to tell the Members of this Committee that in this country, the question of China's WTO accession, at this time, is often entangled in a much wider range of interlocking and overlapping interests and policy concerns. To some extent, China issues in the United States are surrogates for the pursuit of other battles; my sense is that U.S. issues might at times play a similar role within the Chinese political system.

In the U.S. today, most discussions of our relations with China raise seemingly baffling questions of precedence and causality -- what must happen in order that what else can happen -- in the minds of business people, Congress, the Administration, and other concerned Americans. Indeed, a pessimist might look at the cluttered landscape of U.S.-China relations today from 1989 to today and conclude that every avenue of forward progress is blocked by some unconquerable political obstacle.

Thus, let me take this occasion to observe that unless both the United States and China make continual efforts to prevent it, the U.S. and China today face what I might call "Gridlock By Default," a paralyzing inability to break free of the negative status quo on virtually any front. This is particularly true because of the apparent tendency on both sides casually to mix all fronts together. An example on the Chinese side would be the claim that U.S. resistance to China's WTO accession without detailed Chinese commitments is part and parcel of a comprehensive U.S. strategy to "contain" China's legitimate development as a globally respected nation. On the U.S. side, it has unfortunately proven difficult since Tiananmen to avoid pouring all American discontents over Chinese behavior into a single cauldron, and then spreading the resulting mixture over any particular policy issue that comes along.

Difficult as it may be, in the superheated climate that periodically surrounds the discussion of U.S.-China issues in either country, I believe that the greatest hope for overall progress toward more cooperative U.S.-China relations lies in the piece by piece addressing of separate -- and separable -- questions. One of these, though by no means the only one, is the question of China's WTO status.

While I am on the subject of placing China's WTO accession in appropriate context, let me offer the following observation. The China WTO issue is not, and should not be allowed to become, a stalking horse for a renewed assault on America's commitment to the WTO and the rules-based global trading system that the WTO embodies. The members of my Council fully understand the vast benefits that they and the U.S. economy reap from the GATT-WTO system. They understand that the value of the WTO for the United States lies in the disciplines that it imposes on other trading nations' behavior and in the establishment of order where anarchy might otherwise prevail. They are profoundly aware of the damage that would result from a return to tit-for-tat unilateralism outside the framework of a set of globally-accepted commitments to trade liberalization. As players in the nation which has traditionally led the world in the commitment to open trade, they understand the importance to the United States of other nations' movement in trade-opening directions, and of the vital role that the WTO institution plays in encouraging or even compelling other nations to do so. This subcommittee and its parent committee have distinguished themselves, under leadership of both parties, by their vision and courage in preserving America's role as a champion of an increasingly open world trade system founded on globally-effective commitments. As it approaches the discussion of China's participation in the WTO, it is important that the China issue be taken on its own merits, and not permitted either to drive or to be hostage to a renewed assault on the WTO-based trading system of which our nation is so important a component.

Broadly speaking, the internationally active companies that support our Council are eager to see China admitted to the WTO, for the many obvious benefits that this will bring: multilateralization of China's

obligations in place of solely bilateral instruments of persuasion; progressively increased access to Chinese markets at lower tariffs in areas covered by the WTO accords; greater transparency and consistency of China's trade regime, including the national- and sub-national policy and regulatory systems; expanded opportunities directly to conduct business in China; further protection of intellectual property rights, reduction and elimination of the still-pervasive non-tariff barriers confronting foreign business interests; standardization of treatment of foreign and Chinese products and business activities within China, and so on. Moreover, American businesses broadly speaking understand that a nation of China's size and rapidly growing significance in the world economy in some ways deserves, by virtue of its size and significance, to be included in the world's ultimate association of trading nations.

Furthermore, many American firms are concerned that the longer China remains external to the WTO the greater the likelihood of damage to themselves and to the U.S. economy. It is important always to remember that one of the great virtues of the GATT and the WTO is that they clarify a range of prohibited practices and provide for remedies against them. This factor suggests that a China of increasing economic power and global trade significance in the future, unfettered by the commitments embodied in WTO membership, might pose increasingly difficult challenges in the future. At least one expert has noted wryly that if China had been admitted to the GATT in the early days of its application, during the late 1980s, the inevitable five-, eight-, or even ten-year phase-in periods it would have faced would by now in 1996 have expired, and China would already be fully obligated to compliance with WTO codes.

It is also important to mention, however briefly, the domestic impact of WTO accession within the PRC. It is well known that powerful segments of Chinese official life are deeply concerned about the economically and socially destabilizing effects of a too-rapid liberalization of key sectors of the Chinese economy under the dictates of WTO accession protocol. The implications for China's domestic economy of such a rapid-fire liberalization dwarf, I believe, the implications for the U.S. economy of the recent NAFTA and Uruguay Round Agreements, which caused so much political debate and conflict in our own country. The shaky economic condition of many of China's unprofitable state-owned industries, which still provide a disproportionate share of overall industrial employment in the PRC, or of the state-owned banks, which labor under huge burdens of bad loans, leave many in China understandably nervous about what they perceive as the dangers of liberalization in too great a hurry.

The US-China Business Council has long associated itself with the notion of WTO accession "on commercially acceptable terms," asserting, in essence, that no WTO agreement would be better than a bad one. The concerns of various sectors of our corporate community largely mirror those expressed by U.S. negotiators directly to their Chinese counterparts and to the multilateral accession negotiators. The list is long: trading rights, national treatment, investment restrictions, transparency, non-tariff barriers, even tariffs themselves, and many others.

Thus far, neither in the bilateral U.S.-China discussions nor in China's discussions with the multilateral working party have China and its trading partners begun to close toward a package. Certainly, the negotiators must constantly look over their shoulders at their home-country monitors, lest they have their knuckles rapped for making excessive concessions.

Ultimately, though, China's WTO accession is a question of negotiation. The ten-year history of the Uruguay Round negotiations offers some grounds for optimism. Exactly when negotiating adversaries make their minds up -- to accept a package that offers less than total victory on each point, but whose adoption nevertheless promises greater benefits to all sides than would continued stalemate -- is hard to pinpoint in advance. That moment, nevertheless, has been reached in other bitter and seemingly endless negotiations, and we believe that it can be reached in this one as well. Sometimes subtle changes of domestic political emphasis result in quiet modifications of frozen positions; sometimes changes in the actualities of trade conditions lend greater urgency to settlement or new emphasis to previously-slighted issues. Sometimes the entry of third-party "neutral" recommendations can help to break a seemingly impassable log jam.

Mr. Chairman, the United States and China have passed through a very difficult period since Tiananmen. Annual MFN debates in this country have created a pulsating rhythm of criticism and retort, denunciation and response, and growing uneasiness in each country as to the other nation's ultimate intentions. As Congress moved toward its decisive vote in support of continued normal economic relations with China earlier this year, voices on both sides of the aisle made clear that the annual MFN convulsion was an increasingly unproductive and misdirected exercise.

In the past several months, there have been promising signs of a re-thinking of options on both sides of the U.S.-China relationship. A number of specific irritants to bilateral ties have been successfully removed, at least for the moment, from the list of each country's grievances against the other. Representatives of the heads of the U.S. and Chinese governments have met, privately and intensively, in an apparently successful effort to re-direct the U.S.-China dialogue into more positive directions. The two sides have even suggested that reciprocal state visits -- the absence of which has been one of the most regrettable signs of U.S.-China estrangement since 1989 -- might be scheduled in the not too distant future.

The US-China Business Council hopes that this tentative but very promising detente at the highest levels of government will continue to expand. The progressive normalization of economic and trade relations between the U.S. and China can and should both propel that bilateral detente and be its beneficiary. We believe that it is not too much to hope that those ultimately responsible for finding a mutually satisfactory WTO accession arrangement, whether in China, in the U.S., or in other WTO nations, will be emboldened to step forward with greater forthcomingness as the climate of U.S.-China relations continues to improve. No final WTO accession agreement is going to provide complete satisfaction on all issues to any negotiating party; no completed trade agreement -- and certainly not NAFTA or the Uruguay Round agreements -- ever does. In the end, both the United States and China will give and take, adding time to a phase-in here and shortening the phase-in there, including certain practices here and excluding them there. These accommodations are not insignificant and should not be made in a cavalier fashion, but in the end they are the stuff of any tough trade negotiation.

The U.S. has the benefit today, as it has had for so many years under many administrations, of tenacious, extremely knowledgeable, and sophisticated negotiators in dealing with China over WTO. We hope that satisfactory accords on China's WTO accession will be reached at an early date, and urge the Congress to lend not only its wisdom but also its support to the U.S. negotiating team. A satisfactory WTO accession will, in our view, contribute strongly to the stability and predictability of U.S.-China economic relations which lie at the core of the overall global relationship of our two nations today. No business association, and certainly not the US-China Business Council, should presume to speak for individual firms as to the specifics of their hopes and concerns on matters of this complexity. But I am confident that it is possible for China, the U.S., and the WTO Working Party to reach a set of understandings over the PRC's accession to the WTO which would receive the broad support of the American business community. We hope that this time is coming sooner, rather than later.

Again, thank you very much for the privilege of offering these observations.

Chairman CRANE. Thank you, Mr. Kapp. And I know you have got to head to California, so you may excuse yourself——

Mr. KAPP. Thank you, sir. My apologies.

Chairman CRANE [continuing]. To catch your plane and have a safe flight.

Mr. KAPP. Thanks.

Chairman CRANE. Mr. Murck.

STATEMENT OF CHRISTIAN MURCK, PRESIDENT, AMERICAN CHAMBER OF COMMERCE IN TAIPEI

Mr. MURCK. Thank you, Mr. Chairman. It is my pleasure to testify today representing the American Chamber of Commerce in Taipei. AmCham/Taipei comprises over 900 individuals working for about 500 companies doing business in Taiwan. Our goals are to inform our membership on business issues, to communicate the views of the American business community to the government in Taiwan and to our own government in Washington.

At the outset, let me say that AmCham/Taipei strongly encourages United States support for prompt and orderly accession to WTO membership as soon as the few remaining issues in the United States-Taiwan bilateral negotiations are satisfactorily resolved.

We similarly favor support for PRC accession on the basis of an acceptable package of commitments to market opening, intellectual property rights protection, and a level playingfield in the Chinese market.

These two important economies should be full participants in the international trade regime represented by the WTO, while meeting standards appropriate to their levels of economic development.

AmCham/Taipei has been an active supporter of the United States-Taiwan bilateral negotiations on WTO accession, regularly providing input from over 20 subcommittees organized by industry to USTR and the American Institute in Taiwan and to their Taiwan counterparts. I congratulate both sides on the work done so far.

Significant commitments have been required by the United States and made by Taiwan on thousands of tariff lines. Major improvements have already been made in the legal framework, in enforcement of intellectual property rights, and further commitments will take effect on WTO accession.

The process of deregulating the telecommunications monopoly and opening that industry to foreign investment has begun.

Work is proceeding on a government procurement code. Taiwan has accepted that it will enter the WTO as a fully developed economy and is prepared to make major changes accordingly.

Why is this important to the United States?

Some friends of Taiwan seem to consider WTO membership mainly in a political light, as recognizing Taiwan's democratization or rewarding past friendship. Some critics of China perhaps support Taiwan's WTO membership to irritate or "punish" the PRC.

I would argue that such political motivations should be put aside, because they distort the purpose and character of the WTO. I hope this Subcommittee will focus instead on the substantial economic interests of the United States at stake.

According to the U.S. Department of Commerce, Taiwan imported $19.3 billion in goods from the United States in 1995. It was the sixth largest market in the world for American exports and the fourth largest market for American agricultural exports.

With only 21 million people, as compared to the 1.2 billion people in the PRC, Taiwan is approximately twice the size of the PRC as a market for United States goods. The United States, in turn, is Taiwan's export market, leading to an American trade deficit of $9.7 billion in 1995. The Taiwan market is, therefore, large with significant existing United States interests to protect.

There is also potential for future growth. Real GDP growth in Taiwan was 6.4 percent in 1995. The savings rate continued high at 29 percent, and per capita income was over $12,000, having increased by 86 times in the last 45 years.

Taiwan's remarkable economic progress was for many years export-driven, while major sectors of its domestic economy remained closed to foreign and in some cases to private participation. This means U.S. business has the opportunity to grow from an already large base, benefiting from reduced tariffs and deregulation.

The WTO accession package negotiated with Taiwan will significantly improve market access for United States products and firms. There are few past accession agreements so favorable as the one being negotiated with Taiwan.

But, the commitments made will not take full effect until Taiwan becomes a WTO member. That is the reason Taiwan's WTO accession is an important economic interest of the United States.

However, there are still a few crucial unresolved issues. In the view of AmCham/Taipei, the major ones are full access to the agricultural market, especially the rice market; privatization of the government liquor and tobacco monopoly, full access to that market and opening of that industry to foreign investment; opening of the automobile market in a way that does not disadvantage United States manufacturers; and finally regulations governing foreign lawyers, which maintain or improve existing access for American lawyers practicing in Taiwan today.

Some of these are difficult for Taiwan for domestic political reasons. Others involve balancing United States interests against those of other countries. For example, Japan and Korea are interested in the automobile market, and Australia is interested in the beef market.

Notwithstanding the complications of conducting multiple bilateral negotiations, I am convinced Taiwan wishes to move ahead to complete its bilateral with the United States and will take the necessarily steps.

Once the Taiwan-United States negotiation is completed, Taiwan must still conclude its talks with other nations, and a multilateral working group report must be issued to the WTO membership for a vote.

Everyone is well aware that many countries would prefer to admit Taiwan and the PRC to the WTO together. I cannot speak with any authority about the politics of this large multilateral organization, but there are three points which I think should determine U.S. policy.

First, it is important to maintain the integrity of the WTO as a trade organization, because we want to avoid political considerations dominating the WTO dispute resolution process in the future.

Second, the WTO is an organization of separate customs territories, as well as sovereignty nations, which accommodates Hong Kong, already a member in its own right, and Taiwan, already an observer.

And third, WTO membership for Taiwan will be advantageous for the PRC and the region as a whole, as Hong Kong's membership already is, due to the stronger economic growth and greater openness of the Taiwanese economy that will result.

This is not a zero-sum game. The United States and Taiwan will benefit from Taiwan's WTO accession, and so will Taiwan's other important trading partners in the region, including the PRC.

The same is true for PRC accession, if it is accomplished on the basis of adherence to WTO principles for developing economy members and recognition of the weight of the PRC's position in world trade.

At this juncture, AmCham/Taipei believes it would be helpful for the Subcommittee on Trade to affirm the Subcommittee's support for Taiwan's WTO accession as a developed nation on the condition that remaining issues are resolved in a manner appropriate to that status; to urge Taiwan to make the internal decisions necessary for the USTR to conduct another, hopefully final, round in our bilateral negotiations before the end of this year; and to reaffirm United States policy that our bilateral negotiations with Taiwan and the PRC are separate matters to be resolved on the basis of economic and trade issues.

Thank you, Mr. Chairman, for inviting me to participate in this hearing, and I will be happy to answer any questions you may have.

[The prepared statement and attachments follow:]

Accession of China and Taiwan to the World Trade Organization

Testimony by
Christian Murck, President
American Chamber of Commerce in Taipei

Subcommittee on Trade
Ways and Means Committee
US House of Representatives

September 19, 1996

Mr. Chairman, Members of the Subcommittee on Trade, Ladies and Gentlemen:

It is my pleasure to testify today representing the American Chamber of Commerce in Taipei. AmCham Taipei comprises over 900 individuals working for about 500 companies doing business in Taiwan. Our goals are to inform our membership on business issues in Taiwan, and to communicate the views of the American business community to the government in Taiwan and to our own government in Washington.

At the outset, let me say that AmCham Taipei strongly encourages US support for prompt and orderly accession of Taiwan to WTO membership, as soon as the few remaining issues in the US-Taiwan bilateral negotiations are satisfactorily resolved. We similarly favor support for PRC accession on the basis of an acceptable package of commitments to market opening, intellectual property rights protection, and a level playing field in the Chinese market. These two important economies should be full participants in the international trade regime represented by the WTO, while meeting standards appropriate to their levels of economic development.

AmCham Taipei has been an active supporter of the US-Taiwan bilateral negotiations on WTO accession, regularly providing input from over 20 committees organized by industry to USTR and the American Institute in Taiwan, and to their Taiwan counterparts. I congratulate both sides on the work done so far. Significant commitments have been requested by the US, and made by Taiwan, on thousands of tariff lines. Major improvements have already been made in the legal framework and enforcement of intellectual property rights, and further commitments will take effect on WTO accession. The process of deregulating the telecommunications monopoly and opening the industry to foreign investment has begun. Work is proceeding on a government procurement code. Taiwan has accepted that it will enter the WTO as a fully developed economy and is prepared to make major changes accordingly.

Why is this important to the United States?

Some friends of Taiwan seem to consider WTO membership mainly in a political light as recognizing Taiwan's democratization or rewarding past friendship. Some critics of China perhaps support Taiwan's WTO membership to irritate or "punish" the PRC. I would argue that such political motivations should be put aside, because they distort the purpose and character of the WTO. I hope this Subcommittee will focus instead on the substantial economic interests of the United States at stake.

According to the U.S. Department of Commerce, Taiwan imported $19.3 billion in goods

from the US in 1995. It was the sixth largest market in the world for American exports overall and the fourth largest market for American agricultural exports. With only 21 million people, as compared to the 1.2 billion in the PRC, Taiwan is approximately twice the size of the PRC as a market for US goods. The US, in turn, is Taiwan's largest export market, leading to an American trade deficit of $9.7 billion. The Taiwan market is large, with significant existing US interests to protect.

There is also potential for future growth. Real GDP growth in Taiwan was 6.4% in 1995, the savings rate continued high at 29%, and per capita income was $12,439, having increased 86 times in the last 45 years. Taiwan's remarkable economic progress was for many years export-driven, while major sectors of its domestic economy remained closed to foreign and, in some cases, to private participation. This means US business has the opportunity to grow from a large base, benefiting from reduced tariffs and deregulation.

The WTO accession package negotiated with Taiwan will significantly improve market access for US products and firms. There are few past accession agreements so great as the one being negotiated Taiwan. But the commitments made will not take full effect until Taiwan becomes a WTO member. That is the reason Taiwan's WTO accession is an important economic interest of the United States.

However, there are still a few crucial unresolved issues. In the view of AmCham Taipei, the major ones are:

- Full access to the agricultural market, especially the rice market;

- Privatization of the government liquor and tobacco monopoly, full access to the market, and opening the industries to foreign investment;

- Opening of the automobile market in a way that does not disadvantage US manufacturers; and

- Regulations governing foreign lawyers which maintain or improve existing access for American lawyers practicing in Taiwan.

Some of these are difficult for Taiwan for domestic political reasons, others involve balancing US interests against those of other countries. For example, Japan and Korea are interested in the automobile market, and Australia is interested in the beef market. Notwithstanding the complications of conducting multiple bilateral negotiations, I am convinced Taiwan wishes to move ahead to complete its bilateral with the US, and will take the necessary steps.

Once the Taiwan-US negotiation is completed, Taiwan must still conclude its talks with other nations and a multilateral Working Group report must be issued to the WTO membership for a vote. Everyone is well aware that many countries would prefer to admit Taiwan and the PRC to the WTO together. I cannot speak with any authority about the politics of this large multilateral organization, but there are three points which I think should determine US policy:

- It is important to maintain the integrity of the WTO as a trade organization, because we want to avoid political considerations dominating the WTO dispute resolution process in the future;

- The WTO is an organization of "separate customs territories", as well as sovereign nations which accommodates Hong Kong, already a member in its own right, and Taiwan, already an observer; and

- WTO membership for Taiwan will be advantageous for the PRC and the region as a whole, as Hong Kong's membership already is, due to the stronger

economic growth and greater openness of the Taiwanese economy that will result.

This is not a zero sum game. The US and Taiwan will benefit from Taiwan's WTO accession, and so will Taiwan's other important trade partners in the region, including the PRC. The same is true for PRC accession, if it is accomplished on the basis of adherence to WTO principles for developing economy members and recognition of the weight of the PRC's position in world trade.

At this juncture, AmCham Taipei believes it would be helpful for the Subcommittee on Trade to:

- Affirm the Subcommittee's support for Taiwan's WTO accession as a developed nation, on the condition remaining issues are resolved in a manner appropriate to that status;

- Urge Taiwan to make the internal decisions necessary for the USTR to conduct another, hopefully final, round in our bilateral negotiations before the end of the year; and

- Reaffirm US policy that our bilateral negotiations with Taiwan and the PRC are separate matters to be resolved on the basis of economic and trade issues.

Thank you, Mr. Chairman, for inviting me to participate in today's important hearing.

# # #

"LIVING FROM DAY TO DAY IN A VERY BUSY PLACE, IT'S EASY TO FORGET THE EXTRAORDINARY STRUCTURAL TRANSFORMATION THAT HAS TAKEN PLACE IN TAIWAN. IN A 10-YEAR PERSPECTIVE, IT BECOMES MORE OBVIOUS."

PRESIDENT'S PAGE

CHRISTIAN MURCK

孟克文

This is an active month for AmCham Taipei. In Taiwan, September is AmCham month — a program of public events we hope will raise our profile and show the range of interests of the business community. In mid-September, some of us will be among those welcoming a Sub-Cabinet Economic Dialogue delegation headed by Lawrence Summers, Deputy Secretary of the Treasury. They will visit Taipei not for negotiations on specific trade disputes, but for a wide-ranging mutual consultation on international and bilateral economic developments. Regular visits of this sort have long been encouraged by AmCham. We believe that familiarity, the personal feel that can be established only by visiting Taipei and talking at length with local officials and business people, makes it much easier to conduct negotiations over difficult issues in a way that leads to mutually beneficial solutions. For the same reason, we are encouraged by the recent resumption of more active dialogue between the United States and the P.R.C.

When the Summers delegation is in Taipei, I will be in Washington, D.C. with the AmCham Taipei Doorknock. This is an annual event in which the American business community [illegible] three days is approximately 75 meetings with elected and appointed U.S. officials. Delivering a report of conditions on the ground in Asia, we are always gratified by the interest shown in Washington and the accessibility of our government.

Our general theme in Washington this year is Taiwan's place in the world economy. Living from day to day in a very busy place, it's easy to forget the extraordinary structural transformation that has taken place in Taiwan. In a 10-year perspective, it becomes more obvious. Let me demonstrate that by summarizing trade and investment flows in Taiwan in 1986 and in 1995.

In 1986, exports and imports totaled US$64 billion and there was a US$16 billion surplus. Forty-eight percent of exports went to the United States, 22.5 percent of imports, and Taiwan's trade surplus with the U.S. was US$13.5 billion. Although down from the peak of a few years earlier, the U.S. market was still the dominant source of Taiwan's prosperity. The second largest trading partner was Japan, taking 11.4 percent of exports and providing 34 percent of imports, mostly capital goods. Taiwan's trade deficit with Japan of US$3.7 billion was largely structural. If demand in the U.S. market increased, Taiwan required more inputs from Japan in order to produce more goods, thereby increasing both the surplus with the U.S. and the deficit with Japan. Interestingly, Hong Kong/P.R.C. (the two are not easily distinguished in Taiwan statistics) ranked third, taking 7.3 percent of exports and providing a US$2.5 billion surplus.

In 1986, overseas capital investment by Taiwanese totaled US$57 million. The U.S. attracted 81 percent of this small amount; the next largest share was held by Thailand with 10 percent Hong Kong/P.R.C. was too small to break out.

Ten years later, in 1995, exports and imports totaled US$215 billion, over three times larger, and the overall surplus was almost halved to US$8.1 billion. The U.S. market bought only 23.6 percent of Taiwan's products sold abroad; that is,

its share declined sharply even while the dollar amount rose from US$19 billion to US$26 billion. The trade surplus with the U.S. also declined to US$5.6 billion, as the U.S. retained a 20 percent share of Taiwan's imports, a satisfying trend for U.S. trade negotiators. Japan was Taiwan's third largest trading partner, taking 11 percent of exports and providing 29 percent of imports, almost unchanged from 1986. In dollar terms, however, the trade deficit with Japan grew sharply from US$3.7 billion to US$17 billion. The remarkable change is in the Hong Kong/P.R.C. numbers. HK/P.R.C. vaulted over Japan to become the second largest trading partner, taking 23.4 percent of exports, only a whisker less than the U.S. But Taiwan purchased little from mainland China, leading to a US$24 billion trade surplus. Without the exports to Hong Kong and the mainland, Taiwan would have run a trade deficit of US$16 billion.

We can understand what was driving these exports when we look at overseas investment. In 1995 it totaled US$2.5 billion, 43 times larger than in 1986. These figures are almost certainly understated since they include only officially registered investments by Taiwan-domiciled companies and often omit investments made by overseas companies owned by Taiwanese. Where did it go? Mainland China got 45 percent, the U.S. got 10 percent, and the rest was widely spread among other countries in Southeast Asia, the Americas, and Europe. Even 3 percent in dollar terms was more than Taiwan's total investment in 1986. This small society of 21 million people suddenly became a major capital exporter.

The rapidity with which an economic relationship of depth and scale developed between Taiwan and mainland China naturally causes some to worry about becoming overly dependent on the mainland market. The opportunities nevertheless seem irresistible to both foreign and local investors based in Taiwan. The economic relationship, so full of promise and much larger than commonly realized in other countries, is an incentive for both sides to manage their political rivalry carefully. But the stability provided by the United States through its security role under the Taiwan Relations Act is still necessary, as was demonstrated last March, when P.R.C. missile tests were balanced by U.S. aircraft carrier battle groups sent to the vicinity of Taiwan.

"THE RAPIDITY WITH WHICH AN ECONOMIC RELATIONSHIP OF DEPTH AND SCALE DEVELOPED BETWEEN TAIWAN AND MAINLAND CHINA NATURALLY CAUSES SOME TO WORRY ABOUT BECOMING OVERLY DEPENDENT ON THE MAINLAND MARKET. THE OPPORTUNITIES NEVERTHELESS SEEM IRRESISTIBLE TO BOTH FOREIGN AND LOCAL INVESTORS BASED IN TAIWAN."

Although mainland China attracts the largest single share of this enormous capital outflow, well over half is scattered elsewhere in the world, especially in Thailand, Indonesia, Malaysia, Vietnam, and more recently the Philippines. I am occasionally asked how long Taiwan will be able to stay ahead of the development curve. After moving rapidly from agriculture to labor intensive light manufacturing, then on to capital and technology intensive heavy industry, and increasingly to services, what comes next? What will prevent Taiwan's medium tech industries, like computer monitor manufacturing, from being overtaken by new competitors just as its garment industry was? The answer is that this has already happened. One of the major monitor makers has 18,000 employees, of only whom 2,000 work in Taiwan. The rest are in plants in Malaysia, mainland China and Scotland, all areas where land and labor are more readily available than in Taiwan. The monitor industry in the next generation of competitor countries already exists. It is mainly owned and managed by Taiwanese multinational corporations fiercely devoted to the optimum balance between low cost manufacturing and the best technology.

Taiwan in 1986 was a prosperous, but provincial and distant appendage of the U.S. economy, with secondary ties to its former colonial ruler Japan. Taiwan in 1995 was well integrated in the regional economy, but ever more closely related to its natural partner, the mainland Chinese market. Today the growth trends in investment and trade with mainland China have been blunted by political tensions and indecision on both sides. Most indicators of cross strait activity for the first half of 1996 are flat or down. My view is that this will eventually be seen as only a temporary pause in a relationship that will flourish to the benefit of both.

EXECUTIVE DIRECTOR'S MESSAGE

"Taiwan and mainland China can be likened to Ginger Rogers and Fred Astaire. He received all the accolades and limelight however she was the one that accomplished the same routines, only wearing high heels and dancing backwards."

Executive Director, Lynn Murray Sien - 沈 琳

September is the month that AmCham Taipei celebrates its 45th year in business. September is also AmCham Month. Although we are not the eldest AmCham, we have a reputation for being one of the most proactive, not only in the Asia Pacific region, but globally. Hosting a core of activities centering on industry working committees and issues pertinent to US business interests in Taiwan, AmCham organizes anywhere from 18-25 events in a given month. A recent introduction to our calendar of activities is the undertaking of a Taiwan Doorknock to Washington D.C. Entering its third year, the Doorknock is an experience that is both professionally and personally rewarding. This month a delegation of AmCham members travels to Washington and articulates US business issues and concerns surrounding their activities in Taiwan. Notwithstanding the hard work of our liaison representative in the capitol, access to our administration officials and elected policy-makers is truly inspiring.

Taiwan's unique status vis-a-vis US foreign policy offers many challenges. It was only a few short years ago that the focus of our Doorknock delegation activities was to educate those in the administration and on the Hill about Taiwan's prosperity and emerging democracy in an effort to place US-Taiwan business issues on the radar screen. It was also obvious three years ago that given US's One China foreign policy and corporate home office's preoccupation with the "widget theory," 1.2 billion consumers in mainland China versus 21 million in Taiwan, America needed to find a balanced and measured approach when dealing with Taiwan-mainland China issues. Indeed, she did. But this is merely one of many activities taking place this month and there will be more to report when we return from Washington.

Rather, I would like to turn your attention to a very useful document prepared by AmCham. It is the 1996 Taiwan White Paper which capsulizes economic, political and industry trends and events. As advocates of US interests in Taiwan, we must also weigh the prospects for future opportunity in our host nation. Included among the macro data is a "Rankings Profile" of Taiwan that offers immediate clarity towards validating Taiwan's level of global importance. Only recently has support for elevating Taiwan's economic status been begrudging accepted by most world forum participants. It was not always the case; Taiwan and mainland China can be likened to Ginger Rogers and Fred Astaire. He received all the accolades and limelight however she was the one that accomplished the same routines, only wearing high heels and dancing backwards.

It is evident though that as Taiwan gains respect for its economic and democratic achievements, more visitors from the US and elsewhere are blazing a wider path to Taipei and adding it to their itinerary prior to trekking onward to mainland China. Among those, AmCham is honored to be hosting a number of VIPs:

Aug. 30 – *Deputy Asst. Secretary Dan McLaughlin Department of Commerce; Ambassador William Bodde;* **Sept. 3** – *Dr. Michael D. Lampton, Director, National Committee on US-PRC Relations Council; Former Secretary of Defense, Arthur Schlesinger;* **Sept. 5** – *Mr. Dominic Tarantino Chairman, Price Waterhouse World Firm;* **Sept. 17** – *Dr. Lawrence Summers, Under Secretary of Treasury;* **Sept. 23** – *Ambassador Darryl Johnson Director, AIT Taiwan;* **Sept. 24** – *Dr. Ken Brody, Chairman, Presidential Commission on Asia Foreign Affairs.*

1996 TAIWAN WHITE PAPER

PREPARED BY

EDITORS:
DANIEL CHEN
SCHAN DUFF
AKIKO FUJIKAWA

ADVISORS:
PAUL CASSINGHAM
RICHARD HENSON
CHRISTIAN MURCK
LYNN MURRAY SIEN

AMERICAN CHAMBER OF COMMERCE IN TAIPEI
SUITE 1012, 10/F, #96 CHUNG SHAN N. RD. SEC. 2, TAIPEI
TEL: 886-2-581-7089 FAX: 886-2-542-3376
EMAIL: AMCHAM@TRADEND.COM.TW

YEAR IN REVIEW

A Decisive Year For Taiwan Politics

Taiwan's efforts to define its role on the international stage sparked increasingly aggressive posturing from mainland China, which regards Taiwan as a renegade province separated from the motherland in 1949. A steady decline in cross-strait relations began in June 1995 when President Lee Teng-hui visited his alma mater, Cornell University, and culminated in the weeks preceding the March 23, 1996 direct presidential election. The election was a historic moment, as it represented the first popular selection of a head of state in over 5,000 years of Chinese culture.

June 1995

President Lee made a private visit to Cornell University, from which he received a doctoral degree in agricultural economics.

Beijing announced that the United States had acted against its "One China" policy by granting President Lee a visa. In protest, Beijing immediately recalled its ambassador to the United States, bringing Sino-American relations to a 25 year low. Later that month, it announced a series of missile tests in the Taiwan Strait.

Fall 1995

China's military tests and intimidation continued into the fall, apparently in an effort to influence the outcome of the December 2 legislative elections.

However, despite the saber-rattling aimed at bolstering the pro-unification New Party, the Legislative elections and surrounding debates were dominated by domestic policy issues.

Recent Legislative Election Results
1992 and 1995

	1992 Seats	% of Popular Vote	1995 Seats	% of Popular Vote
KMT	89*	53	85	46
DPP	50	31	54	33
New Party	7*	—	21	13
Others	15	16	4	8
Total	161	100	164**	100

** Seven legislators left KMT in 1993 to found the New Party*
*** Seat increase due to population growth*
Source: Central Election Commission, Taipei

Legislative Yuan Elections December 2, 1995

Over 10 million voters went to the polls, representing about 68% of the total electorate. The election results revealed Taiwan's progress toward a viable, multiparty democracy.

The Democratic Progressive Party (DPP) engaged in vote-sharing strategies in the more difficult district races. This increased concern with party unity marked a break from the individual nature of previous election campaigns.

The New Party (NP) fared quite well, raising its representation in the Legislative Yuan from 7 to 21 seats. Mainland China's Minister of Foreign Affairs, Shen Guo-fang, quickly claimed victory for the election results commenting that Taiwan's people had voted for unification, not independence.

Looking forward to the new legislature, political analysts expressed some concern that a more fragmented Legislative Yuan would impede the KMT's efforts to enact important legislation. This has raised skepticism over the success of the Asia Pacific Regional Operations Center (APROC) plan, which has already been delayed by legislative log jams.

Only eight cases of election-related violence were reported.

Presidential Election

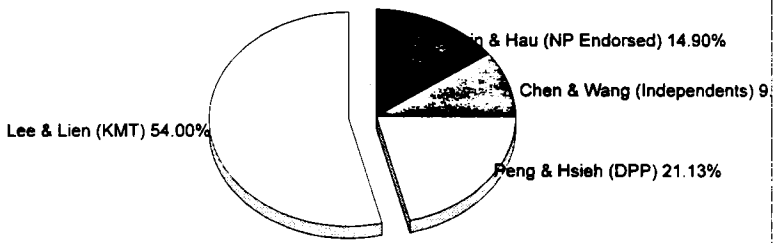
March 23, 1996

The direct presidential election of March 23, 1996 set in motion several forces of change within the political landscape, most noticeably a split in the ruling KMT.

The increasing "Taiwanization" of the Nationalist party, represented most visibly by Taiwan-born President Lee Teng-hui, resulted in the marginalization of its hardline reunification factions. KMT Vice Chairman Lin Yang-kang and Vice Premier Hau Pei-tsun broke from the party ranks in August 1995 to oppose Lee's presidential bid.

The split created an ideological gap for voters who traditionally had judged candidates upon their ethnic identity. Lee attempted to distinguish a "new" KMT "only a few years old," and opened up a distance with the autocratic regime of old. For example, the president extended an official recognition and apology for the 20,000 or so intellectuals and dissidents who died in the suppression of February 28, 1947 and inaugurated the 2/28 Peace Park in Taipei as a remembrance.

Election Results



President Lee was re-elected with 54% of the popular vote with between 8-13% crossover vote from voters normally affiliated with the DPP.

Peng Ming-min of the pro-independence Democratic Proogressive Party won a lower than expected 21%. Independent candidate Lin Yang-kang, representing the KMT Old Guard, won 15% with the endorsement of the New Party. Independent Chen Li-an, running on a platform of morality and integrity, won 10%.

Voter participation was at an impressive 76% or 10.8 million of the 14.3 million eligible voters.

Significant was the fact that in the elections to the national assembly the same day, the KMT's majority was reduced to below two-thirds for the first time. The ruling party will not be able to pass Constitutional amendments by itself. A new era of coalition building has begun, following the trend already evident in the Legislative Yuan.

Media coverage in Taiwan was intensified by China's increasingly visible and aggressive military posturing in the strait, explicitly meant to deter Taiwan's democratic and independent urges. To the contrary, however, the increased attention supported Taiwan's fight for democracy and gained Taiwan additional international attention and respect.

China's military exercises had little effect on the election results, marginally helping the incumbent Lee and weakening the opposition.

ECONOMIC EFFECTS

FALL 1995 TO SPRING 1996

- INDUSTRIAL OUTPUT FELL 4.2%, THE MANUFACTURING SECTOR FELL 5%, AND CONSTRUCTION FELL 16%.
- THE GOVERNMENT AUTHORIZED A NT$200 BILLION STABILIZATION FUND TO PURCHASE AN ESTIMATED NT$70 BILLION IN SHARES IN SUPPORT OF THE TAIWAN STOCK EXCHANGE THREATENED BY CROSS STRAIT TENSIONS. THE FUND ENJOYED LARGE GAINS IN THE POST-ELECTION STOCK MARKET RALLY.
- TAIWAN'S THREE EXPORT PROCESSING ZONES (EPZs) WITNESSED A 15% FALL IN PRODUCTION VALUE FROM 4Q 1995 TO 1Q 1996. OFFICIALS BLAMED THE DROP ON MAINLAND CHINA'S LIVE FIRE MISSILE TESTS AND SEASONAL FLUCTUATIONS IN EXPORT PATTERNS.
- IN MARCH, THE MONTH OF THE PRESIDENTIAL ELECTION, EXPORT ORDERS TOTALED US$9.92 BILLION, A MERE 0.3% INCREASE OVER FEBRUARY. THIS WAS THE FIRST TIME IN EIGHT MONTHS THAT EXPORT ORDERS ENJOYED LESS THAN DOUBLE-DIGIT GROWTH.
- ALTHOUGH OVERSEAS CHINESE INVESTMENTS IN TAIWAN GREW 133%, FOREIGN INVESTMENTS IN THE FIRST QUARTER OF 1996 DECLINED 31%. INVESTMENTS BY US COMPANIES DURING THE PERIOD TOTALED AN ESTIMATED US$45.1 MILLION, A 77% DECREASE FROM THE PREVIOUS YEAR. AMONG THE FOUR MAJOR FOREIGN INVESTORS IN TAIWAN (HONG KONG, UNITED STATES, JAPAN AND EUROPE) ONLY JAPAN REGISTERED AN INCREASE.
- POSTING THE WORLD'S THIRD LARGEST FOREIGN EXCHANGE RESERVES FOR THE LAST SEVERAL YEARS, TAIWAN'S RESERVES HIT AN ALL-TIME HIGH OF US$100.4 BILLION IN JUNE 1995, BUT SLIPPED TO A THREE-YEAR LOW OF US$82.55 BILLION AT THE END OF MARCH 1996 AS THE CENTRAL BANK SUCCESSFULLY DEFENDED THE NT DOLLAR AT NT$27.5:US$1 AMID CROSS STRAIT TENSIONS. RESERVES RECOVERED TO US$85.2 BILLION IN JUNE 1996.

Foreign investment was down, exports and imports experienced declines . . .

Foreign Investment into Taiwan
January 1996 to May 1996
in US$millions

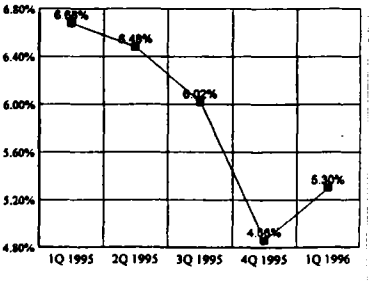
	Total	United States	Hong Kong	Europe	Japan
Investment	593.32	66.06	21.57	30.6	150.47
% change	(29)	(74)	(45)	(77)	25

Exports and Imports
March 1995 to March 1996
in US$billions

	Total	United States	Hong Kong	Europe	Japan
Exports	9.02	1.95	2.08	1.4	1.15
% change	(0.3)	(7.2)	(5.3)	4.7	7.5
Imports	8.16	1.71	N/A	1.6	2.39
% change	(1.4)	1.1	N/A	4.9	(4.5)

. . . and GDP growth suffered as a consequence, reaching an unusually low 4.86% in the fourth quarter of 1995.

Real GDP Growth
1995 to 1st Quarter 1996



POLITICAL TRENDS

CURRENT POLITICAL SITUATION

ALTHOUGH TAIWAN HAS EMERGED AS A FULLY DEMOCRATIC SOCIETY, ITS POLITICAL EVOLUTION IS CONTINUING.

SOME ISSUES TO CONSIDER:

* POSSIBLE AMENDMENTS OF THE ROC CONSTITUTION TO CLARIFY THE DIVISION-OF-POWER ISSUES BETWEEN THE FIVE BRANCHES OF GOVERNMENT AND BETWEEN THE PRESIDENT AND THE PREMIER.
* CONCENTRATING ON MULTIPARTY COOPERATION AND COMPROMISE TO IMPLEMENT IMPORTANT POLICIES SUCH AS THE STRATEGY TO BECOME AN ASIA PACIFIC REGIONAL OPERATIONS CENTER (APROC), WTO ENTRY, AND IMPROVING CROSS-STRAIT RELATIONS.
* IMPROVING GOVERNMENT EFFICIENCY BY REDUCING OVERLAPPING RESPONSIBILITIES AMONG GOVERNMENT AGENCIES AND REDUCING CORRUPTION AND MISMANAGEMENT.
* IMPROVING THE PACE AND QUALITY OF LEGISLATION BY UPGRADING THE QUALITY OF HEARINGS, COMMITTEE DELIBERATIONS AND FLOOR ACTION, AS WELL AS IMPROVING THE RESEARCH BACKUP ON SPECIFIC ISSUES FROM LEGISLATIVE AIDS, THE LEGISLATIVE LIBRARY, LOBBY GROUPS AND NON-GOVERNMENT ORGANIZATIONS.
* FACILITATING ECONOMIC INFRASTRUCTURAL DEVELOPMENT, INCLUDING INCREASING THE AMOUNT OF AVAILABLE INDUSTRIAL LAND AND ASSURING ADEQUATE SUPPLIES OF ELECTRICAL POWER AND WATER.

TAIWAN'S GRADUAL DEMOCRATIZATION

1986	THE "*TANG-WAI*," AN UNOFFICIAL OPPOSITION PARTY, CONTESTS SEVERAL SUPPLEMENTARY SEATS IN THE LEGISLATIVE YUAN AND THE NATIONAL ASSEMBLY.
1989	THE DPP FORMALLY PARTICIPATES IN THE ELECTION AND WINS SEATS IN THE LEGISLATIVE YUAN AND SEVERAL COUNTY MAGISTRATE AND CITY MAYOR POSITIONS.
1991	THE KMT RETAINS A LARGE MAJORITY IN THE NATIONAL ASSEMBLY AND AMENDS THE ROC CONSTITUTION TO PROMOTE DEMOCRATIC REFORMS.
1992	THE DPP WINS MORE THAN 30% OF THE VOTE IN THE LEGISLATIVE YUAN ELECTION.
1993	FORMATION OF THE NEW PARTY.
1994	DPP CANDIDATE CHEN SHUI-BIAN IS ELECTED AS THE MAYOR OF TAIPEI.
1995	THE KMT LOSES ITS SOLID RULING MAJORITY IN THE LEGISLATIVE YUAN.
1996	THE KMT WINS THE FIRST PRESIDENTIAL ELECTION, BUT LOSES ITS RULING MAJORITY IN THE NATIONAL ASSEMBLY, CAPTURING 50% OF THE SEATS. THE DPP WINS 30% AND THE NEW PARTY 15%.

ECONOMIC TRENDS

Economic Performance Remains Healthy Despite Cross strait Tensions

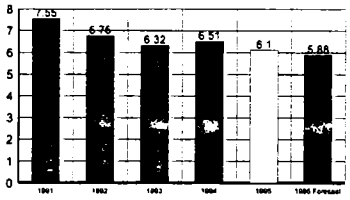
✲ Despite having only 0.4% of the world's population, Taiwan accounts for 2.1% of the world's trade. Taiwan's exports in 1995 totaled US$111.7 billion, a 20% increase over 1994 and 14th in the world. The Council for Economic Planning and Development expects annual two-way foreign trade to reach US$300 billion by 2000. In its trade in services, Taiwan took the position of 18th in the world in terms of export value, while imports took 11th place.

✲ GDP continued to grow at a healthy clip of 6.4% in 1995. The main engine of growth coming from export expansion. The 1995 growth rate represents a modest decline from the 1994 rate of 6.51%. The government attributes most of the decrease to heightened cross strait tensions. The average GDP growth rate for the last 15 years has been 7.5%.

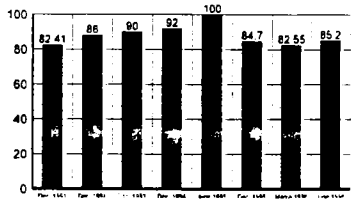
✲ Taiwan had the 18th highest level of GNP in the world, its economy having produced a total of US$253.9 billion. Per capita income at year-end 1995 stood at US$12,490, ranking Taiwan 25th in the world. It has been the stated goal of the government to raise per capita income to US$20,000 by the year 2000. Per capita income has increased from US$145 to US$12,439 or by a factor of 86 times over the last 45 years, an indication of the progress Taiwan has made. However, unofficial estimates suggest that the real per capita income is closer to US$20,000, noting a large and undocumented underground economy.

✲ Unemployment rate topped 2.6% workers in June 1996, the highest in a decade though still remarkably low for a maturing economy. Manufacturing and construction workers bore the brunt of the labor crunch with al-

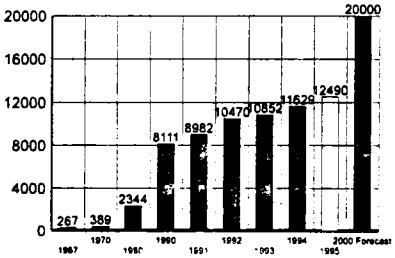
Real GDP Growth %



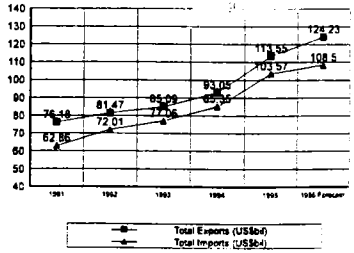
Foreign Exchange Reserves (US$ bil)



Per Capita GNP 1967-1995 (US$)



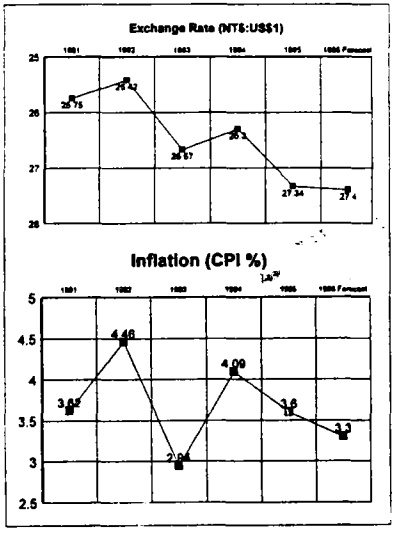
Total Exports and Imports



MOST ONE-THIRD OF TAIWAN'S JOBLESS COMING FROM THESE TWO SECTORS. ACADEMICS HAVE STRESSED THAT THE RECENT UNEMPLOYMENT RATES SHOULD BE VIEWED AS SIGNS THAT TAIWAN HAS MATURED INTO AN ADVANCED ECONOMY, MUCH AKIN TO JAPAN AND THE UNITED STATES.

* TAIWAN'S HOUSEHOLD SAVINGS RATE REMAINS HIGH AT 29.5%, ALTHOUGH THIS FIGURE IS DECREASING ANNUALLY. THE DECREASE, HOWEVER, IS A POSITIVE SIGN THAT DOMESTIC DEMAND AND PRIVATE-SECTOR CONSUMPTION IS RAPIDLY INCREASING.

* IN JUNE 1996, MORGAN STANLEY ANNOUNCED ITS DECISION TO LIST THE TAIWAN STOCK EXCHANGE ON ITS EMERGING MARKETS FREE (EMF) INDEX, SIGNALLING THE RISING IMPORTANCE OF TAIWAN'S ECONOMY TO INSTITUTIONAL INVESTORS. TAIWAN ACCOUNTS FOR 7.9% OF THE TOTAL STOCKS ON THE EMF INDEX, HIGHER THAN THE 5% AVERAGE PREDICTED BY DOMESTIC INSTITUTIONAL INVESTORS. MORGAN STANLEY CREDITS TAIWAN'S RECENT PROGRESS IN THE INTERNATIONALIZATION AND LIBERALIZATION OF ITS MARKETS AS MAJOR REASONS FOR THE LISTING.



TAIWAN'S RANKINGS

1ST LARGEST PRODUCER OF COMPUTER MONITORS IN THE WORLD WITH A GLOBAL MARKET SHARE OF 57%.

3RD LARGEST FOREIGN EXCHANGE RESERVES IN THE WORLD, ESTIMATED AT US$85.2 BILLION AS OF JUNE 1996.

3RD HIGHEST EXPORT GROWTH RATE AMONG ASIA'S FOUR DRAGONS, WITH EXPORTS RISING 20%, THE ISLAND'S BEST PERFORMANCE IN EIGHT YEARS. TOTAL EXPORT VALUE IN 1995 WAS US$111.68 BILLION.

3RD IN THE WORLD IN THE PRODUCTION OF INFORMATION TECHNOLOGY (IT) PRODUCTS, MANUFACTURING US$19.67 BILLION WORTH OF HARDWARE IN 1995 (33% INCREASE FROM 1994) AND ACCOUNTING FOR THE LARGEST COMPONENT OF TAIWAN'S EXPORTS. TAIWAN'S COMPANIES PRODUCE 65% OF THE WORLD'S KEYBOARDS AND MOTHERBOARDS, NEARLY 60% OF ALL MONITORS, AND A LARGE PORTION OF THE GLOBAL MARKET FOR DESKTOP PERSONAL COMPUTERS, LAPTOPS, SCANNERS, MOUSES, AND WAFERCHIPS.

4TH LARGEST MARKET FOR U.S. AGRICULTURAL EXPORTS.

4TH BEST PROFIT OPPORTUNITY IN THE WORLD. (BUSINESS ENVIRONMENT RISK INTELLIGENCE CO.)

5TH LARGEST ECONOMIC ENTITY IN THE ASIA-PACIFIC REGION. THE ASIA-PACIFIC AREA IS CURRENTLY THE THIRD LARGEST ECONOMIC BLOC IN THE WORLD, AFTER NORTH AMERICA AND THE EUROPEAN UNION.

6TH LARGEST IMPORTER OF US GOODS IN 1995, VALUED AT US$19.295 BILLION.

7TH LARGEST EXPORTER OF GOODS TO THE US IN 1995, VALUED AT US$28.975 BILLION.

8TH LARGEST OVERALL TRADING PARTNER OF THE US. BILATERAL TRADE GREW 10.2% TO US$48.2 BILLION IN 1995.

14TH LARGEST EXPORTER AND 15TH LARGEST IMPORTER IN THE WORLD IN 1995.

16TH MOST ECONOMICALLY FREE COUNTRY IN 1995. (INSTITUTE OF PUBLIC AFFAIRS, VANCOUVER, CANADA)

16TH HIGHEST NATIONAL CREDIT RATING. (EUROMONEY MAGAZINE SURVEY)

18TH IN OVERALL COMPETITIVENESS AMONG THE WORLD'S LEADING ECONOMIES. (INTERNATIONAL INSTITUTE OF MANAGEMENT DEVELOPMENT)

18TH HIGHEST GNP IN THE WORLD IN 1995 AT A TOTAL VALUE OF US$264.6 BILLION.

25TH HIGHEST PER CAPITA GNP LEVEL REGISTERING AT US$12,[illegible] IN 1995.

SECTORS OF THE ECONOMY

MOVING INTO HIGH-TECHNOLOGY AND SERVICE

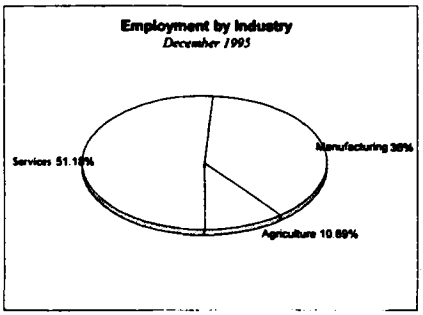
- IN 1995, 51% OF THE LABOR FORCE WAS EMPLOYED IN THE SERVICE SECTOR, AN INDICATION THAT THE SERVICE SECTOR IS INCREASINGLY SURPASSING MANUFACTURING AS THE DOMINANT FORCE IN TAIWAN'S OVERALL ECONOMIC DEVELOPMENT.

- PRESENTLY, THE MANUFACTURING SECTOR CONTINUES TO DRIVE THE ECONOMY. IN 1995, TOTAL EXPORTS TOPPED US$110 BILLION, OF WHICH ROUGHLY US$50 BILLION WAS ACCOUNTED FOR BY THE MANUFACTURING SECTOR. TAIWAN'S MANUFACTURING INDUSTRY IS ANTICIPATED TO GROW 6% PER ANNUM ASSURING THE GOVERNMENT'S PROJECTION OF US$120 BILLION FOR THE YEAR 2000.

- MANUFACTURING OF ELECTRONICS, COUPLED WITH INFORMATION AND COMMUNICATION PRODUCTS, HAS BEEN TAIWAN'S FASTEST GROWING EXPORT SUBSECTOR, WITH AGGREGATE EXPORTS OF US$2.92 BILLION IN 1Q 1996. ELECTRONICS ACCOUNTED FOR US$1.47 BILLION, WHILE INFORMATION AND TELECOMMUNICATIONS SALES TOTALED US$1.45 BILLION DURING THE SAME PERIOD.

- TAIWAN IS CURRENTLY THE WORLD'S THIRD LARGEST PRODUCER OF INFORMATION TECHNOLOGY PRODUCTS*, MANUFACTURING US$19.67 BILLION WORTH OF HARDWARE IN 1995 (33% INCREASE FROM 1994)

* *Information Technology products often include electronic components, and therefore clear delineation between IT and electronics exports is at times ambiguous. Different sources measure export value by various means.*



AND ACCOUNTING FOR THE LARGEST COMPONENT OF TAIWAN'S EXPORTS.

- CHEMICAL MANUFACTURERS ENJOYED THE HIGHEST PROFIT MARGIN (9.1%) AMONG THE SUBSECTORS OF THE MANUFACTURING INDUSTRY, WHICH AS A WHOLE DID NOT FARE AS WELL (5.9%). PLASTICS ALSO ENJOYED GOOD PERFORMANCE (8.7%).

- ELECTRONICS, INFORMATION TECHNOLOGY, TELECOMMUNICATIONS, CHEMICALS, AND PLASTICS EXPORTS ARE FORECAST TO GROW MORE THAN 10% IN 1996.

- HEAVY INDUSTRY, A SUBSECTOR OF MANUFACTURING, CONTINUES TO ACCOUNT FOR A LION'S SHARE OF MANUFACTURING OUTPUT, REPRESENTING 66% OF MANUFACTURED EXPORTS FOR 1995. EXPORT GROWTH OF HEAVY INDUSTRIAL GOODS INCREASED 30.3% OVER THE PREVIOUS YEAR.

- NON-CHEMICAL AND AGRICULTURAL PRODUCT EXPORTS CONTINUE TO DECLINE, AND PROCESSED AGRICULTURAL PRODUCT EXPORTS ARE EXPECTED TO MAKE UP ONLY 3.5% OF TOTAL EXPORTS FOR 1996.

- REGULATORY BARRIERS CONTINUED TO INHIBIT THE FINANCIAL SECTOR AND DISCOURAGE DEVELOPMENT OF A FULLY FUNCTIONING INTERBANK MARKET. CURRENCY CONTROLS REMAINED IN EFFECT. FOREIGN INVESTMENT IN THE STOCK MARKET CONTINUED TO GROW, BUT REMAINED SUBJECT TO DETAILED PROCEDURAL RESTRICTIONS. PRIVATE BANKING AND MANY OTHER OFFSHORE INVESTMENT SERVICES REMAINED ILLEGAL.

- THE CONSTRUCTION AND CONTRACTING INDUSTRIES ENDURED A POOR YEAR AND A NUMBER OF SCANDALS, PARTICULARLY IN GOVERNMENT PROCUREMENT. THE FIRST LINE OF THE TAIPEI MASS RAPID TRANSIT SYSTEM OPENED, BUT BOTH THE LINE AND THE TAIPEI DEPARTMENT OF RAPID TRANSIT SYSTEMS CONTINUE TO FACE SERIOUS PROBLEMS. SEVERAL MAJOR FOREIGN CONTRACTORS CLOSED THEIR OFFICES AND LEFT TAIWAN.

TAIWAN-US ECONOMICS

* ANALYSTS PREDICT THAT IN THE LONG-TERM, US EXPORTS OF CONSUMER GOODS INTO TAIWAN WILL INCREASE AS TAIWAN CONTINUES TO OPEN ITS ECONOMY AND PREPARE TO ENTER THE WTO.

* THE US RETAINS ITS POSITION AS TAIWAN'S LARGEST EXPORT MARKET (US$33.18 BILLION) WITH 29% OF ALL EXPORTS DIRECTED TO THE US, A GAIN OF 8.5% FROM 1994. THE US DEPARTMENT OF COMMERCE REPORTS THAT DURING 1995, TAIWAN IMPORTED US$20.7 BILLION FROM THE US. TAIWAN REMAINS THE 6TH LARGEST CUSTOMER FOR US EXPORTS. TAIWAN'S TRADE WITH THE US IS EXPECTED TO INCREASE ONCE IT OPENS A TRANSSHIPMENT CENTER.

* THE US TRADE DEFICIT WITH TAIWAN WAS REPORTED BY THE U.S. DEPARTMENT OF COMMERCE TO BE US$5.6 BILLION FOR FISCAL YEAR 1995. BY YEAR'S END, TAIWAN POSTED AN OVERALL TRADE SURPLUS OF US$9.68 BILLION FOR 1995. TAIWAN IS THE 8TH LARGEST OVERALL TRADING PARTNER OF THE US. IT IS THE 7TH LARGEST SUPPLIER OF US IMPORTS AND THE US'S 6TH-LARGEST EXPORT MARKET.

* BILATERAL TRADE BETWEEN TAIWAN AND THE US GREW 10.2% TO REACH US$48.2 BILLION IN 1995.

* IN LINE WITH THE GLOBAL TREND TOWARD ECONOMIC REGIONALIZATION, TAIWAN CONTINUES TO PROMOTE FOREIGN INVESTMENT IN THE ROC THROUGH STRATEGIC ALLIANCES WITH MULTINATIONAL CORPORATIONS. FROM FEBRUARY 1993 TO DECEMBER 1995, TAIWAN SIGNED 38 LETTERS OF INTENT (LOIS) FOR THE FORMATION OF STRATEGIC ALLIANCES WITH MNCS, 23 OF WHICH WERE WITH US FIRMS. THE SCOPE OF OPERATION FOR STRATEGIC ALLIANCES GENERALLY AIMS TO ACCELERATE TECHNICAL COOPERATION AND THE UPGRADING OF CAPITAL-INTENSIVE INDUSTRIES. APPROVED PRIVATE FOREIGN INVESTMENT IN 1995 TOTALLED US$2.9 BILLION. THE US ACCOUNTED FOR US$1.3 BILLION, REPRESENTING 45% OF TOTAL NEW FOREIGN INVESTMENTS: AN INCREASE OF 157% FROM 1994.

* TAIWAN CONSISTENTLY RANKS AS ONE OF THE UNITED STATES' LARGEST AND MOST IMPORTANT MARKETS, BUT TRADE AND INVESTMENT STATISTICS DO NOT CONVEY THE FULL EXTENT OR THE RICHNESS OF THIS ECONOMIC RELATIONSHIP, OR THE PROBLEMS THAT US COMPANIES FACE. MANY US BUSINESSES HAVE BECOME HOUSEHOLD NAMES IN TAIWAN, ESTABLISHING REPUTATIONS FOR QUALITY THAT ARE SPREADING FROM TAIWAN TO MAINLAND CHINA AND OTHER PARTS OF ASIA. ON THE OTHER HAND, MANY US INVESTMENTS FACE SERIOUS PROBLEMS. MAJOR US BUSINESS SUCCESSES (AND POTENTIAL SUCCESSES) IN TAIWAN INCLUDE THE FOLLOWING:

GE WINS NUCLEAR POWER PLANT PROJECT

AT AN ESTIMATED US$6.5 BILLION, THE ISLAND'S FOURTH NUCLEAR REACTOR IS ONE OF THE LARGEST INFRASTRUCTURE PROJECTS IN TAIWAN. ABOUT US$2.7 BILLION OF THE FUNDS WILL BE FROM FOREIGN PROCUREMENT. THE PROJECT BEGAN IN 1982, BEFORE FALLING TO PRESSURE FROM DISSENTING ENVIRONMENTAL GROUPS. AFTER A SERIES OF FALSE STARTS FOR OVER 10 YEARS, THE TENDERS FOR BIDS WERE SCHEDULED FOR OCTOBER 1995, ONLY TO BE CANCELLED. BIDS REOPENED IN THE SPRING 1996 WITH THE PROJECT FINALLY BEING AWARDED TO GE IN MAY 1996.

BOEING 777 SALES TO CHINA AIR AND EVA

LETTERS OF INTENT WERE SIGNED BY EVA AIRLINES AND CHINA AIRLINES OF A NUMBER OF BOEING AIRCRAFTS IN DECEMBER 1995. PRESSURE FROM COMPETITOR AIRBUS, WHICH ALSO SIGNED A DEAL WITH THE PRC, HAS INCREASED THE URGENCY SURROUNDING THE CHINA AIRLINES DEAL. THE SALE TO CHINA AIRLINES ALONE IS ESTIMATED TO RUN BETWEEN US$1-3 BILLION.

GENERAL RAILWAY SIGNAL

US$100 MILLION IS INVOLVED IN THIS CONTRACT TO PROVIDE SIGNAL AND CONTROL EQUIPMENT FOR THE TAIPEI METRO SYSTEM. ALTHOUGH ALL OF THE EQUIPMENT IS IN PLACE, SOME HAS YET TO BE TRIAL TESTED. AS A RESULT, GRS HAS ONLY BEEN PAID US$40 MILLION FOR ITS WORK. A CLAIM IS STILL PENDING ON THE REMAINING US$60 MILLION.

TI-ACER, THE HSINCHU SCIENCE PARK-BASED WAFER FAB GIANT, INVESTED US$1.35 BILLION TO ESTABLISH A NEW 8-INCH WAFER FABRICATION FACILITY. ACER HAS ALSO RECENTLY TEAMED UP WITH MICROSOFT IN AN EFFORT TO INCREASE ITS PARTICIPATION IN THE RAPIDLY EXPANDING INTERNET.

UNITED PARCEL SERVICE (UPS) SIGNED A MEMORANDUM OF UNDERSTANDING WITH THE MINISTRY OF TRANSPORTATION AND COMMUNICATIONS TO ESTABLISH UPS'S MAIN ASIA PACIFIC REGIONAL AIR CARGO HUB IN TAIWAN. UPS'S INVESTMENT IS EXPECTED TO TOTAL BETWEEN US$380-410 MILLION OVER THE NEXT 15 MONTHS, INCLUDING NT$2.6 MILLION IN LAND RENT FOR NEW FACILITIES CONSTRUCTED AT CKS INTERNATIONAL AIRPORT. THE MOTC GAVE THE NOD TO THE WORLD'S LARGEST DISTRIBUTION COMPANY OVER US RIVAL FEDERAL EXPRESS, WHICH HAD PRESENTED ITS APPLICATION FOR A REGIONAL TRANSSHIPMENT HUB AS EARLY AS 1988.

MULTINATIONAL CORPORATIONS SIGNING LETTERS OF INTENT FOR THE FORMATION OF STRATEGIC ALLIANCES WITH R.O.C. (1995)*

Company	Date of Signature	Scope of Operations
Digital Equipment Corporation (U.S.)	March 21	Computer equipment; networking service
Olivetti (Italy)	May 31	Personal computers, printers, branch bank automation
Bayer AG (Germany)	June 1	Polymers, organic products, health care, agro-chemicals
Northern Telecom (Canada)	June 5	Switching networks, multimedia, cellular and wireless communications
United Defense L.P. (U.S.)	June 30	Armored combat vehicles
Electronic Data Systems (U.S.)	July 5	Management consulting, systems integration
Allison Engine Co. (U.S.)	July 7	Aerospace and industrial engines
Allied Signal, Inc. (U.S.)	July 11	Aerospace, automotive
Lockheed Martin Corp (U.S.)	July 12	Aerospace, electronics
Northrop Grumman International (U.S.)	August 17	Military aircraft, aerostructures
Dassault Industries Group (France)	August 18	Aviation (Falcon Jet), electronics, telecommunications
Southwestern Bell International (U.S.)	September 19	Mobile communications, international telecommunications
Landis & Gyr Corp (Switzerland)	October 24	Optical payphones, stored value cards, electricity meters
Chemetall GMBH (Germany)	November 27	Lithium compounds
Bell Communications Research (U.S.)	December 12	Telecommunications network service
Lam Research Corporation	December 13	Semiconductor manufacturing equipment

Source: Ministry of Economic Affairs

ECONOMIC OUTLOOK

✲ TAIWAN IS MAKING HEADWAY IN THE FIRST PHASE OF ITS AMBITIOUS ASIA PACIFIC REGIONAL OPERATIONS CENTER PLAN (APROC): LIBERALIZATION OF FINANCIAL MARKETS AND THE ESTABLISHMENT AND UPGRADING OF ALREADY EXISTING TRANSSHIPMENT FACILITIES. RECENT INCLUSION OF TAIWAN STOCKS INTO MORGAN STANLEY'S EMERGING MARKETS INDEX AND THE DOW JONES WORLD INDEX REFLECTS INCREASING CONFIDENCE IN TAIWAN'S CAPITAL MARKETS. THE CEPD EXPECTS KAOHSIUNG, TAIWAN'S SOUTHERNMOST MAJOR HARBOR, TO BE THE WORLD'S BUSIEST CONTAINER PORT BY 2000.

APROC: THE PLAN TO MAKE TAIWAN INTO SIX REGIONAL OPERATIONS CENTERS

1. MANUFACTURING
A "SCIENCE AND TECHNOLOGY ISLAND" WITH WELL-EQUIPPED SCIENCE PARKS

2. SEA TRANSPORTATION
TRANSSHIPMENT HUB FOR EAST ASIA

3. AIR TRANSPORTATION
AIRPORT HUB WITH 3 INTERNATIONAL AIRPORTS

4. FINANCIAL
CROSS-BORDER FINANCIAL SERVICES

5. TELECOMMUNICATIONS
ASIA-PACIFIC SWITCHING HUB
AND CUSTOMER SERVICE CENTER
NATIONAL INFORMATION INFRASTRUCTURE

6. MEDIA
HIGH-TECH CENTER FOR MEDIAPRODUCTION

✲ TAIWAN'S INCREASING UNEMPLOYMENT MAY BE A SIGN OF A TRANSITION IN TAIWAN'S CHANGING ECONOMY. TAIWAN IS EXPERIENCING STRUCTURAL CHANGE IN ITS ECONOMY AS IT GRADUALLY EVOLVES INTO A HIGH-TECHNOLOGY CENTER.

✲ AT THE SAME TIME, PESSIMISTS RAISING CONCERN OVER TAIWAN'S DECREASING SAVINGS RATE OVERLOOK THE FACT THAT DECREASED SAVINGS TRANSLATES INTO INCREASED CONSUMPTION, WHICH IS GENERALLY GOOD FOR AN ECONOMY AND FOLLOWS THE PATTERN OF MOST ADVANCED ECONOMIES. STILL, AT A HOUSEHOLD SAVINGS RATE OF 29.5%, TAIWAN HAS PLENTY OF ROOM FOR DOMESTIC INVESTMENT, I.E. FUTURE GROWTH.

1996 ECONOMIC FORECASTS

PROJECTED ECONOMIC GROWTH RATE	5.88%
PROJECTED INFLATION RATE	3.28%
IMPORT & EXPORT TRADE GROWTH	>12.00%
PRIVATE SECTOR SPENDING GROWTH	6.34%
PRIVATE INVESTMENT	8.97%

ECONOMISTS EXPECT UPTURN IN 3RD QUARTER.

APROC TIMELINE

1995 to 1997
Improve Taiwan's Basic Economic Structure
Develop Small-scale Functional Operations Centers

1997 to 2000
Expand Existing Functional Operations Centers
Move on to a Full-scale Adjustment of Economic Structure

2000 and Beyond
Further Strengthen Taiwan's Position as Regional Operations Center
Realize Full Economic Liberalization
Complete All Major Construction Projects

CROSS-STRAIT RELATIONS

POLITICAL

* UNTIL JULY OF 1995, THE RELATIONSHIP BETWEEN TAIWAN AND MAINLAND CHINA WAS IN A STATE OF QUASI-*DETÈNTE*. YET, LAST SUMMER BEIJING STARTED STAGING MILITARY EXERCISES JUST NORTH OF TAIWAN'S SHORES. THIS INCLUDED MISSILE TESTS, AS WELL AS NAVAL MANEUVERS. THE STATED PURPOSE OF THESE TESTS WERE TO PROTEST AGAINST ROC PRESIDENT LEE TENG-HUI'S VISIT TO CORNELL UNIVERSITY IN THE UNITED STATES, AS WELL AS INTIMIDATION TOWARDS THE PEOPLE OF THE ROC TO AFFECT THE MARCH ELECTIONS OF 1996.

* BEIJING'S AGGRESSION TOWARDS TAIWAN HELPED, RATHER THAN OBSTRUCTED PRESIDENT LEE TENG-HUI'S ELECTION IN MARCH 1996, TAIWAN'S FIRST DIRECT PRESIDENTIAL ELECTION.

* MAINLAND CHINA'S SHOW OF FORCE LED THE UNITED STATES TO SEND TWO AIRCRAFT CARRIER BATTLE GROUPS TO THE AREA.

* US-PRC RELATIONS ARE IMPROVING, BUT TAIWAN REMAINS A POTENTIAL IRRITANT. TAIWAN-MAINLAND CHINA RELATIONS ARE LESS TENSE, BUT THERE IS NO SIGN OF A QUICK RESUMPTION OF CROSS-STRAIT NEGOTIATIONS.

ECONOMIC

* CHINA REMAINS TAIWAN'S SECOND LARGEST TRADING PARTNER AND TAIWAN IS ALSO MAINLAND CHINA'S SECOND LARGEST SOURCE OF FOREIGN INVESTMENT. AT LEAST 10% OF TAIWAN'S TOTAL EXPORTS GO TO MAINLAND CHINA. ADDITIONALLY, AGGREGATE TAIWANESE CAPITAL INVESTMENT INTO MAINLAND CHINA WAS US$1.1 BILLION FOR FISCAL YEAR 1995. THIS REPRESENTED 40% OF TOTAL 1995 OUTBOUND TAIWAN INVESTMENT OF US$2.9 BILLION. (CEPD STATISTICS)

* DESPITE THE HEIGHTENED POLITICAL TENSIONS BETWEEN TAIWAN AND MAINLAND CHINA LAST YEAR, DOCUMENTED INDIRECT TRADE BETWEEN THE TWO SIDES SURPASSED THE US$20 BILLION MARK IN 1995, RECORDING AN IMPRESSIVE 27.1 % GROWTH FROM THE YEAR BEFORE AND ACCOUNTING FOR 9.9% OF TAIWAN'S TOTAL FOREIGN TRADE LAST YEAR. FURTHERMORE, ACCORDING TO TAIWAN'S BOARD OF FOREIGN TRADE, TAIWAN'S TRADE SURPLUS, IMPORTS, EXPORTS AND TOTAL TRADE VALUE WITH THE MAINLAND HIT RECORD HIGHS FOR 1995.

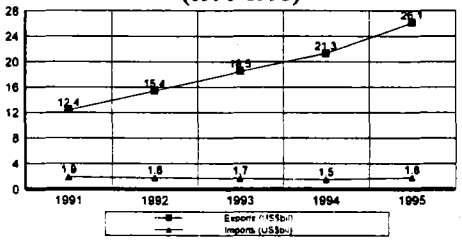
ROC Indirect Trade with PRC

	1995 (US$billion)	Growth from 1994
Exports to PRC	17.89	22.10%
Imports from PRC	3.0	66.30%
Trade Surplus	14.81	15.70%
Total Trade Value	20.99	27.10%

Source: Board of Foreign Trade, ROC

* ELECTRONIC EQUIPMENT AND COMPONENTS MADE UP 15.1% OF TAIWAN'S EXPORTS TO THE MAINLAND, RECORDING A 62.9% INCREASE OVER 1994; TRAILING WERE PLASTIC PRODUCTS AND RAW MATERIALS. ANALYSTS SUSPECT THE INCREASE IN EXPORTS WAS DUE TO LOCAL MANUFACTURERS' ANTICIPATION OF THE MAINLAND'S PLAN TO ELIMINATE THE PREFERENTIAL TAX EXEMPTION TO FOREIGN-FUNDED ENTERPRISES IN MAINLAND CHINA. SEMI-FINISHED ELECTRIC PRODUCTS LED IMPORTS FROM THE MAINLAND INTO TAIWAN.

Exports to and Imports from Hong Kong*
(1991-1995)



* *Lacking direct trade links with the PRC, analysts are increasingly using Hong Kong trade figures to accurately gauge Greater China trade (CEPD)*

MARCH 1996

* INDIRECT TRADE SAW A LARGE DECREASE, MAINLY DUE TO THE CROSS STRAIT POLITICAL TENSIONS IN MARCH, ACCOMPANYING TAIWAN'S FIRST PRESIDENTIAL ELECTION. BEIJING'S REPEATED MILITARY INTIMIDATION OF TAIWAN SCARED AWAY TAIWAN INVESTORS.

* DESPITE FIRST QUARTER DECREASES IN TRADE AND CAPITAL FLOWS, LEVELS OF COMMERCE HAVE RETURNED TO THEIR PREVIOUS NORMS.

GREATER CHINA TRADE

* TOTAL TRADE BETWEEN THE US AND THE THREE CHINESE ECONOMIES AMOUNTED TO US$130 BILLION FOR 1995, REPRESENTING 9.8% OF ALL US FOREIGN TRADE. EXPORTS TO THE THREE CHINESE ECONOMIES COMPRISED 7.8% OF TOTAL US EXPORTS.

Greater China Trade with the United States

1995 figures (US$billion)

	US exports to	US imports from	2 way trade
Taiwan	19.2	28.975	48.175
Hong Kong	14.22	10.293	24.513
PRC	11.748	45.555	57.303
Total	45.168	84.823	129.991

Source: US Department of Commerce

SOCIAL TRENDS

A Prosperous, Modern Society Comes of Age

* **Students:** Each year some 40,000 students from Taiwan study in the United States, making Taiwan the second largest supplier of foreign students to the United States.

* **Newspapers:** Taiwan currently has 300 newspapers with a daily circulation of over six million copies. In addition, the magazine industry has flourished, with 5096 magazines registered with the Government Information Office as of December 1994.

* **Media:** 60% of Taiwan households currently own cable television. This number is expected to rise to 80% in the next two years, supplied by 45 major program distribution companies. 202 radio stations are expected to be approved by the GIO by the end of 1996.

* **Autos:** Household automobile ownership has increased from 30% in 1988 to an estimated 65% in 1995. Taiwan imported US$2.4 billion worth of cars in 1994.

* **Society:** Taiwan's social and cultural organizations are responding to the development of multiparty democracy. For decades, social and cultural organizations, labor unions, and educational institutions at all levels were micromanaged by the government. Today, most of the pre-1988 controls are gone.

* **Human Rights:** The severe human rights abuses of earlier decades are no longer seen. Freedom of speech, press, and association are guaranteed and generally respected. Some complaints persist concerning government control of the three major television networks, women and children's rights, and restrictions of labor's right to strike. No serious human rights violations have been reported in years.

* **NGOs:** Non-government organizations have helped bring greater public and government attention to specific social topics such as public health (pollution, drug abuse) and educational reform.

But, Taiwan faces the quality-of-life issues of an advanced nation

* Taiwan's population at the end of 1995 was 21.3 million, with a growth rate of 0.0848%. The low growth is attributed to the highest death rate in years and a large number of emigrants. At the same time, Taiwan's population density is the second highest among nations with over 10 million people, averaging 590 people per square kilometer.

* The current minimum wage is NT$14,880 per month. Monthly spending accounted for NT$14,892, or 42% of the average monthly wage of about NT$35,000. Food had the biggest share at 32%, followed by housing at 31%.

Quick Statistics

Literacy rate: rose to 94.02%.
Life expectancy: male 72.02, female 77.42
Higher Education Rate: 2.5 million people, or 13.1% of the population

Demographics

Age	Percent of Population
Under 14	25.4
15-64	67.6
Over 65	7

INDUSTRY ISSUES

US BUSINESSES WANT TO BUILD ON ITS PAST SUCCESSES AND CONTINUE TO GROW AND PROSPER IN TAIWAN. THE AMERICAN CHAMBER OF COMMERCE HAS IDENTIFIED THE FOLLOWING ISSUES AS IMPORTANT TO THE US'S PRESENT AND FUTURE ECONOMIC INTERESTS IN TAIWAN.

	PAGE
1. AGRICULTURAL-CHEMICALS	47
2. BANKING AND CAPITAL MARKETS	47
3. ENVIRONMENTAL PROTECTION	48
4. GOVERNMENT CONTRACTING	49
5. INDEPENDENT BUSINESS	49
6. INSURANCE	50
7. INTELLECTUAL PROPERTY	50
8. LABOR ISSUES	50
9. MARKETING AND DISTRIBUTION	50
10. MEDICAL DEVICES	51
11. PHARMACEUTICAL INDUSTRY	51
12. TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY	51
13. TRANSPORTATION	52

PLETHORA OF "ME-TOO" PRODUCTS

Original Registrant	Product Common Name	Number of "Me-Too" Products Registered without Prior Authorization from Original Registrant
DuPont	Methomyl	54
	Benomyl	33
FMC	Carbofuran	49
	Carbosulfan	2
Monsanto	Glyphosate	52
American Cyanamid	Phorate	12
	Terbufos	9
Dow Elanco	Chlorpyrifos	74
	Tricyclazole	6

1. AGRICULTURAL-CHEMICALS PRODUCTS

1.1 AMEND THE PESTICIDE CONTROL LAW. EXISTING ROC REGULATIONS ON REGISTRATION OF PESTICIDE COPY PRODUCTS (SO-CALLED "ME-TOO" PRODUCTS) ALLOWS REGISTRANTS LATER ACCESS TO TEST DATA SUBMITTED BY ORIGINAL REGISTRANTS WITHOUT THEIR PRIOR APPROVAL. THIS PRACTICE IS INCONSISTENT WITH INTERNATIONAL STANDARDS AND INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF THE ORIGINAL APPLICANTS WHO ARE USUALLY MULTINATIONAL COMPANIES.

1.2 VERIFY ALL DOCUMENTS SUBMITTED FOR FUTURE "ME-TOO" PRODUCT REGISTRATIONS, VALIDATE ALL EXISTING REGISTRATIONS AND PROSECUTE ANY FORGER IN VIOLATION OF THE LAW. LENIENT APPROVAL OF "ME-TOO" PRODUCTS AND TOLERANCE OF FORGERY HAVE LED TO A FLOOD OF "ME-TOO"'S, SERIOUSLY UNDERMINING THE INTERESTS OF AMERICAN AND OTHER FIRMS WHICH HAVE BORNE SIGNIFICANT RESEARCH EXPENSES.

1.3 PREVENT MISCONDUCT BY LOCAL TRADING AGENTS AND REACH A CONSENSUS BETWEEN THE COUNCIL OF AGRICULTURE AND THE JUDICIAL SYSTEM IN THE INTERPRETATION OF EXISTING REGULATIONS. INCONSISTENCIES NOT ONLY ENCOURAGE MISCONDUCT, BUT ALSO FAIL TO PROVIDE FAIRNESS TO LAW-ABIDING COMPANIES.

2. BANKING & CAPITAL MARKETS

2.1 INTEGRATE ONSHORE AND OFFSHORE MARKETS AT A FASTER PACE TO LEVERAGE TAIWAN'S LARGE DOMESTIC MARKET AND POOL OF SAVINGS AND DEVELOP TAIWAN AS A REGIONAL OPERATIONS CENTER.

2.2 PERMIT DIRECT CROSS-STRAIT FINANCIAL DEALINGS.

2.3 PRIVATIZE GOVERNMENT-OWNED BANKS.

2.4 DEVELOP AN EFFECTIVE INTEREST RATE SWAP MARKET AND OTHERWISE EXPAND DERIVATIVES.

2.5 FURTHER OPEN CAPITAL MARKETS BY REMOVING REMAINING LIMITS ON FOREIGN OWNERSHIP OF LISTED SHARES AND REMOVING BUREAUCRATIC OBSTACLES TO CAPITAL FLOWS.

2.6 REPLACE CEILINGS ON BANKS' FOREIGN EXCHANGE LIABILITIES WITH RESERVE REQUIREMENTS SO AS TO HELP THE INTERBANK MARKET MATURE AND IMPROVE FOREIGN BANKS' ACCESS TO FUNDS.

2.7 ALLOW PRODUCT INNOVATION WITHOUT PRIOR APPROVAL.

2.8 INCREASE FOREIGN ACCESS TO TAIWAN'S CAPITAL POOL BY:

(A) PERMITTING MARKETING (INCLUDING MEDIA ADVERTISING AND DISTRIBUTION) OF FOREIGN MUTUAL FUNDS BY BANKS, SECURITIES ADVISORS, SECURITIES HOUSES, AND INSURANCE COMPANIES.

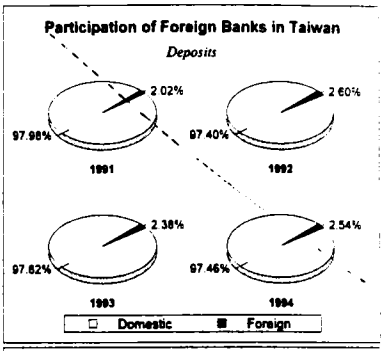
(B) PERMITTING SECURITIES HOUSES TO BROKER AND DEAL IN ALL FOREIGN LISTED SECURITIES AND INVESTMENT PRODUCTS.

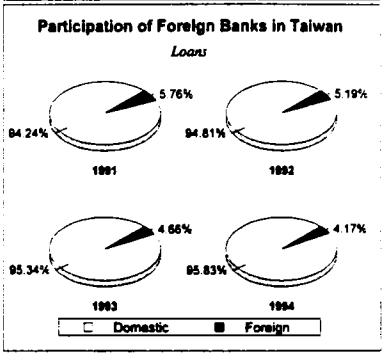
(C) PERMITTING BANKS TO ENGAGE IN INTERNATIONAL PRIVATE ADVISORY AND PORTFOLIO MANAGEMENT SERVICES (I.E. PRIVATE BANKING) AND THE PROMOTION AND FACILITATION OF OFFSHORE DEPOSITS AND OTHER INVESTMENTS; AND

(D) PERMITTING LICENSED SECURITIES ADVISORS TO ADVISE ON ALL DOMESTIC AND FOREIGN SECURITIES AND INVESTMENT PRODUCTS AND ENGAGE IN PORTFOLIO MANAGEMENT.

2.9 AMEND THE LABOR STANDARDS LAW TO FREE THE BANKING INDUSTRY FROM WHAT IT PERCEIVES TO BE NON-APPLICABLE AND UNREASONABLE CONDITIONS.

2.10 IMPROVE QUALITY OF LEGISLATIVE AND REGULATORY DRAFTING AND EXPAND PRE-ENACTMENT CONSULTATION WITH THE INDUSTRY.





3. ENVIRONMENTAL PROTECTION

3.1 THE U.S. SHOULD ENCOURAGE SUBSTANTIVE PARTICIPATION BY TAIWAN IN MEANINGFUL INTERNATIONAL SCIENTIFIC ENVIRONMENTAL STANDARDS AND POLICY DEVELOPMENT. TAIWAN SHOULD CONTRIBUTE TO THE IMPROVEMENT OF INTERNATIONAL STANDARDS THAT AFFECT IT, REGARDLESS OF ISSUES OF POLITICAL STATUS.

3.2 ONE OF THE MOST IMPORTANT ISSUES FOR US MANUFACTURING COMPANIES INVESTING IN TAIWAN IS THE NEED TO DEVELOP LEGAL AND ENVIRONMENTALLY SOUND DISPOSAL METHODS FOR INDUSTRIAL AND HAZARDOUS WASTE. CREATING OPPORTUNITIES FOR PRIVATELY OWNED AND OPERATED FACILITIES AS MODELS OF US ENVIRONMENTAL MANAGEMENT EXPERTISE IS STRONGLY ADVISED.

3.3 TAIWAN NEEDS TIME TO ALLOW THE LOCAL POLITICAL PROCESS TO DEVELOP ITS OWN ENVIRON-

MENTAL PRIORITIES AND PLANS. INCREASED FOREIGN PRESSURE AT THE MOMENT WILL ONLY ALIENATE POPULAR ENVIRONMENTAL SUPPORT AND DISCREDIT THE ENVIRONMENTAL LEADERSHIP.

4. GOVERNMENT CONTRACTING

4.1 THE PENDING ACCESSION OF TAIWAN INTO THE WORLD TRADE ORGANIZATION IS APPLAUDED. THERE ARE MANY PRINCIPLES OF THE WTO THAT RUN COUNTER TO THE PRACTICES OF THE LOCAL ENGINEERING CONSTRUCTION MARKET WHICH CONSTITUTES THE LARGEST PART OF GOVERNMENT CONTRACTING.

4.2 REQUIRE THE OPENING OF TAIWAN'S CONSTRUCTION MARKET. THIS INCLUDES OPEN TENDERING FOR PROJECTS ABOVE A FIXED THRESHOLD VALUE. PROVISION SHOULD BE MADE SO THAT CONTRACTS CANNOT BE SUBDIVIDED SO AS TO CIRCUMVENT THIS REQUIREMENT.

4.3 ADOPT OPEN, CLEAR, AND COMPETITIVE BIDDING PROCEDURES FOR PUBLIC WORKS CONTRACTS. THIS WILL PROVIDE FAIR COMPETITION FOR LOCAL AND INTERNATIONAL FIRMS BIDDING ON MAJOR PUBLIC WORKS PROJECTS.

4.4 ADOPT REASONABLE TERMS AND CONDITIONS IN ALL CONTRACTS. SPECIAL CONCERNS INCLUDE EXCESSIVELY HIGH PERFORMANCE BONDS, INEFFICIENT AND UNFAIR CHANGE ORDER PROCEDURES, UNREASONABLE LIMITS ON LIABILITY AND CONSEQUENTIAL DAMAGES, EXCESSIVE LIQUIDATED DAMAGES EXPOSURE, UNWARRANTED THIRD PARTY LIABILITY EXPOSURE, NEED FOR EFFICIENT ARBITRATION AND DISPUTE RESOLUTION PROCEDURES, AND UNREASONABLE WARRANTY PROVISIONS FOR EQUIPMENT AND COMPLETED CONTRACT WORK.

4.5 REMOVE RESTRICTIONS THAT MAKE IT INORDINATELY DIFFICULT FOR INTERNATIONAL FIRMS TO CARRY OUT THEIR CONTRACTUAL RESPONSIBILITY. FULLY IMPLEMENT THE PROCEDURES FOR FOREIGN INVESTMENT IN LOCAL CLASS A CONSTRUCTION COMPANIES. ALLOW FOR MORE FOREIGN PARTICIPATION IN THE MARKET.

TAIWAN'S COMMITMENT TO ENVIRONMENTAL PROTECTION

	Taiwan	U.S.A.
Carbon Monoxide Emissions per capita (kg)	0.1	0.23
Energy Consumption per capita (kg)	2.9	7.7
Environmental Protection Spending (% GNP)	1.2	2.1
Environmental Protection Spending per capita (US$)	134	500
Land in Natural Preserves (percentage)	12	6
Waste Paper Recovery (percentage)	53	39
Population Density (per square km)	582	28
Factory Density (per square km)	4.4	0.04

5. INDEPENDENT BUSINESS

5.1 CENTRALIZE THE JURISDICTION OVER WORK PERMITS.

5.2 ENFORCE SECTION 48 OF THE ESA (EMPLOYMENT SERVICES ACT), GUARANTEEING A PERSON MARRIED TO AN ROC SPOUSE THE RIGHT TO OBTAIN A WORK PERMIT.

5.3 CREATE ONE COHERENT LAW WHICH SPECIFICALLY ADDRESSES THE CIRCUMSTANCES UNDER WHICH A WORK PERMIT IS NECESSARY.

5.4 ABOLISH THE EXIT AND RE-ENTRY PERMITS, ALLOWING FOR ALIEN RESIDENT CERTIFICATE TO REPLACE SAID DOCUMENTS.

5.5 EXTEND THE RIGHT TO CONVERT A VISITOR STATUS VISA TO A RESIDENT VISA FOR EMPLOYEES OF NON-FIA (FOREIGN INVESTMENT APPROVAL) COMPANIES.

5.6 CHANGE THE CAPITAL REQUIREMENT FOR TAIWAN BRANCHES.

5.7 ALLOW REPRESENTATIVE OFFICES TO OBTAIN A WORK PERMIT WITHOUT A PRIOR CONTRACT IN TAIWAN.

5.8 REVISE LONG AND COMPLICATED PROCEDURES NECESSARY IN ESTABLISHING A BRANCH OFFICE IN TAIWAN.

6. Insurance

6.1 The most prominent concern is the restriction on foreign ownership of real estate in Taiwan for investment purposes. Local companies are allowed to purchase Taiwan real estate without limitation, and therefore can invest their assets more effectively.

(a) Revise the Land Law and Company Law so that Foreign insurers receive treatment equal to local insurance companies.

6.2 International insurance firms are increasingly using global resources for training and development of staff to meet growing local and international competition. Exchanging skills and expertise is in the interest of all companies in the ROC. At the moment, obtaining work permits and visas is a burdensome task in the R.O.C.

(a) Approve work permits with longer time limits for foreigners with key skills and expertise and streamline the process for obtaining such permits. In addition, the newly added requirement of a health exam for insurance executives is unnecessary and unnecessarily strict. It therefore should be eliminated.

7. Intellectual Property

7.1 Taiwan was recently downgraded to "Special Mention" status on the United States Section 301 watchlist. This marks the first time Taiwan has not been on the 301 list since it was enacted in 1988.

7.2 We support passage of legislation amending the Copyright Law to give 50 years of retroactive protection for copyrighted works and granting patent priority filing rights. Once these laws are enacted, we support deletion of Taiwan's name from the 301 watchlist completely.

7.3 Support Taiwan's immediate accession to the WTO so that US businesses can benefit from the increased protection Taiwan's accession will bring to US products and services that rely on intellectual property.

8. Labor Issues

8.1 The current Labor Standards Law is outdated. More specifically, issues related to overtime pay and working restrictions on women having been based on the old Taiwan Factory Law and is not suitable for service industries, particularly white collar industries such as banking. Therefore, the government should suspend extension of this law until the law itself has been thoroughly reviewed, with public and industry participation, and altered to more closely fit the norms of developed economies. Otherwise this could lead to a decrease in foreign investment as well as substantial harm to Taiwan's attempt to become an Asia Pacific Regional Operations Center by the year 2000.

9. Marketing & Distribution

9.1 Increase transparency in available market data available (advertising, promotional, and consumer spending, product testing, etc.)

9.2 Increase government-related associations and industries to set industry-wide standards in the ROC in order to improve quality standards.

9.3 Taiwan's system of military and civilian commissaries unfairly distorts the retail business environment in Taiwan because the current operating and bidding procedures of the military PXs and civilian commissary organizations harm both manufacturers and private retailers. The PX/Commissary system needs to return to its original function of providing low cost necessities to government workers.

9.4 Restrict access of unauthorized personnel to commissary retail outlet stores, and limit the amount of goods an authorized

INDIVIDUAL MAY PURCHASE.

9.5 ESTABLISH A FAIR AND TRANSPARENT PRICE SETTING PROCEDURE THAT REFLECTS MANUFACTURERS' SAVINGS BASED ON THE VOLUME SOLD TO COMMISSARIES.

9.6 ESTABLISH AND PUBLISH A NEW PROCUREMENT AND PRODUCT LISTING GUIDELINE THAT REFLECTS CURRENT MARKET DYNAMICS AND REDUCES DIFFICULTY IN OBTAINING NEW LISTINGS.

10. MEDICAL DEVICES

10.1 THE RECENT INTRODUCTION OF THE NATIONAL HEALTH INSURANCE SYSTEM IS A STEP FORWARD FOR THE PROVISION OF HEALTH CARE SERVICE IN TAIWAN. HOWEVER, IN ORDER TO FURTHER INCREASE EFFICIENCY AND LOWER COSTS FOR PATIENTS, IT IS IMPERATIVE TO ESTABLISH A REIMBURSEMENT SYSTEM THAT IS MARKET BASED AND NOT GOVERNMENT DRIVEN.

10.2 ALLOW CLINICAL PRACTITIONERS TO DECIDE WHETHER NEW TECHNOLOGIES SHOULD BE ADOPTED. A GOVERNMENT BOARD IS NOT KNOWLEDGEABLE ENOUGH ABOUT PATIENT NEEDS, AND THEREFORE SHOULD INCLUDE A HIGH REPRESENTATION OF CLINICAL PRACTITIONERS.

10.3 ESTABLISH CLEAR AND ORGANIZED GUIDELINES FOR MEDICAL DEVICE REIMBURSEMENT AND SHORTEN REIMBURSEMENT APPLICATION PROCESSING TIMES. ALSO, ESTABLISH AN APPEAL SYSTEM FOR UNREASONABLE OR UNFAIR REIMBURSEMENT. THIS IS NECESSARY IN ORDER TO INSURE MARKET ACCESS AND A REASONABLE PRICE FOR MANUFACTURERS, LEADING TO INNOVATION IN THE INDUSTRY AND ALLOWING MANUFACTURERS TO INTRODUCE PRODUCTS WITH GREATER EASE.

10.4 END UNREASONABLE DEMANDS BY HOSPITALS FOR PROPRIETARY INFORMATION SUCH AS IMPORT AND MANUFACTURING COSTS.

10.5 ELIMINATE FINISHED PRODUCT TESTING REQUIREMENTS FOR PRODUCTS WHOSE MANUFACTURER CAN ALREADY PROVIDE CERTIFICATION TO QUALITY STANDARDS AND ELIMINATE CLINICAL TRIAL REQUIREMENTS FOR PRODUCTS SUCH AS CONTACT LENSES. A CHANGE IN THE MANUFACTURING SITE OR A SLIGHT MODIFICATION TO THE PRODUCT SHOULD NOT REQUIRE RE-TESTING. UNNECESSARY TESTS ARE NOT ONLY INEFFICIENT BUT COSTLY TO THE PATIENT.

10.6 SIMPLIFY THE REGISTRATION PROCESS FOR NEW MEDICAL DEVICES AND FOLLOW STRICT *DE JURE* GUIDELINES. DISCONTINUE DISCRIMINATION AGAINST FOREIGN MANUFACTURERS.

11. PHARMACEUTICAL INDUSTRY

11.1 FOSTER A MARKET ENVIRONMENT THAT FACILITATES THE INTRODUCTION OF NEW PRODUCTS, AS WELL AS ALLOWS FOR THE CONTINUED AVAILABILITY OF QUALITY MEDICINES. THIS WILL HELP REDUCE COSTS AND IMPROVE THE QUALITY OF HEALTH CARE BY ELIMINATING COSTLY SURGICAL OPERATIONS.

11.2 CHANGE THE PRICING STANDARD FOR PHARMACEUTICALS SUCH THAT PRICES OF GENERIC BRANDS ARE FRACTIONALLY BASED ON THE PRICE OF THE BRAND NAME AND NOT VICE-VERSA.

11.3 DECREASE ADMINISTRATIVE INTERVENTION IN THE INDUSTRY. SUCH INTERVENTION REDUCES THE DEGREE OF PROFESSIONAL FREEDOM AND INFRINGES UPON THE QUALITY OF HEALTH CARE.

11.4 PROVIDE PATENT PROTECTION IN LINE WITH INTERNATIONAL STANDARDS. THIS WILL ENHANCE EARLY AVAILABILITY OF INNOVATIVE PRODUCTS.

11.5 ABOLISH IMPORT TARIFFS, REDUCE REGISTRATION APPROVAL TIMING, AND RELAX RESTRICTIONS ON REGISTRATION AND MARKETING OF CERTAIN OVER-THE-COUNTER MEDICINES. WIDER SELECTION OF PRODUCTS AT MORE COMPETITIVE PRICES WILL HELP IMPROVE HEALTH CARE QUALITY AND RELIEVE THE STRAIN ON THE NATIONAL HEALTH INSURANCE BUDGET.

12. TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY

12.1 TARIFF AND PROFIT REGULATION SHOULD BE

HANDLED WITH A *LAISSEZ-FAIRE* APPROACH.

12.2 REQUEST THAT THE ACTUAL VALUES IN THE INTERCONNECT FORMULA FOR INTERCONNECTION RATES AND THE DATA SUPPORTING THEM BE MADE AVAILABLE FOR REVIEW BY BIDDERS.

12.3 CHUNG-HWA TELECOMMUNICATIONS CORP., THE BOARD OVERLOOKING THE PRIVATIZATION OF TAIWAN'S TELECOMMUNICATIONS MARKET, SHOULD STRICTLY ENFORCE A LAW AGAINST CROSS-SUBSIDIZATION TO PROMOTE FAIR AND FULL COMPETITION.

12.4 PROMOTE FULL COMPETITION FOR ALL CUSTOMER PREMISES EQUIPMENT.

12.5 PROVIDE FOR THE INTERCONNECTION AGREEMENT NECESSARY FOR A PRIVATE CELLULAR SERVICE PROVIDER TO OPERATE A NETWORK.

12.6 PROVIDE FOR THE ALLOCATION OF SIGNIFICANT FREQUENCIES TO FUTURE PRIVATE PROVIDERS OF CELLULAR SERVICES.

13. TRANSPORTATION ISSUES

13.1 AIRPORTS AND HARBORS NEED TO BE COST AND REGULATORY EFFICIENT IN COMPARISON WITH OTHER TRANSPORTATION CENTERS IN ASIA. OPERATE ALL PORTS ON A COMMERCIAL BASIS WITHOUT ARBITRARY RATE HIKES.

13.2 OPEN UP DIRECT AIR AND SEA LINKS WITH THE MAINLAND.

13.3 REVISE ARTICLE 306 OF THE CRIMINAL LAW TO MAKE IT ILLEGAL TO TRESPASS ON AN AIRPLANE.

13.4 ALLOW SELF-HANDLING AND COMPETITIVE HANDLING OPERATIONS AT ALL AIRPORTS AND HARBORS

13.5 STREAMLINE CUSTOMS PROCEDURES AND EXPAND TO 24 HOURS OF OPERATION.

Worldwide High-tech Hardware Production Value
(in US$million)

	1994	1995	Growth Rate
US	$60,307	$65,132	8.00%
Japan	$61,107	$63,551	4.00%
Taiwan	$14,582	$19,667	35.00%
Singapore	$11,420	$13,480	18.00%
Germany	[illegible],135	$7,492	5.00%
South Korea	[illegible]	$5,097	18.00%

PROJECTED SEMICONDUCTOR PLANTS

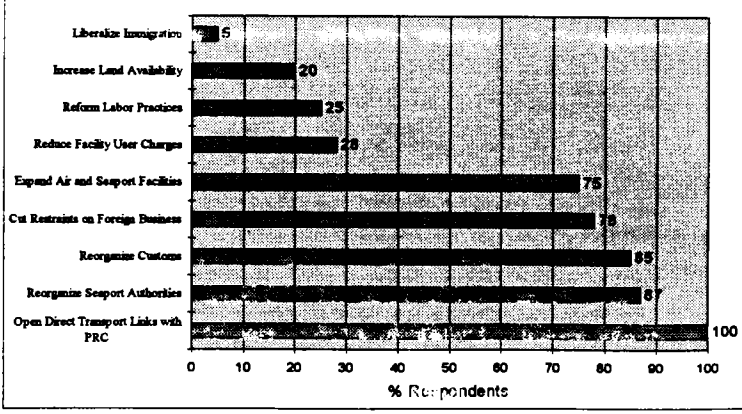
Company	Investment (NT$ billion)	Expected Completion	Products
Vanguard International Semiconductor Corporation	20	4Q 1996	DRAM/SRA
TSMC	30	October 1996	Foundry/OE
	25	1997	Foundry/OE
Ti-Acer	35	2Q 1997	DRAM
UMC	27	3Q 1996	Foundry/OE
	27	November 1997	Foundry/OE
	29.4	3Q 1997	Foundry/OE
Nan Ya	20	3Q 1996	DRAM
Powerchip	20	March 1996	DRAM
MMC (Hualon Group)	11	4Q 1996	Memory/ASI
Macronix	30	2Q 1997	NV Memory/Log
Winbond	35	1997	SRAM/Logic
Mosel	40	1H 1997	DRAM
AMC	20	1997	DRAM
Holtek	20	August 1997	MCU/ASIC

Taiwan's 1995 Share of Worldwide Computer Markets

	Worldwide Share
Mouses	72.00%
Motherboards	65.00%
Keyboards	65.00%
Scanners	64.00%
Monitors	57.00%
Network Cards	38.00%
Power Supplies	35.00%
Video Cards	35.00%
Graphics Cards	32.00%
Terminals	27.00%
Portables	27.00%
Router	22.00%
Sound Cards	22.00%
CD-ROM	11.00%
Desktops	10.00%

Survey of International Transportation Companies

What Changes Are Needed to Make Taiwan Your Company's Regional Operations Center?
Frederic Harris Survey Results



Chairman CRANE. Thank you, Mr. Murck.
Ambassador Samuels.

STATEMENT OF HON. MICHAEL A. SAMUELS, PRESIDENT, SAMUELS INTERNATIONAL ASSOCIATES, INC.; ON BEHALF OF NATIONAL FOREIGN TRADE COUNCIL, INC.; AND FORMER U.S. AMBASSADOR TO GATT AND DEPUTY U.S. TRADE REPRESENTATIVE

Mr. SAMUELS. Mr. Chairman, good afternoon. I am pleased to testify on behalf of the National Foreign Trade Council on the very important topic of the accession of China and Taiwan to the WTO.

The NFTC believes that as important as the accession of any single economy may be, the general subject of WTO accession is even more important, and I would like to make three points in this regard.

First, accession is a major challenge for the WTO. Applications to join the WTO are at an all-time high. The challenge is to ensure that all countries are encouraged to join, but that each accession preserves the basic integrity of the WTO rules and principles and achieves commercially viable and acceptable protocols. Deadlines and political pressures should not be the guiding force behind the accession process. The guiding force should be to strengthen the WTO's foundation for open global trade and investment and thereby enhance worldwide economic growth.

WTO membership requires obligations just as it confers rights. It is not universal or automatic. The United States should not allow an economy to accede to membership in the WTO unless it is confident that that country can fulfill all its obligations. My own experience in Geneva tells me that some ignore this distinction.

Second, it is in our interest to have as many economies in the WTO as possible. No economy should be denied entry for nontrade reasons.

WTO accession is an essential vehicle for normalizing and improving commercial relations with non-WTO members, especially for integrating them into the world economy on responsible and constructive terms.

Accession also offers significant leverage to WTO members to resolve outstanding commercial problems in a multilateral fashion that avoids bilateral disputes that can harm broader relationships. This is especially true for China.

It is in our strong interest that China become a member of the WTO. China is the fastest growing economy in the world and is strategically important to United States exports, jobs, and overall competitiveness.

Since the late seventies, the Chinese economy has undergone significant market-oriented economic reform, but it still has much further to go. It remains extremely difficult for many foreign firms to conduct business and trade with China.

The United States has led the way, through bilateral negotiation and trade brinkmanship, to address many of these difficulties. In most of our bilateral trade concerns, such as tariffs, intellectual property rights, investment restrictions, general lack of transparency in regulations and directives, or the discriminatory treatment accorded to foreign companies, WTO membership would help

resolve them. It will, for example, require the central government to enforce WTO obligations throughout China.

China, too, has much to gain from WTO membership. It will help lock in and promote the ongoing economic reform process that has been key to China's recent impressive economic growth. Adherence to WTO rules will also demonstrate China's willingness to be a responsible global economic player.

But, China's negotiators need to show a clearer willingness to undertake WTO commitments and obligations in order to move its accession process more quickly.

With respect to most-favored-nation status, the NFTC remains firmly behind granting permanent MFN for China. This would put an end to the counterproductive annual debate on MFN for China, and it is worth noting that MFN is one of the guiding principles of the GATT and WTO.

Third, the accession process takes time, and each accession should proceed at its own pace. It is a detailed negotiating process, and there are basic requirements that must be met. Minimal requirements from the NFTC's perspective should include the following:

First, full and effective adoption of all basic rules and principles;

Second, meaningful and substantial market access commitments;

Third, effectively addressing distortive nonmarket economy practices relating to State enterprises and restrictive trading rights;

Forth, adherence to short transition periods;

Finally, a standstill commitment on new trade and investment restrictions.

These should be reaffirmed at the WTO ministerial meeting in Singapore in December.

Recent accession terms, Mr. Chairman, for Mongolia, Bulgaria, and Panama meet these basic objectives. Immediately upon accession, these countries will adopt the WTO agreement on intellectual property without any transition period, and they will have no quantitative restrictions on investment restrictions banned by the TRIMS agreement.

The tariff packages reportedly also offer very favorable terms to other WTO members. There is also agreement to negotiate accession to key WTO plurilateral agreements, including the Government Procurement Agreement, an area of major importance to the United States.

If such countries as Mongolia, Bulgaria, and Panama could reach such terms and make such commitments, why cannot China and Taiwan?

I believe they can. They should. And I believe with good negotiations they will.

In sum, there are no shortcuts to minimal accession requirements.

Thank you for the opportunity to testify.

[The prepared statement and attachment follow:]

Testimony of Michael A. Samuels
President of Samuels International Associates, Inc.

on behalf of the

National Foreign Trade Council, Inc.

Before the
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representative

September 19, 1996

Mr. Chairman, Members of the Subcommittee, I am Michael Samuels, President of Samuels International Associates. Prior to establishing my own international consulting firm, I was Deputy USTR and U.S. Ambassador to the GATT. Subsequently, I chaired the National Foreign Trade Council's Trade and Investment Committee for five years. I am very pleased to testify today on behalf of the National Foreign Trade Council on the very important topic of the accession of China and Taiwan to the World Trade Organization (WTO). The NFTC has over 500 U.S. companies engaged in international trade and investment, and its membership is drawn from all sectors of the U.S. economy, including basic manufacturing, financial services, energy, high technology and agriculture.

The National Foreign Trade Council testified before your subcommittee earlier this year on the WTO and highlighted the issue of WTO accession as a key issue that should be addressed during the upcoming WTO Ministerial Conference in Singapore. More recently, in a letter to Ambassador Charlene Barshefsky, the NFTC recommended in greater detail the importance of raising this issue in a formal way at the Singapore Ministerial as one of seven overall objectives to focus on. I have attached a copy of the letter to our written testimony and ask that it be included in the hearing record.

The NFTC believes that, as important as the accession of any single economy may be, the general subject of WTO accession is even more important. Therefore, I would like to focus my remarks on the generic aspects of WTO accession, which apply to the accession of China and Taiwan, as well as the many other countries that are seeking to join the WTO. In this regard, there are three fundamental points the NFTC views as worthy of serious consideration.

The first point is that accession is one of the major challenges facing the WTO. Applications to join the WTO are at an all time high with over 30 countries seeking to accede to the already 122-member strong organization. This is not only a testament to the strength and importance of the WTO in promoting a vibrant multilateral trading system; it also presents a significant challenge to WTO members. That challenge is to ensure that all countries are welcomed and encouraged to join, but that accession is achieved in a manner that builds on the WTO in a progressive and credible way. That means preserving the basic integrity of the WTO rules and principles and achieving commercially viable and acceptable protocols. The fact that many of the countries that have applied to join the WTO are economies in transition from centrally-planned economies to market-oriented economies makes meeting this challenge particularly critical.

Deadlines and political pressure should not be the guiding force behind the accession process. Rather, the guiding force should be to improve and make stronger the WTO's foundation for open global trade and investment, and, thereby, enhance the WTO's enormous contribution to worldwide economic growth. The GATT and WTO's foundation is essentially

built on three pillars: 1) elimination and reduction of tariff and non-tariff barriers to international economic activity; 2) establishment of predictable, equitable and uniform rules that are designed to promote strong market economies; and 3) creation of mechanisms to ensure that basic obligations are met and rights are fully respected. It is critical to keep these pillars in mind during the WTO accession process.

In this context, it is worth noting that the WTO differs from many international organizations. Its membership is neither automatic nor universal. Membership requires obligations, just as it confers certain rights. The United States should not allow an economy to accede to membership in the WTO unless it is confident that country can fulfill all its obligations. My own experience in Geneva tells me that some forget this distinction for political reasons. The United States should not allow the WTO to become automatically universal.

A second point the NFTC would like to emphasize is that it is in the strong interest of both WTO members and non-members to have as many economies in the WTO as possible. This is particularly true for large growing economies and fast-emerging economies that remain outside the WTO, such as China, Russia, Taiwan and Vietnam, to name a few. WTO accession clearly offers major benefits to WTO members and those in the process of becoming WTO members. It is an essential vehicle for normalizing and improving commercial relations with non-WTO members, as well as integrating transitioning economies into the world economy on responsible and constructive terms. Moreover, the process of accession offers significant leverage to the United States and other WTO members to resolve outstanding bilateral trade and other commercial problems in a multilateral fashion that avoids disruptive, saber rattling bilateral disputes that can cause ill will and harm to broader relationships.

This is especially true for China. It is in our best mutual interest that China become a member of the WTO. As members of the subcommittee well understand, China is the fastest-growing economy in the world and is predicted by some to become the world's largest economy by the year 2000. The U.S.-China commercial relationship has grown substantially in recent years and China is strategically important to U.S. exports, jobs, and overall competitiveness, particularly throughout the entire Asia-Pacific region. And it will only grow in magnitude and importance over the coming years.

Since the late 1970s, the Chinese economy has undergone significant market-oriented economic reform, but it still has much further to go. It remains extremely difficult for many foreign firms to conduct business and trade with China. The United States has led the way through bilateral negotiations with China to address many of the difficulties faced in establishing a mutually beneficial trade and investment relationship with China. Both the 1992 Market Access Memorandum of Understanding and the more recent agreements on intellectual property rights between our two countries are examples of our bilateral efforts. We have had to use very strong trade brinkmanship time and again to gain these and other various trade agreements.

In key respects, WTO accession offers a better approach for addressing our various bilateral concerns with China. In most of our concerns, whether they be in the area of tariffs, intellectual property rights, trade-related investment restrictions, general lack of transparency in regulations and directives, or the discriminatory treatment accorded to foreign companies, WTO membership offers an effective and efficient way in which to address them. It will, for example, require the central government to enforce WTO obligations throughout the country.

China has much to gain as well from WTO membership. It will help lock in and promote the ongoing economic reform process that has been key to China's impressive economic growth over the past several years. It will also be the best demonstration of China's willingness to be a responsible global economic player by adhering to the WTO rules of the game. WTO membership will integrate China into the global economy and be a significant step toward normalizing and stabilizing its commercial relations with the United States and the rest of the world. Frankly, we would like to see a clearer demonstration of China's willingness to undertake the various commitments and obligations that are necessary in order to move more quickly its accession process in a forward and positive direction. While China's negotiators sometimes have

acted constructively and pragmatically, recently they seem to have reflected a more closed attitude toward the many issues that are part of the negotiation.

With respect to most-favored-nation (MFN) status for China, the NFTC remains firmly behind granting permanent MFN for China. This would put an end to the counterproductive and ineffective annual debate on MFN for China. Of course, it's worth noting that MFN is a cornerstone and founding principle of the GATT/WTO.

A third general area on which the NFTC would like to comment is the need to recognize that the accession process takes time. It is a detailed negotiating process and there are basic requirements that must be met. Such minimal requirements should include the following: 1) full and effective adoption of all basic rules and principles; 2) meaningful and substantial market access commitments; 3) effectively addressing distortive non-market economy practices relating to state enterprises and restrictive trading rights; 4) adherence to short transition periods, as appropriate; and 5) a standstill commitment on new trade and investment restrictions during the accession process and after accession.

Recent accession packages on Mongolia, Bulgaria and Panama are very promising in meeting all these basic objectives. It is our understanding, for example, that these countries will fully adopt immediately upon accession the WTO TRIPS agreement on intellectual property without any transition period and that they will have no quantitative restrictions or investment restrictions that are banned by the TRIMS agreement. The tariff packages reportedly also offer very favorable terms to other WTO members. They include, among other provisions, some adherence to the tariff reduction and harmonization agreement on chemical products. There is also agreement to negotiate accession to key WTO plurilateral agreements, including the Government Procurement Agreement -- an area of major importance to the United States. In significant ways these accession packages are models for others to follow.

The NFTC believes that no economy should be denied entry to the WTO for non-trade reasons. The accession of each economy should proceed at its own pace. When an accession negotiation has led to the satisfaction of all parties, an economy should be permitted to accede. At the same time, we recognize that the United States and other WTO members may need to be sensitive to the unique relationship between China and Taiwan with respect to timing of accession.

The Singapore Ministerial offers a major opportunity to focus on the critical issue of WTO accession by formally recognizing the importance of bringing all economies into the WTO. While welcoming and encouraging non-WTO members to formally join the premier multilateral trade regime, the Singapore Ministerial should also present a united front on the basic elements of the terms of entry for these countries. It should be made clear that accession terms must be in the best economic and commercial interests of WTO members and that they strengthen and preserve the integrity of the WTO. Finally, while each accession will be negotiated on its own terms, recognition should be given to the fact that there are no short-cuts to minimal accession requirements along the lines of those mentioned above.

Thank you for the opportunity to testify.

NATIONAL FOREIGN TRADE COUNCIL, INC.

1625 K STREET, N.W., WASHINGTON, DC 20006-1604

Tel: (202) 887-0278 FAX: (202) 452-8160

August 29, 1996

The Honorable Charlene Barshefsky
Acting United States Trade Representative
The Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Barshefsky:

On behalf of the 500 member companies of the National Foreign Trade Council (NFTC), I would like to provide the NFTC's views regarding the Singapore Ministerial. The NFTC believes that this first ministerial meeting of the World Trade Organization (WTO) is critically important to the United States and that we should approach it with ambitious, yet realistic expectations. More specifically stated below are the NFTC's overall recommendations for the Singapore Ministerial.

O Reaffirm the Importance of the WTO.-- The Singapore Ministerial offers the United States and its major trading partners the opportunity to reaffirm their commitment to the WTO in three important ways by: 1) recognizing its central role in promoting an open and equitable multilateral trading system; 2) demonstrating its major economic benefits; and 3) supporting it as a dynamic institution that must evolve in a progressive direction and timely manner to remain relevant. The WTO's biennial ministerial conferences provide a built-in mechanism for consolidating and advancing global trade and investment liberalization, and the NFTC urges continued strong U.S. leadership to assure such forward momentum at the Singapore Ministerial.

O Assess WTO Implementation.-- Ensuring that all WTO members are implementing their WTO obligations is the most basic requirement for the WTO to reach its full potential and operate effectively. The Singapore Ministerial should frankly assess the record on implementation, address problems where they might exist, and renew member countries' commitment to abide by the rules. Particular attention should be given to examining the dispute settlement system to determine how well it is working to resolve disputes in a timely and meaningful manner. Just as important is the goal of encouraging accelerated implementation of key agreements, such as those relating to intellectual property rights.

O Achieve Near-Term Additional Liberalization.-- One of the strongest endorsements in support of a dynamic WTO would be gaining greater market access liberalization during the Singapore Ministerial. This would build confidence in the WTO's new structure and capacity to advance open global trade without resorting to the past GATT practice of launching new

"rounds" of negotiations every several years. It would also give a positive impetus to the WTO's longer-term negotiating agenda. A Singapore Ministerial "down payment" on trade liberalization should at least include tariff elimination on high-tech products under the Information Technology Agreement (ITA). It should also include other products, such as wood and chemicals, which are covered under the Administration's existing residual tariff-cutting authority. The NFTC encourages continued U.S. focus at the WTO and in regional fora to secure a tariff package agreement as a major objective of the ministerial meeting.

O Lay Groundwork for Future Liberalization Around An Expanded Built-In Agenda.-- Unlike past GATT Rounds, the Uruguay Round Agreements contain a full agenda of ongoing action items, including specific dates for launching negotiations on services, agriculture and government procurement. This "built-in" agenda provides the main vehicle for future multilateral trade liberalization and for ensuring the WTO is relevant and up-to-date. One of the Singapore Ministerial's highest priorities should be agreement on the necessary work plan and other preparatory decisions to accomplish the ambitious goals set out in the built-in agenda. In addition to accomplishing this critical objective, the NFTC strongly supports encompassing other issues in the WTO's ongoing negotiating agenda. These issues should include further industrial tariff negotiations, as well as improvement of existing agreements, such as the one relating to preshipment inspection. The NFTC also endorses the Administration's efforts to reach agreement on an Interim Arrangement to establish greater transparency and due process in government procurement markets for all WTO members. It is an important step in itself and will promote broader adherence to the plurilateral Government Procurement Agreement. Finally, we recommend building on the WTO's limited investment rules by starting a process of discussion about appropriate next steps among WTO members, while at the same time concluding a comprehensive investment agreement at the OECD.

O Recognize the Vital Importance of Including all Major Economies in the WTO on Solid Accession Terms.-- At least 30 countries or territories are seeking to join the already 121-member strong WTO. Many of these countries, such as China, Russia and Vietnam, represent major emerging markets that will have a significant impact on the future direction and credibility of the WTO. While it is critically important that these countries become full fledged members, it is essential that accession terms be in the best economic and commercial interest of the United States, and that they strengthen and preserve the integrity of the WTO. The Singapore Ministerial should present a united front on the basic elements of the terms of entry for these countries by making clear that there are no short-cuts to the following minimal accession requirements: 1) full and effective adoption of all basic rules and principles; 2) meaningful and substantial market access commitments; 3) effectively addressing distortive non-market economy issues such as state trading rights; 4) adherence to short transition periods, as appropriate; and 5) a standstill commitment on new trade and investment restrictions during the accession process and after accession. In return, the United States should make clear that we are prepared to revise relevant U.S. trade laws in order to maintain a formal WTO relationship with, and grant permament MFN status to, all future WTO members.

O Prevent Major New Issues from Overwhelming More Important Agenda Items.-- While there is ongoing discussion of a variety of "new issues" that might be addressed at the Singapore Ministerial, including competition policy, the environment and labor, we should not expend limited resources and political capital on issues that are highly controversial and not sufficiently well-developed for the WTO. Moving in this direction will serve to the detriment of realizing more ambitious results in more traditional areas of trade, including quicker implementation of existing agreements and additional tariff cuts. The WTO, moreover, should not be burdened with issues that do not have clear trade links and are more appropriately addressed in other existing organizations. In that regard, the NFTC is particularly concerned about broadening the WTO agenda to include a "social clause," and believes the International Labor Organization (ILO) is the more relevant organization for dealing with labor standards and conditions. With respect to the WTO's Committee on Trade and the Environment (CTE), we urge the Administration to consult closely with the business community on any U.S. positions regarding the CTE's activities and to apply strict criteria to any linkages between the environment and WTO rules.

O Commit to Seeking New U.S. Fast-Track Authority Next Year.-- As a clear signal of our strong commitment to advancing the WTO's agenda in a meaningful fashion, the United States should make clear to WTO members that one of its highest priorities in 1997 will be to secure new fast-track authority. This is not only critical to accomplishing an ambitious future trade negotiating agenda, but it is central to continued U.S. global economic leadership. While we strongly support new fast-track authority, the NFTC remains opposed to encompassing labor and environmental issues within that authority.

Before concluding, I would like to express the sincere appreciation of the NFTC for your leadership and dedication to a strong and vibrant WTO. We are confident that your ongoing efforts and those of your excellent negotiating team will bring about a successful ministerial meeting of the WTO in December. The NFTC and its member companies hope our comments are helpful as you and your staff approach the final phases of preparation for the ministerial, and we would be pleased to assist you in any way to assure a positive outcome.

Sincerely,

Frank D. Kittredge
President

cc: Deputy USTR Jeffrey Lang
Assistant USTR Dorothy Dwoskin

Chairman CRANE. Thank you, Mr. Ambassador.

Mr. Mastel.

STATEMENT OF GREG MASTEL, VICE PRESIDENT, POLICY PLANNING ADMINISTRATION, ECONOMIC STRATEGY INSTITUTE

Mr. MASTEL. Good afternoon, Mr. Chairman. It is a pleasure to be here. I would also like to commend the Subcommittee for hearings on this important topic.

For the record, I provided the Subcommittee with an article that I recently authored that analyzes the issues associated with China's WTO accession. I would like to just spend a few minutes today highlighting some of the most important points.

The WTO accession negotiation with China has the potential to be the most significant trade negotiation in the next 10 years. Through these talks, the world's largest nonmarket economy is attempting to join the market trading system, a task of potentially historical significance.

The direct economic stakes in these talks are also significant. Consider a few statistics.

The Chinese economy is now growing at a pace that will make it the world's largest economy by early in the next century. China's exports have grown at more than three times the world's average rate for almost 2 decades.

In 1995 China's exports totaled about $150 billion, making it one of the world's top 10 exporters. Also in 1995, $38 billion in foreign direct investment flowed into China, making it the world's largest recipient of FDI after only the United States.

Unfortunately, despite this success, China has pursued a decidedly mercantilist policy. As a result of these constraints, with China's application to join the WTO, three different sets of issues need to be addressed.

First, traditional trade barriers. China maintains an array of formal tariff and nontariff barriers ranging from tariffs to import licenses to subsidies. China now maintains more WTO-inconsistent barriers than any other major trading country.

One set of such special formal trade barriers that deserve special attention are investment performance requirements. These are primarily requirements imposed upon foreign joint ventures compelling them to export most or all of their production from China and to transfer production technology to China.

On the scale that China is pursuing these performance requirements, they threaten seriously to distort world trade and skew comparative advantage.

As Ambassador Barshefsky said earlier, China has made some progress to reduce its formal trade barriers in recent years, but at the same time other barriers have been raised. The net effect is difficult to determine.

A second set of issues to consider arises from China's lack of an established rule of law. The recent dispute between the United States and China on intellectual property highlights this problem. China has had world class intellectual property laws on the books since 1992. Unfortunately, it also has had little effect on the burgeoning Chinese intellectual property piracy industry. In this case

and in others, Chinese officials seem either unwilling or unable to enforce international agreements and their own laws.

In recent years, China has either failed to enforce or has violated trade agreements on topics ranging from market access, transshipment of textiles, to intellectual property protection. The violations are serious enough to raise questions about the wisdom of negotiating trade agreements with China.

Finally, a number of serious problems are tied to the holdover of the Communist system in China. China has undertaken dramatic economic reforms in the last 2 decades. But, the Chinese economy still has one foot in communism. State-owned enterprises account for about one-third of China's GNP. China still issues traditional 5-year economic and central plans.

Import demand is set through consultations among three Chinese ministries, not the marketplace. And to import and export from China, approval or trading rights must be granted by the government.

This high degree of government involvement in the economy poses a serious barrier to establishing a normal trade relationship with China.

It is possible to address these concerns in a WTO accession agreement, but such agreement must require at least three things:

First and foremost, the Chinese Government must commit to real economic reform by a certain date. That should include accepting all WTO disciplines, perhaps after a phase-in period.

Second, all sides must examine innovative solutions to integrating into the WTO. Previous accession agreements with nonmarket economies, Poland and Romania, provide some useful models for use here.

Finally, given China's poor record of abiding by trade agreements, particular emphasis should be placed on enforcement and oversight.

WTO accession negotiations with China provide a unique opportunity to further the cause of reform in China and to make China a more reliable trading partner. It is an opportunity that the United States cannot afford to squander.

I look forward to your questions.

[The following was subsequently received:]

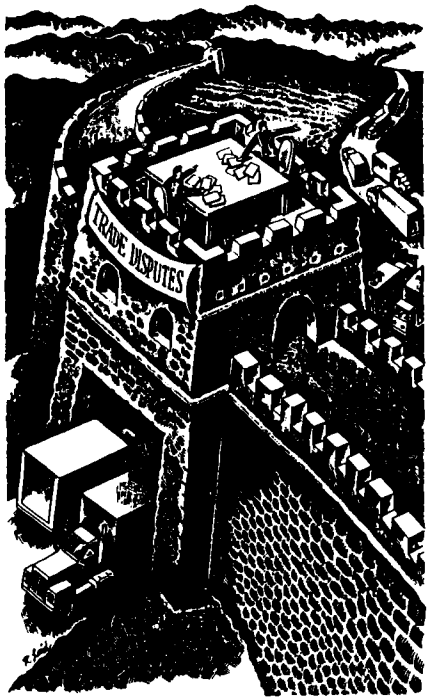


ILLUSTRATION BY BURDETT LAMB

FOREIGN POLICY

FALL 1996

Beijing at Bay

by Greg Mastel

With the Sino-American relationship under much stress, many "China hands" have viewed China's application to join the World Trade Organization (WTO) as an issue on which the United States could compromise in order to keep the peace. The United States, with the support of other major countries, has been delaying China's entry into the WTO until China commits to sufficient trade and market reforms. Arguing, however, that the Clinton administration is too legalistic in its approach to China's application, some China experts have urged that the administration put aside its concerns and support China's immediate entry into the WTO.

This view places political and security concerns above economic concerns. It has the ring of classic U.S. Cold War foreign policy decision making, a paradigm that has dominated U.S. policy toward China for decades. This viewpoint is dated and out of touch with current realities. China is an important player in the global economy. It is already one of the world's top 10 exporters and is expected to be the world's largest economy early in the next century. As a result, economic and trade issues with China are at least as important as security and political issues.

More importantly, the integrity of the WTO would be severely damaged if China were admitted without significant legal and economic reform. The WTO is more than a simple club of trading partners. The WTO—originally the General Agreement on Tariffs and Trade (GATT)—is a postwar institution founded to establish and pro-

GREG MASTEL *is vice president for policy planning and administration at the Economic Strategy Institute in Washington, D.C.*

mote the principles of free markets and free trade. Thus, simply being a big player in international commerce does not warrant WTO membership. The acceptance of key market principles—even if they are not always rigorously applied—should be the key test for WTO membership. Viewed in this light, China's compatibility with the WTO is open to question. In fact, there are three basic reasons to question China's current compatibility with the organization.

Chinese Trade Barriers. The most visible impediments to China's membership in the WTO are its formal trade barriers, including tariffs, import licenses, and subsidies. In recent years, these formal trade barriers have been lowered; however, others have appeared, and China still has considerably more formal trade barriers that are inconsistent with WTO membership than any other major country. These barriers have been the focus of WTO accession negotiations so far.

The negotiations on formal trade barriers have already proven contentious. In theory, however, the issues under discussion—tariffs, investment policy, etc.—have been addressed in previous negotiations (NAFTA, Uruguay Round). Thus, if the political will exists to reach an agreement, traditional trade barriers do not pose a conceptual obstacle to China's accession.

Rule of Law. The formal trade barriers, however, are only the tip of the iceberg. It is very difficult to ensure that any trade agreement will translate into changes in Chinese policy. China simply does not yet have a reliable rule of law. The current generation of leaders frequently pronounces that establishing the clear and consistent rule of law is a primary goal. The current leader of the National People's Congress, Qiao Shi, recently spoke of the importance of establishing the rule of law, as opposed to the rule of a strong leader, which has led to tragedies like the Cultural Revolution.

This issue may seem initially to have little to do with international trade negotiations, but China's lack of a rule of law presents almost insurmountable problems for WTO membership. In China, trade regulations and tariffs are set by national policy, but their implementation in different provinces and ports is inconsistent. Officials often are open to bribes, a practice that results in further inconsistency. Some laws are simply not enforced, particularly if it is profitable not to enforce them.

The severity of this problem was brought into sharp focus in a recent dispute over the protection of intellectual property. The United States has criticized China for not enforcing the bilateral understanding, struck last year, on the protection of intellectual property rights. In defense, Chinese officials cite the lack of central government control over provincial governments—and even over some operations affiliated with the People's Liberation Army.

The lack of a reliable rule of law governing Chinese behavior in international commerce raises serious concerns about China's readiness for WTO membership. After all, it does little good to negotiate trade agreements with a government that, by its own admission, is unable or unwilling to live by the agreements it negotiates. Before China can be considered a serious applicant for WTO membership, it must establish a reliable rule of law, at least in relation to trade and investment.

The Communist System. Another difficulty, closely related to the lack of a rule of law, is the presence of a still nearly totalitarian government. One of the issues that illustrates the problem, and is currently under discussion in the context of WTO membership for China, is the issue of "trading rights." Essentially, trading rights are granted to private enterprises to enable them to engage in foreign commerce without governmental approval. But Chinese citizens, or enterprises operating in China, do not automatically enjoy these rights. In WTO negotiations, China has proposed granting these rights, in a limited sense, to foreign entities operating in China but has been silent on extending similar rights to Chinese citizens. This issue highlights the expansive role of the Chinese government in commercial decision making. After all, if consumers do not have the right to purchase imports, what sense does it make to negotiate on tariffs and quotas?

The WTO, like the GATT before it, normally ignores the degree of political freedom a government permits. A number of WTO members have authoritarian governments. But now there is an increasing focus on the link between social freedom and the potential for conducting normal commerce. In the debate over congressional approval of the North American Free Trade Agreement, Senator Patrick Moynihan (D–New York) posed the question, "How can you have free trade with a country that is not free?" In his argument, Moynihan focused on the absence of both an independent judiciary and a corruption-free government to enforce trade and commercial regulations in Mexico, but an even more compelling argument can be made with regard to China.

There are several problems caused by the expansive powers and influence of the Chinese government. The first and most obvious is the continuing role of government planning in the Chinese economy. Since the late 1970s, China has undertaken considerable economic reforms and has moved toward creating a more market-oriented economy. Yet China is still—and intends to remain—largely a centrally planned economy. Although China is undertaking reforms, state-run industries are still responsible for a significant portion of China's gross domestic product, and they employ an enormous number of people and provide a major source of exports. China recently adopted another five-year economic plan and maintains extensive plans to support what it calls "pillar industries." Reaching beyond those industries directly owned by the state, new sectoral guidelines have been issued for the automotive and pharmaceutical industries, and there is reportedly a similar blueprint for the electronics industry.

China simply does not have a reliable rule of law.

These plans contain many policy elements inconsistent with the WTO, including import-substitution directives, local-content requirements, onerous investment requirements, and foreign-exchange balancing requirements. Even more troubling is the fact that the Chinese government clearly has no intention of ending the issuance of industrial guidelines. Despite assurances that future plans would be WTO-consistent, there is no evidence that recent industrial plans are moving in that direction.

Beyond the formal role of central planning, the pervasive presence of the government in Chinese society raises serious questions about the possibility of establishing a normal trading relationship with China. A large percentage of trading decisions, particularly with regard to infrastructure projects and agriculture, are made directly by government agencies, and the Chinese government has explicitly used foreign purchases and business deals as tools to promote foreign policy objectives.

Where the government's role in commercial decisions is direct, perhaps WTO provisions regulating government procurement and state trading could be of some help in regulating Chinese trading decisions. The Chinese government, however, has innumerable opportunities to tilt regulatory decisions in favor of, or against, any enterprise. The opportunities to harass foreign businesses are numerous, and the opportunities for WTO policing are limited, because there is rarely any formal paper trail, and there is often no formal decision.

More difficult still is moderating the informal role the government plays throughout society. The official Chinese press has been pounding away regularly at the United States on a variety of foreign policy issues, accusing the United States of seeking to "contain" China. In such a political environment, and given the need for government approval to thrive and even survive, can any Chinese citizen ignore government rhetoric when selecting business partners? With memories of the Cultural Revolution and Tiananmen Square very much in mind, the answer is almost certainly "no."

Historically, the GATT/WTO was conceived in part as an organization of market economies convened to assist the market world in its competition with the nonmarket world. Viewed in this context, the problem presented by the fact of the world's largest nonmarket economy seeking to join the WTO comes into focus. The Chinese government's influence over its economy may be so pervasive that the WTO trading rules will prove inadequate to create a "level playing field." Simply put, China retains too many features of the communist system to be easily married with the WTO.

The U.S. Interest

Ultimately, China's membership in the WTO seems clearly to be in the best interest of the United States, China, and the world. Assuming China is enticed to operate its economy within the terms of the WTO, membership would commit China to further economic reform. Such reform is likely to improve the life of the average Chinese citizen, make China a more reliable trading partner, increase trade opportunities, and stimulate economic growth worldwide.

China's membership is not, however, urgently required. Currently, the United States can regulate trade with China through bilateral negotiations and the application of domestic laws. Other countries can and have taken similar steps. For its part, China's trade with the world is already growing at an astounding rate. Over the last 15 years,

Chinese exports have grown at three times the world average rate. In short, all parties have alternatives to China's immediate membership, and, even if China is not able to join the WTO for some time, no serious problems will result.

Unfortunately, if China were allowed to enter the WTO without undertaking substantial reforms, the fallout *would* be serious. Under the accession agreement, China has suggested it would make no additional, immediate reforms and would do the minimum required of the world's weakest trading countries in order to join the WTO—while immediately gaining all the benefits of membership.

From the American perspective, the immediate implication of China's entry into the WTO is that the United States would have dramatically less leverage with which to address trade concerns. Currently, the United States can negotiate with China to improve the protection of intellectual property, to enhance market access, or to address other trade problems under threat of imposing sanctions on Chinese exports if the negotiations do not succeed. If China were a WTO member, WTO rules would bar sanctions on Chinese exports unless the WTO ruled in favor of the United States in the matter being disputed. Since China presumably would be bound only to the WTO's minimum standards and would be entitled to special treatment as a developing country, it is unlikely that the WTO would rule in any major country's favor.

The difference between what can be achieved bilaterally and what would be possible under the WTO is dramatic. For example, the bilateral commitments for the protection of intellectual property are in many respects superior to those required by the WTO. Of course, there have been serious problems in convincing China to abide by these bilateral commitments, but it is unlikely that China would be any more enthusiastic about honoring WTO commitments. Bilaterally, the United States has negotiated strong trade reforms that have benefited U.S. trading interests and Chinese economic reforms.

The negative consequences of allowing China to enter the WTO without committing to substantial reform go beyond harming the economic interests of China's trading partners and slowing the pace of reform in China. Another negative consequence is the precedent China's application would establish for other countries seeking WTO membership, including Russia, Saudi Arabia, Taiwan, and Vietnam.

In practice, these applications are not likely to proceed until after disputes over China's application are resolved. As a result, the terms of China's accession are likely to set a powerful precedent for these negotiations. Given the success of Chinese industry in world markets and the strength of the Chinese economy, WTO rules bent or broken to allow China's entry would almost certainly be bent or broken for weaker economies. As a result, the credibility of the WTO as the policeman of world trade would be severely damaged. The immediate effect would be that many countries would emulate China and refuse to dismantle their trade barriers. After all, if such a major trading country can successfully ignore WTO discipline, certainly smaller countries can keep their trade barriers in place. The longer-term result could be an increase in the already significant political dissatisfaction with the global trading system—in the United States and perhaps elsewhere—which threatens the system itself.

In the past, the trading community allowed a number of countries, notably Japan, to join the world trading system without demanding substantial adherence to its principles. The result was an erosion of the trading system's credibility, which the negotiations that created the WTO aimed to restore. Clearly, allowing countries to enter the world trading system without opening their markets has hurt the system in the past, and allowing China to follow suit risks placing the exception above the rule.

The global trading system is far from perfect. Despite flaws, however, the WTO provides discipline in international trade and has created some order where anarchy would otherwise prevail. Trade liberalization created under the GATT/WTO system has been one of the great engines of global growth in the postwar era, and there is the potential for further progress for decades to come. Weakening or destroying the system as a political favor to China would be an enormous economic and political mistake.

A Transitional Mechanism

The decision on China's accession need not come down to a black-or-white choice of either allowing China's immediate entry into the WTO or permanently blocking its membership. The challenges that must be confronted to integrate China into the WTO are larger than those faced in other accession agreements, such as those with Japan and Mexico. Nonetheless, in the 1960s there was

an effort to integrate three nonmarket economies—Hungary, Poland, and Romania. This experience suggests some possible elements of a transitional arrangement to do the same for China.

A three-part transitional arrangement could be devised for China's WTO accession. First and foremost, China would agree to accept WTO discipline within a fixed period of time. Second, since during the phase-in China would continue to maintain WTO-inconsistent policies, other WTO members would retain the right to unilaterally limit China's exports to their markets, either to prevent a market disruption or to retaliate for China's failure to fulfill its commitments. Finally, to ensure that the Chinese market would continue opening to imports, China would be obligated to increase imports by a fixed percentage each year. A similar approach was used both with Poland and, more recently, as part of the effort to open agricultural markets worldwide. With vigorous oversight and a real effort by China, such an approach could integrate China into the WTO.

It is certainly possible that negotiation of such an arrangement would take years. However, the trade relationship between China and the world has advanced over the last two decades without China's admission to the GATT/WTO. China's exports have grown strongly, its imports have increased, and many trade issues have been dealt with bilaterally. It is also possible that China may decide that it is not prepared to undertake such a negotiation at this time. Far from being a disaster, either outcome is preferable to allowing China to enter the WTO without making meaningful reforms.

Most of the "China hands" who suggest that China be allowed immediate entry into the WTO unfortunately are not "WTO hands," or even "trade hands." The more one understands the cost of such a gesture, the clearer it becomes that it would amount to granting an enormous trade concession in order to achieve ill-defined political benefits. Both the United States and China have compelling interests in developing a stable and mutually beneficial economic, security, and political relationship, and both must work to establish that relationship. Sacrificing a sound economic and trade relationship in the hope of achieving some temporary gains in other areas would be unwise policy. China should become a full-fledged member of the world trading system, but it should do so in a way that strengthens the system instead of undermining it.

Chairman CRANE. Thank you, Mr. Mastel.
Mr. Lardy.

STATEMENT OF NICHOLAS R. LARDY, SENIOR FELLOW, BROOKINGS INSTITUTE

Mr. LARDY. Yes, thank you, Chairman Crane, for inviting me to appear before the Subcommittee today. I have submitted a statement for the record, and I would like to just summarize very briefly some of the points that I think are the most important.

Everybody that has appeared before the Subcommittee so far today has agreed that it is in the United States interest that China become a member of the WTO. People have pointed out a number of advantages that will help us to deal with China more successfully on a multilateral basis on trade frictions rather than dealing with them exclusively on a bilateral basis. It may reinforce an impetus toward further economic reform within China. And most importantly, it has at least the potential for getting China on a time-specific schedule of reforms that brings them into compliance with the WTO standards.

I think virtually everybody has said that China must be a member of the WTO on a so-called commercially viable basis or some similar phrase.

The question we really have not adequately addressed, in my opinion, is whether or not this should be as a precondition for membership or whether China can achieve this status of coming into compliance with world standards over time.

The analogy that I use on this question is: It is like buying a house. We want China to buy the house, to agree to the structure of the international system and the principles that are in it. If we require China to come into complete compliance with all the specific provisions of this house, as a precondition for buying the house, I think they will remain outside the WTO indefinitely.

Rather what we should be offering them is a deal that has a downpayment that meets certain minimal requirements and then a period of time in which they come into compliance with all the rest of the provisions that everybody has addressed so far today.

But, I think the problem that we have had to date is that the preconditions have been too great. And why do I say that?

Quite simply, there are very few benefits now for China becoming a member of the WTO. They already have the single greatest benefit of the WTO, which is most-favored nation, permanent MFN status, in every country in the world except the United States. And, we have provided them with MFN status on a year-by-year basis for more than 15 years.

So, quite frankly, the world system and all the countries in it have already given away the biggest prize we have to offer for complying with the WTO standards.

So from China's point of view, on a cost/benefit analysis, they are not going to come in, in my opinion, to the WTO if they have to meet all of these preconditions.

As many witnesses have already indicated, there are significant portions of this economy which have not been transformed. The current political leadership, I believe, will not undertake to open up their economy fully to international competition on a very com-

pressed time basis. It would cause massive unemployment in China's major cities.

One has to keep in mind that even though this economy has transformed in many dimensions, two-thirds of all workers in cities in China depend on the state for jobs. Many of these state enterprises are not going to be viable in the long run, and China, from the point of view of political assessment believes it needs more time to undertake the kind of restructuring that will make it possible to move workers from sectors that may not be viable to those that will be, after China is subject to international competition.

So, I think we have a real dilemma. It is in our interest to get China in. We have already given away the main prize; that is, we, the United States, along with most other countries in the world. And the benefits to China from coming in now are quite small, relative to the real restructuring costs that they will have to undertake and the political risks that that represents for the regime.

Now the argument that is made on the gradualistic approach is, How do we really know that they will live up to an accession protocol that calls for them to take very specific reforms by very time-specific dates, that they may stand for for a number of years?

And, of course, at the end of the day there is no way we can be sure. But, we have to recognize that we do have some very powerful instruments at our disposal.

First of all, of course, we do have available all the tools provided for in United States trade law even after China becomes a member of WTO. We can use section 301 of the trade act; we can use sanctions under our IPR laws and so forth.

In addition, as several people have indicated, there can be a safeguard clause that is relatively strict that allows foreign governments, including the United States, to place quotas on products that are subject to surges of flows of commodities into our country.

Second, the protocol governing accession can be written to embody very tight reviews of the progress that they make. Charlene Barshefsky this morning was alluding to this trade policy review mechanism, which is set forth in the Uruguay round treaty, which can also be supplemented by further measures that make it more likely that there will be compliance.

I think finally we should take some note of the fact that China has come into international standards with respect to other international organizations.

For example after many years of consultation with the international monetary fund—it has come into compliance with article VIII of the IMF charter, which does not allow members to impose restrictions on making payments for current account transactions. It took them a number of years, but they worked closely with the IMF—many, many steps—and they are now in compliance. So, I think they do have a record.

So, I think what we should really be looking for is an agreement that calls for China to come into compliance with WTO. But, I think one has to be realistic and say, If this process is frontloaded and requires most of the change to be made either as a precondition or immediately after entry, China will probably choose to remain outside the WTO. And, I think that would be a tremendous

loss for the United States and for the international trading community for a couple of reasons.

First of all, this is the first time in the history of the WTO or the GATT that 1 of the 10 largest trading countries in the world has remained outside the disciplines of the WTO.

And, I also remind everybody that all the while the clock is running, we could have gotten—if we hold out for a perfect agreement, China will never come in. They will continue to have complete discretion on when they undertake reforms. And they have undertaken many reforms, as a number of people have indicated, but it has been purely on a discretionary basis with no time certainty.

If we had let China in on the kind of agreement that I am talking about 5 years ago, many of the phase-ins already would have been finished. They would have had to come into compliance.

Instead, where are we?

We are still talking about how the long list of things they must do is a precondition for entry. And, I think we would have been better served to get an agreement that calls for these things to happen over time, and we would have been further along today if we had embarked on this kind of a process a number of years ago.

In other words, what I am saying is: The clock does not really start running until we get an agreement that calls for all these time-specific reforms to be undertaken. I think it is very much in our interest that we begin that process.

Thank you.

[The prepared statement follows:]

STATEMENT OF NICHOLAS R. LARDY
SENIOR FELLOW
THE BROOKINGS INSTITUTE

It is very much in the long term interest of the United States, as well as important to the world trading system, that China soon become a member of the World Trade Organization (WTO). China, already the 10th largest producer of export goods, is the largest trading country in the world that is not already subject to the disciplines of the WTO. Indeed, never before in the history of the WTO or its predecessor, the General Agreement on Tariffs and Trade (GATT), has such an important trading country not been a member of the principal international body governing relations among trading nations.

There are at least two reasons China's membership in the WTO would serve US interests. First, the protocol governing China's accession to the WTO would not only provide for an elimination of non-tariff trade barriers and a very substantial reduction in tariffs but would also delineate the further systemic economic reforms to bring China into compliance with WTO standards. Some have described such a protocol as bringing China into the world trading system on a "commercially viable basis." Most importantly, the protocol would require that such steps be taken on a time specific schedule. China has reduced tariff and nontariff barriers significantly in recent years, but the timing of these steps has been entirely at China's discretion.

Second, bringing China into the WTO will provide a way for the United States to address inevitable trade frictions with China on a more multilateral rather than purely a bilateral basis. Recent history suggests that multilateral negotiations within an agreed international framework provide a structure that is more productive than bilateral negotiations followed by unilateral pressures and sanctions. The new dispute resolution procedures of the WTO, to which the United States contributed so much, are particularly important in this regard.

While such a protocol is in our interest, the history of negotiations over the past ten years shows that an agreement can not be achieved simply by offering China membership in the WTO. The process of China becoming a member of the WTO is already the most extended on record. China first formally indicated its desire to become a contracting part of the General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO, in July 1986. Seven months later it submitted a memorandum describing its foreign trade regime, a key step in the accession process. A GATT Working Party was appointed in June 1987 and the first meeting of the Working Party took place in February 1988. Since that time the Working Party has met formally almost two dozen times, and China also has conducted extensive bilateral negotiations on the WTO with its main trading partners. Thus the accession process started more than a decade ago and formal talks on China's accession to the GATT/WTO have been going on for nine years.

Negotiations for China's accession have been of record length for two closely interrelated reasons. First, as a transition economy there are some features of its trading system that are not compatible with the GATT/WTO system, which was created to facilitate trade among market economies. Although China has transformed dramatically many aspects of its domestic economic system, this transformation has been protracted. China has found it particularly difficult to dismantle the barriers that continue to protect significant portions of a state-owned industrial sector that grew up during a period of relative autarky, when international cost competitiveness was irrelevant. On the other hand, the United States, Europe, and Japan insist that China dismantle these barriers as a precondition for membership in WTO.

The second reason for China's protracted entry into the WTO is that the benefits China would attain through WTO membership are relatively modest. China's size and geopolitical influence are both sufficiently large that the single most important economic benefit associated with membership in the WTO--permanent most-favored-nation (MFN) trading status in the markets of member countries--was bestowed by all countries, except the United States, in advance of even any indication on China's part that it was interested in participating in the GATT system. And the United States has provided MFN status for China on a year-by year basis for more than fifteen years. With the principal benefit of membership already in hand, what is the incentive for China to incur the considerable costs of domestic restructuring and adjustment that would inevitably accompany the dismantling of their remaining import barriers? In short, the costs of conforming to expectations of the West on openness to trade

are relatively high for China while the gains from membership in the GATT/WTO are relatively small.

What is the solution to this apparent standoff, reflected in the lack of progress achieved in the most recent meetings of the Working Party? The central issue is not whether China becomes a member of the WTO on "commercially viable terms" but rather the length of time that China is given for meeting such terms. Some have argued that China must meet such terms as a precondition for membership. I believe that approach will result in China remaining outside the WTO indefinitely.

The appropriate analogy is buying a house. We want China to buy the "house," i.e. to come into compliance with the expectations of the established international trading system. We should not lower the price of the house, i.e. allow China to be a member on concessionary terms. In particular the international community should not agree to China joining the WTO as a "developing country," a status that automatically would provide it with the longest possible time periods for coming into compliance with some standards and would exempt China entirely from a few standards. What we should do is lower the down payment on the house to a level that is politically affordable to China. That means coming into compliance with many but not all WTO standards as a precondition for membership. And it means a "mortgage" of sufficient duration to allow China to come into compliance with those criteria that it is unable to meet at the outset.

Specifically, China should be allowed in a few cases relatively long phase-in periods for the dismantling the barriers protecting it's most sensitive industries. Long phase-in periods for some sectors would allow China to spread the very substantial costs of adjusting to international competition over a longer period of time, thus making them politically more manageable. The international community however, should insist on more rapid reduction of trade barriers in less sensitive sectors and immediate reforms with respect to transparency, trading rights, and other systemic features of China's trading system. The latter reforms would be of considerable immediate benefit to firms that seek to trade with or invest in China. In short, the down payment should be reduced but it should still be substantial.

The main criticism of this approach is that it runs the risk that once China is a member it may not fulfill its obligations under the protocol and would in effect be given a free ride. This perspective overlooks three elements. First, the US government will still have available all of the tools provided for in US trade law. The US government will still be able to investigate Chinese trade practices under the provisions of Section 301 of the US Trade Act and impose sanctions, if warranted. Disagreements over intellectual property rights can also be addressed unilaterally, if conditions warrant. In addition, surges in exports of Chinese goods to the United States that either cause or threaten to cause serious injury to the US industry can be addressed under the Agreement on Safeguards of the Uruguay Round Treaty. That agreement allows countries to impose quantitative restrictions on imports under certain conditions.

Second, the protocol governing Chinese accession can be written to embody very tight reviews of the progress China makes over time in coming into full compliance with the time specific commitments set forth in the protocol. These periodic reviews could be conducted under the provisions of the Trade Policy Review Mechanism set forth in the Final Act of the Uruguay Round, supplemented or modified as specified in the protocol in order to provide more assurance of compliance.

Third, China's record in its participation in international organizations provides some basis for confidence that China would meet the obligations specified in any protocol it signed. One example is China's relationship with the International Monetary Fund (IMF). When China joined the IMF in 1980 its foreign exchange system was extremely distorted. The value of the domestic currency was highly overvalued and China was nowhere close to meeting its obligations under Title VIII of the IMF Charter, which limits the ability of members to "impose restrictions on the making of payments and transfers for current international transactions."

Over the next 15 years China undertook a series of important reforms of its foreign exchange system. These steps included several major devaluations, the introduction of a secondary swap market for some types of foreign exchange transactions, increased access to foreign exchange for Chinese with approval to travel abroad, the unification of the foreign exchange market at the beginning of 1994, and the introduction of convertibility for trade

transactions (also at the beginning of 1994). The culmination of this process was earlier this year when China announced that by allowing foreign firms access to the interbank market to purchase foreign exchange for in order to be able to remit profits, it would achieve convertibility on all current account transactions. At almost every step the role of the IMF in providing guidance and advice was critical. This example suggests that China has established a credible record in meeting the obligations inherent in membership in major international economic organizations.

In addition to allowing China longer phase in periods to meet WTO standards, the United States should take the lead in insuring that the economic benefits that China would receive from membership in the World Trade Organization are at least somewhat proportional to the very real costs that still will be associated with coming into compliance with WTO standards over time. Two possibilities seem most obvious. The first would be for the United States to provide China, upon its entry into the WTO, with the benefits of the phase-out of the Multifiber Agreement (MFA) specified in the Uruguay Round Trade Agreement. Assuming that the United States will invoke Article XIII (Non-Application of Multilateral Trade Agreements between Particular Members) of the WTO, unless there is a separate provision to that effect, China will not be eligible for the phase out of the MFA in the US market.

Second, the United States should pledge to repeal, at a specific point in the future, the Jackson-Vanik Amendment, as it applies to China, so that Chinese goods would be eligible for most-favored-nation treatment in the US market. This repeal should be made conditional on China's living up to the specific provisions agreed to in the protocol governing its membership in the WTO.

In summary China's membership in the WTO would serve US interests. But China's trading partners have already conveyed the principal benefit associated with WTO membership and the domestic economic costs to China of coming into compliance with international trade standards will be high. Given this unfavorable benefit to cost ratio, China is not likely to agree to membership under a formula that requires them to meet all international trade standards as precondition. Thus the United States should take the lead both in drafting a protocol that provides long phase-in periods to mitigate the costs China will face in restructuring its domestic industries to meet the full force of international competition and in taking other steps that would increase the benefits China would receive in exchange for agreeing to an acceptable WTO protocol.

Chairman CRANE. Thank you, Mr. Lardy.

Mr. Murck, how long would you estimate it will take for the government in Taiwan to implement the concessions necessary for WTO entry?

Mr. MURCK. I think that can be done relatively fast. Most of the legislative framework is in place. There is a domestic political consensus that WTO entry is in the long-term economic and political interests of Taiwan.

And, I think that although some further legislation will be required that this can be done, say within a 6-month timeframe.

Chairman CRANE. Let me throw another question out to any and all of you and that is, If Taiwan came into WTO as—well, what is the designation?—a customs territory like Hong Kong?—would that make them go ballistic on the mainland?

Mr. MURCK. I will defer to my colleagues. And, I obviously cannot speak for the mainland's attitudes. I think that will depend partially on the extent to which Taiwan's entry is politicized, and that is one reason why I do not advise friends of Taiwan to link Taiwan's WTO accession to a measure which would seem to criticize, punish, or in other ways impinge on the PRC's process.

Chairman CRANE. Do any of you have thoughts on that?

Mr. SAMUELS. The government of the PRC has made noises as if to indicate that it would, indeed, in your words, "go ballistic" if that happened.

But good negotiating, not just with the United States involved, but perhaps even with the encouragement between the authorities and the authorities in Beijing, could bring about the kind of focus on the kind of substantive issues that the WTO should be concerned about and depoliticize this.

I do not believe it is out of the question that that could happen, but right now the emotions are greater than the substance.

Mr. MASTEL. I think it is important to keep in mind that the United States last year exported almost twice as much to Taiwan as to China. And so, we have a commercial interest in getting a good, strong accession agreement with Taiwan in place. It could mean additional opportunities for the United States.

It is certainly true the Chinese are likely to have—well, they have great political sensitivity about Taiwan's accession, to say the very least—but I am not sure that the United States has really tested the limits yet on that issue. For many years, they have been under pressure to look into moving Taiwan's application forward. I am not sure we have worked as hard as we might in terms of lining up alliances and other trading powers to try to move the application forward.

Chairman CRANE. Do you have any thoughts, Mr. Lardy?

Mr. LARDY. Yes, I do. I think the prospect you are talking about is probably largely theoretical. I think that China—I do not think there will be a consensus in the working party to move the Taiwan accession forward, even if Taiwan does all the things that are necessary, you know, immediately.

And the reason is quite simple. I think that China has made it clear to the members of the working party that it is very much opposed to Taiwan's accession prior to its own. And, I do not think that the Europeans and other countries in the working party are

going to support Taiwan's accession in advance of China's. And, I do not think there is very much we can do about that, for the reason that Charlene Barshefsky was hinting at when she said, Really the accession process, getting an accession out of the working party, is very much a consensual process.

We might, as Mr. Mastel suggests, be able to bring about a few people to a point of view of supporting Taiwan on the merits, but I think the numbers of countries that will take that position will be, in the end, extremely small.

Chairman CRANE. Ambassador Samuels, do you believe our trading partners in the WTO, such as Japan and the European Union, are cooperating adequately with us in the China working party?

Mr. SAMUELS. I think that one of the unfortunate developments over the last few years has been that the United States has found itself in the leadership and much more vocal on some of these issues than commercially should have been allowed to have taken place. And, I think that that is partially the fault of U.S. negotiators themselves.

I do think now, however, that there is a widespread view within the working party amongst most of the trading nations that China needs to do quite a bit more and take more seriously the negotiating process.

It might appear in the press as if the United States is really in the forefront and taking all the feedback on this. But, I do not believe in the working party that that is actually what is taking place. I do believe that at this point in time none of the countries, particularly the major trading partners, have satisfied themselves of China's commitments to the kinds of things they are interested in.

And as a result, because of the lack of apparent political commitment on the part of the Chinese officials, no country has reached an agreement, and negotiations are not really going very far right now.

Chairman CRANE. And a final question for any or all of you: Are you comfortable with the economic reforms that have taken place on the mainland and feel reasonably confident there will not be any backsliding in the future?

Mr. MASTEL. Well, I am not sure anyone could be comfortable about that. I mean, given the political situation in China, there is no way to really predict the future. China has made some important steps forward.

I think it is important to recognize that there still are many steps left to go, and maybe the WTO process can help us to move China down that path if we do it correctly.

But, it is very difficult to have great confidence in the future. China has made a lot of steps. But, there are still within the Chinese Government competing factions who have different views about how to proceed.

So, I guess we will have to sit back and watch and see what happens.

Mr. SAMUELS. I would agree with those comments, but I would also note that one of the advantages to both Chinese and non-Chinese of participation as a member in the WTO is that that is a way to freeze policies and move them forward to avoid back-

sliding, that the external obligation that comes from WTO membership serves a very useful purpose for both the reformers in China and for those on the outside who want to see China behave in the way that most countries behave in the trading system today.

Mr. MURCK. Mr. Chairman, I would just add that I think the business community, both in the United States and internationally, has made it very clear with its investment dollars that they perceive a favorable long-term environment in China and that this process is irreversible.

From the point of view of the Chinese business community in Taiwan, their cumulative investment in the People's Republic now exceeds 25 billion United States dollars, and I do not believe that those investments would have been made if a significant number of them thought that the Chinese process was likely to be reversed.

Mr. LARDY. I will just add a supplement to what I said earlier. One of the reasons that I think that China will not come in unless it is given some phase-in periods in certain very sensitive industries is that I think it is not as far along the path of reform as perhaps we have judged.

I think the State-owned sector in particular is proving to be a much more difficult problem for China than it had anticipated only a few years ago. They thought they would be able to finesse this by having a rapidly growing non-State sector. That has not provided a long-term solution for the problems in the State sector that I have alluded to, the fact that it still employs the bulk of the people in urban areas, the fact that some portions—significant portions—of this sector appear to be relatively economically inefficient. They are losing money; they cannot repay their bank loans.

Similarly I would point out that keeping too much of the State sector going has had very adverse effects on their banking system. So, they are facing a major problem in terms of not just in restructuring State-owned firms, but also restructuring their entire financial system.

I think these are going to be two enormous challenges for them, and I think they want to have some control over the time period in which they undertake these adjustments. That is why I have suggested that I do not think they are going to come into the WTO if we require them to undertake to fully open their economy to international competition early in the process. Certainly, some sectors can be opened right away. But, they will have to be provided with some fairly long phase-in periods for other sectors. Otherwise I believe their judgment will be that they are better off outside the WTO rather than inside.

So, my views are closely correlated. The reason I think we will have to offer fairly long phase-ins on some sectors in order to get them to agree to a commercially viable protocol is my assessment that some of these sectors are extremely large and extremely weak.

Chairman CRANE. Well, I want to thank you all for your testimony today and urge you please to stay in contact with us. As I stated at the outset, this is our last hearing of this session of Congress. But, this whole debate will be going on with the reconvening of the next Congress.

So keep us abreast, and thank you so much.

Our next and final panel is made up of representatives in the textile and semiconductor industries.

Oh, wait a second, gentlemen. We are about to have the final vote over there, so we will recess momentarily. You can get comfortable in your chairs up here or wherever, and as soon as this vote is over, we will reconvene.

[Recess.]

Chairman CRANE. Our next and final panel includes Mark Anderson, director of the AFL–CIO Task Force on Trade; Daryl Hatano, vice president of International Trade for the Semiconductor Industry Association; Robert Hall, vice president and International Trade Counsel for the National Retail Federation; and Charles Bremer, director of the International Trade Division for the American Textile Manufacturers Institute.

And I apologize, gentlemen. I do not control that activity on the floor, and I thank you for your patience and waiting, and we will proceed in the order I introduced you.

STATEMENT OF MARK A. ANDERSON, DIRECTOR, TASK FORCE ON TRADE, AFL–CIO

Mr. ANDERSON. Good afternoon, Mr. Chairman. Thank you very much.

The AFL–CIO appreciates this opportunity to present its views on the possible accession of the People's Republic of China to the World Trade Organization.

The importance of these hearings cannot be overstated, and continued congressional oversight and involvement is necessary to ensure that the interests of the United States are protected.

In this regard, Mr. Chairman, the AFL–CIO strongly supports proposals requiring congressional approval before the President supports admission of the PRC into the World Trade Organization. The terms of an accession agreement must be carefully examined and weighed alongside U.S. interest, and a public debate and vote will ensure that such an examination takes place.

The negotiations that are currently taking place that hope to establish the conditions under which the PRC may join the World Trade Organization need to address the basic contradiction of marrying the PRC's undemocratic political structure and command economy with an institution that presumably is designed to promote and serve democratic political institutions and market-oriented economies.

Without substantial and far-reaching change on the part of the Chinese, such a marriage is doomed to failure and can only result in continued harm to United States workers.

Over the 12 years, United States merchandise trade with China has deteriorated from a rough balance to a deficit that reached $34 billion last year. It continues to grow in 1996.

United States investment in China has soared with committed investment now reported to be an almost unbelievable $25 billion.

These shifts in trade and investment reflect an explicit Chinese policy of export-led growth supported by an economic regime that is discriminatory and nonreciprocal, a labor market that prohibits free and independent trade unions, and a political and military structure that oppresses its citizens on a huge scale.

Because of these practices, accession negotiations will be extremely difficult.

If the PRC is to achieve WTO membership, a variety of elements must be made part of any agreement. Let me touch on a few.

First, the United States must be allowed to continue conditional most-favored-nation treatment for Chinese goods and services with the provisions of Jackson-Vanick remaining in force. We believe that this is particularly important because of the current nondemocratic, nonmarket character of the Chinese Government and economy.

In this regard we believe that it is inappropriate to change the term "most-favored nation" to one that connotes normalcy. We are of the view that there is nothing normal about the United States-China trade and investment relationship.

Second, China, as one of the world's largest trading economies, must join as a developed nation, undertaking completely all of the obligations of the World Trade Organization.

Third, China's unacceptably high tariff barriers must be fully dismantled and bound at levels commensurate with United States levels. For example, tariff levels at 100 percent for autos cannot be tolerated.

Fourth, and very importantly, all discriminatory trade-related investment measures, including foreign exchange requirements, trade balancing requirements, local content requirements, export requirements, tech transfer requirements, domestic sales restrictions—the list goes on and on—must be expressly eliminated in an agreement. These requirements have been particularly harmful to U.S. workers in the auto, aircraft, electronics, and telecommunications industries.

And, finally we believe that it is essential for the United States Government to continue to seek an agreement with China to, at the very least, support the establishment of a working party on worker rights in the World Trade Organization.

Mr. Chairman, the AFL–CIO does not seek the isolation of China or the elimination of trade and investment. Rather we seek a relationship that will benefit working Americans and where the rules of trade are fair and equitable.

This, sadly, is currently not the case, and any accession agreement must ensure change by the Chinese to remedy the harm currently being done to United States workers.

Thank you very much.

[The prepared statement follows:]

Statement of Mark A. Anderson, Director, Task Force on Trade
American Federation of Labor and Congress of Industrial Organizations
Before the Subcommittee on Trade
Committee on Ways & Means
U.S. House of Representatives
on
The Possible Accession of the People's Republic of China to the WTO

September 19, 1996

Mr. Chairman, members of the Committee, the AFL-CIO appreciates this opportunity to present its views on the possible accession of the People's Republic of China (PRC) to the World Trade Organization (WTO). The importance of these hearings cannot be overstated, and continued congressional oversight and involvement is necessary to ensure that the interests of the United States are protected. In this regard, the AFL-CIO supports proposals requiring congressional approval before the President supports the admission of the PRC into the WTO. The terms of an accession agreement must be carefully examined and weighed alongside U.S. interest. A public debate and vote will ensure that such an examination take place.

The negotiations currently taking place that hope to establish the conditions under which the PRC may join the WTO need to address the basic contradiction of marrying the PRC's undemocratic political structure and command economy with an institution that is presumably designed to promote and serve democratic political institutions and market oriented economies. Without substantial and far-reaching change on the part of the Chinese, such a marriage is doomed to failure, and can only result in continued harm to U.S. workers.

These negotiations also pose a series of more fundamental questions:

What are the conditions under which the United States trades with the world? Are there any standards or rules that should be observed? Are certain narrow commercial interests identical to the interests of the nation as a whole? The talks with China put those questions and others in sharp relief, and how they are answered will tell us a lot about this country's adherence to basic principles and whether or not the growing internationalization of the economy can be structured to benefit and not harm working Americans.

In 1994, the World Bank described China's trade strategy as "mercantilist, motivated by achieving export growth for the sake of generating foreign exchange without sufficient regard to costs, and linked with attempts to contain import growth." In many respects, this approach has been quite successful for China, but detrimental for the United States.

International trade now accounts for 40 percent of China's total economy, with hard currency reserves reaching $73 billion. In recent years, Chinese exports have grown at three times the average world rate, making China one of the world's ten largest exporters. As a result of this strong export growth, together with restrictions on imports, China enjoyed an overall trade surplus of $20 billion in 1995, while the U.S. recorded an overall deficit of $160 billion.

Over the last dozen years, U.S. merchandise trade with China has deteriorated from rough balance to a deficit that reached $34 billion in 1995. While U.S. exports amounted to $12 billion, imports reached $46 billion and represented 31 percent of China's worldwide exports. In contrast, U.S. exports to China were only 2 percent of total U.S. exports.

U.S. investment in China has also soared with committed investment now reported to be an almost unbelievable $25 billion.

These shifts in trade and investment reflect an explicit Chinese policy of export led growth, supported by an economic regime that is discriminatory and nonreciprocal, a labor

market that prohibits free and independent trade unions, and a political/military structure that oppresses its citizens on a huge scale.

Because of these practices, accession negotiations will be extremely difficult.

If the PRC is to achieve WTO membership, the following elements must be made part of any agreement:

* The U.S. must be allowed to continue conditional MFN treatment for Chinese goods and services. The provisions of Jackson-Vanik must remain in force, and the U.S. must be able to utilize Sec. 301 of the trade act.

* China, as one of the world's largest trade economies, must join as a developed nation, undertaking completely all the obligations of the WTO. In addition, adherence to at least the Civil Aircraft Agreement, the Government Procurement Code, and any future multilateral steel agreement must be required. Discipline in these areas is particularly important because of the pervasive involvement of the Chinese military in commercial activity.

* China's unacceptably high tariff barriers must be fully dismantled and bound at levels commensurate with U.S. levels. For example, tariff levels of 100 percent for autos cannot be tolerated.

* All nontariff barriers and import licensing requirements must be eliminated prior to WTO membership.

* All discriminatory trade related investment measures, including foreign exchange requirements, trade balancing requirements, local content requirements, export requirements, technology transfer requirements, and domestic sales restrictions must be expressly eliminated in an agreement. These requirements have been particularly harmful to the U.S. auto, aircraft, electronic, and telecommunications industries.

* Full transparency of laws and regulations affecting trade and investment must be achieved.

* Immediate application of WTO rules on intellectual property protection, as well as the elimination of controls on audio-visual imports are essential.

* The specific inclusion in an agreement of the right of WTO members to take special safeguard actions against Chinese goods that are being imported in such quantities as to cause harm to domestic production is vital. Such a provision is needed in order to address the non-market character of the Chinese economy.

* Finally, an agreement with the Chinese government to support the establishment of a working party on worker rights in the WTO should be sought.

Mr. Chairman, the AFL-CIO does not seek the isolation of China, or the elimination of trade and investment. We seek a relationship that will benefit working Americans; a relationship that puts the U.S. on the side of the oppressed, not the oppressors; a relationship where the rules of trade are fair and equitable; and a relationship that understands that this country has interests that are more important than the balance sheet of an individual corporation.

Chairman CRANE. Thank you, Mr. Anderson.

And our next witness is Mr. Hatano.

STATEMENT OF DARYL HATANO, VICE PRESIDENT, INTERNATIONAL TRADE AND GOVERNMENT AFFAIRS, SEMICONDUCTOR INDUSTRY ASSOCIATION

Mr. HATANO. Thank you, Mr. Chairman. Thank you for this opportunity to present the views of the U.S. semiconductor industry.

The SIA supports China's accession to the WTO, but only if it is done on a sound commercial basis. U.S. semiconductor makers employ 260,000 people in the United States. Our products are the enabling technology behind the nearly $400 billion U.S. electronics industry, which provides jobs for 2.5 million Americans.

Half of our industry's revenues are outside the United States, making open markets essential for our continued growth and success.

The Chinese semiconductor market currently is estimated to be nearly $3 billion, and it is growing at a rapid rate. Demand for semiconductors in China has grown about 24 percent annually over the last 10 years, and China has the potential to become one of the world's largest semiconductor markets over the next 10 years.

Presently, Chinese producers can only supply about a quarter to one-third of China's semiconductor needs, and these are often low-end devices used primarily in consumer appliances.

Virtually all sophisticated semiconductors needed by Chinese electronics firms must be imported, creating a major commercial opportunity for United States producers.

Today I would like to highlight four items which we believe must be key United States negotiating objectives for China's WTO accession. They are: Discouraging Government pressure to transfer technology; protecting intellectual property; providing trading rights; and, finally, eliminating tariffs.

First, with regard to technology transfer, the Chinese Government is seeking to develop its domestic chip industry by persuading foreign firms to invest in China and transfer their technology to Chinese firms through joint ventures and other partnership arrangements.

In return, it is suggested that increased market access will be available to those firms willing to share their technology. Discouraging such practices must be a primary objective of our U.S. negotiators.

Other investment restrictions in China also may force United States firms to transfer technology to Chinese firms. For example, if a company wishes to establish a manufacturing plant in China, it is expected to export a certain percentage of its production. But, there are no uniform rules. Each arrangement is negotiated on a project-specific basis, and the percentage to be exported can be lower if the foreign firm transfers technology. These investment restrictions must be eliminated.

In fact, I believe that China's development will be faster if United States firms are encouraged to transfer technology on the basis of commercial considerations rather than on the basis of such government pressure.

Second, last year the U.S. chip industry invested $6 billion in R&D, so intellectual property protection is critical.

China's current level of technological development does not permit it to illegally use advanced United States products. However, China's capabilities in the semiconductor sector are rapidly advancing, so it is essential that China commit to full implementation of all WTO intellectual property obligations as soon as possible, as Ambassador Barshefsky said earlier today.

This is in China's interest, as it will encourage investments in China and investments from outside of China.

Third is the more general issue of reform of China's trade regime including elimination of existing restrictions on trading rights for foreign firms.

In response to Representative Houghton's questions, Ambassador Barshefsky explained about the trading rights issue, so at this point I would only like to say that if United States companies lack the right to import and export goods and to sell and service their products in the Chinese market, it will be very difficult to ensure that any other reforms will produce a truly open market.

Finally, on the issue of tariffs, China has already made some progress. Earlier this year, China lowered its semiconductor tariffs from as high as 20 percent to a maximum of 12 percent, and 6 percent for most integrated circuits. But, these tariffs are still high compared to America's zero tariffs. And, China recently reimposed tariffs as high as 35 percent on semiconductor manufacturing equipment, adding a significant burden to United States companies seeking to invest in that country.

The elimination of China's chip and equipment tariffs serve the interests of both United States producers and their Chinese customers.

I am pleased to say that USTR is working very hard to ensure that China obtains membership in the WTO only after making these essential reforms. We support continuing that approach.

Mr. Chairman, thank you for this opportunity to present the views of the Semiconductor Industry Association, and I will be pleased to answer any questions.

[The prepared statement follows:]

STATEMENT OF DARYL HATANO
VICE PRESIDENT, INTERNATIONAL TRADE
AND GOVERNMENT AFFAIRS
SEMICONDUCTOR INDUSTRY ASSOCIATION

HEARING ON ACCESSION OF CHINA AND TAIWAN
TO THE WORLD TRADE ORGANIZATION

SEPTEMBER 19, 1996

I appreciate this opportunity to appear before the Subcommittee on Trade of the Committee on Ways and Means to present the views of the Semiconductor Industry Association (SIA) on the accession of China and Taiwan to the World Trade Organization (WTO).

Before discussing the SIA's position on these important issues, I would like to take a minute to give some background on the U.S. semiconductor industry.

The U.S. Semiconductor Industry

Semiconductors are an increasingly pervasive aspect of everyday life, enabling the creation of the information superhighway and the functioning of everything from automobiles to modern defense systems.

U.S. semiconductor makers employ 260,000 people nationwide. Their products are the enabling technology behind the nearly $400 billion U.S. electronics industry, which provides employment for 2.5 million Americans.

The U.S. semiconductor industry is currently the world market share leader, with 1995 world sales reaching $59 billion, representing almost 41 percent of the $144 billion world market. Moreover, the world semiconductor market is expected to double by the year 2000, with projected sales of over $300 billion.

U.S. semiconductor producers are highly committed to maintaining their lead in both semiconductor manufacturing and technology. The U.S. semiconductor industry devotes on average 20 percent of its revenues to capital spending and another 11 percent to research and development -- among the highest of any U.S. industry.

While investing heavily in the industry's future competitiveness and technological capabilities, SIA members also have always actively sought to secure foreign market access for U.S. products. Because the semiconductor industry is so global in nature -- roughly half of the U.S. industry's revenues are derived from overseas sales -- the SIA has been dedicated since its inception to promoting free trade and opening world markets.

For example, the U.S. industry has been in the forefront of efforts to eliminate tariffs on semiconductors and related products worldwide. At the SIA's urging, both the United States and Japan eliminated their semiconductor tariffs in the mid-1980s. Today, the SIA is pushing for other nations to eliminate their semiconductor tariffs, through such means as the proposed Information Technology Agreement.

Given China's potential to become the largest single market for semiconductors in the world within a few decades and Taiwan's growing domestic semiconductor manufacturing capability, the SIA believes it is essential that the United States ensure that China and Taiwan accede to the WTO on a commercially sound basis. Because the focus of the SIA's efforts in recent years with respect to WTO accession has been on China, the focus of my testimony today will be on the question of China's accession to the WTO.

Semiconductors in China

U.S. semiconductor firms are making substantial commitments to expand their market presence in the Peoples' Republic of China. At the same time, China is seeking to foster its own electronics industry, with a particular emphasis on microelectronics, and is rapidly moving to integrate its economy more fully into the world trading system. As part of this process, the Chinese Government and its electronics industry are inviting closer contacts with the U.S.

semiconductor industry, and significant opportunities and challenges have already become evident. In response to these developments, the SIA determined several years ago that an examination was needed of the issues confronting the U.S. semiconductor industry as a result of its growing presence in China and China's emergence as a major trading power with a rapidly emerging electronics sector.

The result was an SIA study on China released in February 1995 entitled "Semiconductors in China: Defining American Interests." The study was intended to be a contribution to the information base necessary to support a constructive dialogue on issues of mutual interest and concern as commercial and technological ties grow between the U.S. and Chinese industries. The following information is based on that study and updated information gathered through a series of annual trips to China undertaken by the SIA to foster a better understanding of the Chinese market and to explain to Chinese officials U.S. semiconductor industry concerns regarding China's trade and economic regime.

While statistical data on Chinese semiconductor demand and output are limited, the market currently is estimated to be nearly $3 billion and it is growing at a rapid rate. From 1985 to 1995, the average growth rate in semiconductor demand in China has been about 24 percent per year. A number of observers believe that in light of China's growing domestic demand for electronics products, China will become the world's largest semiconductor market in 10-15 years.

Presently local production can only supply about 25 to 33 percent of China's semiconductor needs, and these represent primarily low-end devices used in consumer electronics products like refrigerators, washing machines, radios, and televisions. Virtually all sophisticated semiconductors needed by Chinese electronics firms must be imported, a pattern that will not change significantly over the short run. This continuing shortfall creates a major commercial opportunity for U.S. producers.

At the same time, the Chinese Government, through its Ministry of Electronics Industry, is undertaking a significant effort to develop a competitive domestic Chinese semiconductor industry. While most semiconductor technology in China is currently at the 1.2 micron level, the Chinese Government is undertaking a number of projects designed to obtain cutting edge manufacturing technology at 0.35-0.50 micron level, which would allow the Chinese industry to compete with the U.S. industry and other key world semiconductor producers.

The focus of this Chinese Government plan to develop its own industry is an effort to persuade foreign firms to invest in China and share their technology with Chinese firms through joint ventures and other partnership arrangements. In return, suggestions are made that increased market access may be made available to those firms willing to transfer technology. Reform of such practices must be at the heart of any agreement to admit China to the WTO.

Policy Issues Relating to China's Accession to the WTO

The SIA supports China's bid to join the WTO, but only if that accession is accomplished on a commercially sound basis. In this regard, the SIA has a number of concerns with regard to trade and investment in China, including: (1) Chinese targeting of particular sectors, including microelectronics in general and the semiconductor industry in particular; (2) intellectual property protection; (3) China's trade regime, especially with regard to limitations on trading rights; (4) China's tariffs on semiconductors; and (5) investment restrictions in China, including those related to government pressure to transfer technology. These particular concerns are outlined below:

1. Targeting of certain industrial sectors may restrict U.S. market opportunities. The Chinese Government has designated four "pillar" industries for targeting as essential to the nation's long-run economic future: Automobiles, electronics, machinery and petroleum/petrochemicals. Within electronics, emphasis has been placed on microelectronics. Promotional measures are typical of those previously undertaken by many countries:

- Creation of several large national champions through consolidation of enterprises and the channeling of funds on a preferential basis to the favored entities.

- Acquisition of advanced technology from foreign companies, most commonly through joint ventures.

- Establishment of numerous Chinese versions of "Silicon Valley," encouraging clusters of high technology development within designated zones through a combination of tax preferences, trading and other commercial privileges, soft loans, and infrastructural assistance.

- Mobilization of the nation's research institutes toward specific commercially-oriented tasks.

To date, the auto industry is the only one of the four pillar industries currently operating under a formal policy. However, that policy has a number of provisions which violate WTO rules.

There are recent reports that the Chinese Ministry of Electronics Industry also has drafted an electronics industrial policy which is now being circulated to other Chinese Government ministries for comment. A final policy plan may be issued sometime in the latter half of 1996. While no details are currently available, earlier reports indicated that this plan might follow the approach of the auto policy and could proscribe foreign majority ownership of semiconductor firms, establish export performance requirements for Sino-foreign joint ventures, and provide the basis for eventual displacement of foreign semiconductors in the Chinese market by domestically-made devices. Of particular concern to the U.S. semiconductor industry are policies to pressure foreign firms to transfer advanced technology. If such policies were adopted, the SIA believes that they would prove counterproductive over the long run because they would discourage the foreign investment necessary to promote China's technological, economic and market development.

The 1992 U.S.-China Memorandum of Understanding (MOU) on Market Access provides that China will eliminate the use of import substitution policies and measures. However, a number of the elements outlined above are arguably inconsistent with this commitment. WTO rules also limit China's ability to establish local content requirements. The SIA believes that any future policies governing China's economic development should adhere to the provisions of the 1992 MOU and WTO rules. The negotiation of China's accession to the WTO provides the appropriate forum for obtaining commitments by China to make the necessary reforms.

2. Intellectual property protection is inadequate. China has enacted patent, copyright, and trademark laws, but their credibility requires strengthened enforcement. While there has been no piracy of semiconductor intellectual property to date, the primary constraint at present on misappropriation of U.S. semiconductor designs is China's level of technological development, which does not yet permit it to manufacture advanced U.S. products. However, China's capabilities in the semiconductor sector are rapidly advancing. Therefore, the SIA takes very seriously all issues relating to intellectual property protection in China and strongly supports the efforts of the U.S. Trade Representative over the last few years to negotiate agreements with China to ensure increased enforcement of Chinese patent, copyright and trademark laws.

Of particular concern to the semiconductor industry at present is the fact that compulsory licensing remains authorized under Chinese patent law whenever "necessitated by the public interest." The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) -- to which China is not yet a signatory -- prohibits the compulsory licensing of semiconductor technology except in certain limited circumstances. China must revise its law to bring it into conformity with the TRIPs Agreement as part of its accession to the WTO.

Accession to the WTO would also require China to enact specific legislation extending intellectual property protection to semiconductor layout designs (maskworks). The SIA has been told that a draft maskwork protection law has been prepared by the Ministry of Electronics Industry and is now under review by the Chinese Patent Office. This is a positive development and every effort should be made to encourage the Chinese Government to continue to move forward on this front as expeditiously as possible.

The SIA believes that China's Protocol of Accession to the WTO should commit China to abide by the obligations of the TRIPs Agreement without any significant transition period -- certainly no longer than a year. This is in China's interest as it will encourage the high technology foreign investment it seeks as part of its effort to promote the development of its economy.

3. China's trade regime needs restructuring and does not currently conform to WTO requirements. China's foreign trade regime is a complex system with many anomalies which hamper the operations of U.S. firms in China:

- "Trading rights," (e.g., the ability to import and export from China), are limited to designated enterprises, including foreign-invested firms, which can trade products they manufacture in China. U.S. firms doing business in China that lack such rights must conduct their business through firms that hold such privileges. Moreover, a foreign company generally cannot sell or service end products not made in China. This includes the importation of spare parts. These limitations are significant impediments to U.S. firms' ability to access the Chinese market, and, if not eliminated, may undermine the benefit of other trade liberalization measures agreed to by China.

- Transparency is inadequate. Rules and procedures are frequently not published, and are subject to varying "interpretations" by individual officials. The Chinese Government is struggling to eliminate corruption. Many products are imported through Hong Kong by Hong Kong-based trading companies using a variety of complex and circuitous channels. Smuggling is a major problem.

- Foreign firms are charged more than domestic firms for a variety of business expenses in China. Although this practice reportedly is being eliminated, advertising costs, hotels rates, airfare, and office rental rates, for example, all can run from 20 to 100 percent higher than the rates charged domestic firms. Local employees must also be hired through designated foreign employment services companies, which may collect as much as half the salary paid for the employee's services.

- While foreign exchange controls were substantially liberalized in July 1996, the continued non-convertibility the local Chinese currency injects an element of uncertainty in business operations for many U.S. firms.

China must commit to a broad range of reforms to its trade regime as outlined in the next section of my testimony as part of its Protocol of Accession to the WTO. These reforms should include: Uniform administration of its regime, elimination of limitations on trading rights for foreign firms, increased transparency of its trade regulations and tariffs through full publication with a period for public comment prior to implementation of any new rules or regulations, provision of an opportunity for independent judicial review, and non-discriminatory imposition of import and export licensing requirements and elimination of such requirements by a date certain.

4. China's tariffs on semiconductors must be reduced. China's desire to enter the WTO as a "developing country" reflects, in substantial part, its desire to use high tariffs to protect its targeted industries, notably electronics. While China has made strides in the right direction, lowering its semiconductor tariffs from as high as 20 percent to a maximum of 12 percent in the last year, these tariffs are still high compared to the zero tariffs imposed on semiconductors by the United States, Japan, Canada and Mexico. These tariffs tend to be higher on low-end semiconductors which China can make domestically, and lower on complex devices which must be imported.

A related problem concerns the very high tariffs -- up to 35 percent -- recently reimposed by China on semiconductor manufacturing equipment and other capital equipment imported into China. At the end of December 1995, China's State Council announced that as part of a series of major reforms in its import tax regime it would eliminate previously existing tariff and value added tax (VAT) exemptions for imports of capital equipment for foreign enterprises, effective April 1, 1996. Until this change, foreign-owned companies in China and Sino-foreign joint ventures did not have pay a VAT or duty on capital equipment imports. Now these companies must pay an import duty plus a VAT of 17% assessed on the value of the equipment plus the customs duty. Given that tariffs on capital equipment continue to be relatively high, this combination significantly raises the cost of capital imports.

The SIA believes China's best interests would be served by eliminating tariffs on semiconductors, semiconductor manufacturing equipment, and personal computers. The SIA believes that elimination of these duties would spur development of a competitive microelectronics industry in China, as it has in other nations.

5. Investment restrictions in China limit U.S. market opportunities and may force U.S. firms to transfer technology to Chinese firms. While Chinese officials, especially at the local and provincial level, are quite interested in promoting foreign direct investment in China, a number of complex and negotiable requirements exist for foreign-owned ventures. These rules place a number of restrictions on foreign investment in various sectors:

- 100 percent foreign ownership of manufacturing facilities is permitted in China, but as a general rule, it appears that, under an unpublished policy applicable to the electronics industry, 100 percent of such a facility's output must normally be exported. A 70/30 foreign majority-owned joint venture is generally required under the same policy to export 70 percent of its production, but there are no uniform rules; each arrangement is negotiated on a project-specific basis. For instance, one U.S. company reportedly has negotiated the export requirement out of its contract, but agreed instead to reinvest all profits earned from domestic sales.

- Despite the absence of any explicit legal obligations to meet specific export percentages (except for purposes of obtaining preferential tax treatment or qualifying to establish a wholly foreign-owned enterprise) many U.S. companies have been pressed by the Chinese approval authorities to agree to export targets. Although such rules are not always enforced, a company can legally be held accountable for non-compliance at a future date.

- There are localization requirements for parts and materials for products made in China which are not technically legal requirements, yet firms must file localization plans with their foreign investment application. Furthermore, the Chinese Government audits foreign firms to determine local content and what constitutes local content can be subject to many definitions. For example, importation via a Chinese distributor can qualify a part as "local." Chinese industrial policies, such as the auto industrial policy, also contain local content requirements.

Such requirements may be imposed not only as strict legal obligations, but also as a quid-pro-quo for preferential treatment by individual officials at the national or sub-national level. These measures are often used as levers to obtain transfer of technology from foreign firms. Elimination of these investment restrictions would benefit China as well as its trading partners by encouraging greater investment in China and thereby speeding the development of China's capabilities in high technology manufacturing.

Terms of China's WTO Accession

Reform of the above areas must be part of the WTO accession negotiations for China if it is to enter the WTO on a commercially sound basis. The SIA recommends that the following specific reforms be included in China's Protocol of Accession to the WTO:

Technology Transfer. Every effort should be made to ensure that the Protocol includes commitments by China not to impose de jure or de facto requirements to transfer technology on foreign firms seeking market access or the right to establish and operate facilities in China. Such requirements may be imposed not only as strict legal obligations, but also as a quid-pro-quo for preferential treatment by individual officials at the national or sub-national level. Therefore, it is essential that the broadest possible conception of principles of non-discrimination and national treatment be established in the Protocol. Furthermore, this must be done not only in the sections of the Protocol concerning non-discrimination, but also in the sections relating to uniform administration of the trade and tariff regimes, trading rights, non-tariff measures, import and export licensing, and trade-related investment measures. These measures are often used as levers to obtain transfer of technology from foreign firms.

Intellectual Property Protection. China must commit in the Protocol to full implementation of the obligations of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and should agree to meet these obligations as soon as possible -- certainly no later than within one year of its entry into the WTO. China should also enact a maskwork protection law, as specified in the TRIPs Agreement, as soon as possible.

Reform of Trade Regime. China must commit to a broad range of reforms to its trade regime. These reforms should include:

- Elimination of existing restrictions on trading rights for foreign firms. If foreign enterprises lack the right to import and export goods, and sell and service their products in the domestic market, it will be very difficult to ensure that other proposed trade and economic reforms produce a truly open market in China for U.S. firms.

- Full observation of the principle of national treatment. This requires a commitment by China not to condition governmental actions, approvals or contracts, including the offer of preferential treatment under China's trade and investment regime, upon commitments by foreign firms to meet certain performance requirements, including in particular the transfer of technology. National treatment should be specified to mean that no preferential arrangements shall be established that are linked in any way to requirements relating to investment restrictions, technology-transfer, local content, export performance or limitations on domestic sales. Reform of these practices should be a central aspect of reform China's trade regime.

- Uniform administration of its trade and investment regime. Uniform application should be specified to mean that no preferential arrangements shall be established that are linked in any way to requirements relating to investment restrictions, performance requirements of any kind, including in particular transfer of technology, local content, export performance, limitations on domestic sales, or on the nationality or nature of the enterprise.

- Increased transparency of its trade regulations through publication with a period for public comment prior to implementation of any new rules or regulations.

- Provision of an opportunity for independent judicial review, especially in areas such as intellectual property protection where legal enforcement measures are critical.

- Elimination of existing import and export licensing requirements.

Tariffs. China must also commit in the market access negotiations first to bind all its semiconductor tariffs, and then to reduce progressively to zero these tariffs over a set period of time, not to exceed ten years. The Republic of Korea committed in the Uruguay Round to eliminate its semiconductor tariffs over five years; China should do the same.

Investment Restrictions. As noted above, all forms of investment restrictions, including export performance requirements, local content requirements, and limitations on domestic sales, should be prohibited to the fullest extent possible in accordance with WTO rules.

The SIA strongly supports the efforts of USTR and those of everyone in the Administration to ensure that China obtains membership in the WTO only after making the economic reforms necessary to ensure that its market access commitments are not nullified and impaired by a non-transparent and non-uniform trade regime.

Taiwan

Taiwan is becoming a significant manufacturer of DRAM memory chips and electronics products like personal computers, although it still imports the vast majority of the semiconductors used in its electronics industry. Taiwan is unlikely to shift its reliance on foreign semiconductor products in the near future; some experts have predicted that the import market will grow at 15-

20 percent per year until the turn of the century. Such demand means that there will be significant opportunities for SIA member companies in that nation. However, there are also a number of issues that should be considered as Taiwan seeks accession to the WTO:

- Tariff elimination: Taiwan maintains semiconductor tariffs of about 1 percent, which it has said it will eliminate if permitted to enter the WTO. Obtaining this tariff elimination would be an important step toward the SIA's goal of tariff-free trade for semiconductors worldwide.

- Intellectual property: Taiwan adopted its own maskwork protection law in July 1995. The enforcement of this law should be reviewed and monitored on an active basis.

- Targeting: The Taiwan Government's efforts to promote continued technological improvements and increases in the capacity of Taiwanese chip producers should be reviewed to ensure their consistency with WTO rules.

As with China, every effort should be made to ensure that Taiwan enters the WTO on a commercially sound basis.

Conclusion

The Chinese and Taiwanese semiconductor markets represent major opportunities for the U.S. industry, but there are significant risks and hurdles to be addressed as well, especially with regard to the rapidly growing Chinese market.

In microelectronics, China could become one of the world's leading producers, and, as such, it warrants continued monitoring. Ongoing bilateral and multilateral negotiations with China over the terms of its full integration into the world trading system can be utilized to address those aspects of the Chinese system which are problematic from the perspective of the U.S. semiconductor industry.

The U.S. Government is actively pursuing resolution of U.S. industry issues of concern in the negotiations concerning China's accession to the WTO and the SIA strongly supports the efforts of USTR and other U.S. Government agencies in this regard. Meanwhile, in meetings with the SIA, officials of the Chinese Government and its electronics industry have demonstrated receptivity to many of the U.S. industry issues of concern outlined above. The SIA believes that the potential exists for a productive joint effort to address these issues in the context of China's accession to the WTO.

Chairman CRANE. Thank you, Mr. Hatano.
Mr. Hall.

STATEMENT OF ROBERT HALL, VICE PRESIDENT AND INTERNATIONAL TRADE COUNSEL, NATIONAL RETAIL FEDERATION

Mr. HALL. Thank you, Mr. Chairman, good afternoon. I am Robert Hall, vice president and international trade counsel of the National Retail Federation, the nation's largest trade association representing the American retail industry, and we thank you and the Members of the Subcommittee for scheduling this very important hearing on the accession of China and Taiwan to the WTO.

I feel confident that your Subcommittee's work can lead to a better, more coordinated United States Government approach to dealing with two of our most important trading partners, China and Taiwan.

The United States retail industry urges caution to both Congress and the administration as you proceed in WTO accession talks with China and Taiwan. We should negotiate tough, but fair, accession protocols that serve not only the Chinese and Taiwanese interests, but also the interests of all segments of American industry and American families. We urge that United States negotiators to not bow to domestic protectionist sentiments, but rather to treat China as the important trading partner it is, both as a growing United States export market and a significant source of products that American families buy every day.

The Federation supports the earliest possible admission of China and Taiwan to the WTO as part of a broad administration policy of engagement and cooperative trade relations with these two very important economies. The longer they are not bound by international trading rules that help to make trade more stable, the more difficult it is to trade and invest with them. Our opportunities to export to them, import from them, and invest in them are severely restricted by both uncertainty regarding the stability of the relationships on the one hand, and by specific tangible barriers to trade and investment on the other.

The Clinton administration has recently embarked on an important initiative to stabilize the political and economic relationship with China. This relationship has suffered greatly and unnecessarily over the last year. Important United States trade and investment opportunities in China were lost in the process.

It is indeed time to make a concerted effort to build a stronger relationship on a platform of cooperation and mutual respect. This is a direction in which we are both now headed and thankfully in time to have a positive effect on bringing China and consequently Taiwan into the WTO.

It is in this spirit that the Federation strongly supports extension of permanent most-favored-nation tariff treatment to China. It is in the interest of American families to do so.

The annual renewal ritual increases uncertainty, making it very difficult for retailers, who typically place orders with China 18 months ahead of delivery to source from China, yet it is China that offers American consumers value-priced goods, as well as goods like

silk apparel that are simply not available from other manufacturers, even those in the United States.

The uncertainty of continued MFN forces retailers to gamble. Should we pay more to buy the goods we could have gotten from China from other suppliers, so that we can know for sure what price we will pay for them and pass that higher price on to consumers, or should we risk against the uncertainty of sourcing from China, hoping that MFN will continue so we can pass the cost savings on to American families?

The dramatic drop recently in imports of apparel from China, which was 31 percent, shows you how significant an impact this uncertainty can have. In many instances, retailers and importers opted to source goods from countries other than China, countries where continued MFN was assured and where retaliation of perceived wrongs was not likely.

The Federation also strongly suggests that Congress and the administration not permit textile trade issues to become stumbling blocks that set us back from our broader goals.

Unfortunately our dealings with China on textile issues so far threaten to do just that. Just last week, while lacking the evidence to bring criminal or civil charges, the Office of the U.S. Trade Representative nevertheless punished China by reducing its quota for instances of transshipment of certain apparel products, and China has reacted with concern at this action.

More important, we are approaching the expiration of the bilateral textile agreement with China. Renewal of that agreement is of paramount importance to retailers and American families.

We would prefer the renewal to include some improvements to the pact, improvements we have already suggested to USTR. However, if opening the agreement threatens a host of disputes and further restrictions on United States textile and apparel imports from China, then retailers would simply prefer a rollover of the existing agreement.

Again, our aim is to preserve the United States-China relationship to improve the terms of the dialog and to foster the mutual respect that will ultimately bring China into the WTO as soon as possible. A long and contentious negotiation over the contents of a new, more protectionist United States-China textile agreement should not be permitted to threaten that ultimate goal.

With the introduction of the textile bill by Congressman Spratt recently, the United States textile and apparel industries have already laid a proposal on the table to severely restrict China's access to United States textile and apparel markets as part of the price China would have to pay for United States support to join the WTO.

But, how can we hope to gain greater access to China's textile and apparel markets when we are so quick to close ours to them?

Remember the ATC, the Agreement on Textiles and Clothing, as part of the GATT, does very little to liberalize United States tariffs on Chinese imports, just quotas. If we put off quota liberalization as the textile industry requests why should not China and Taiwan put off their textile trade liberalization to the disadvantage of United States exporters, including United States textile manufacturers and United States cotton producers?

In trade with China, we have crossed the bar of intrasectoral trade battles. As we learned from the IPR debate earlier this year, the United States retaliation list had very little to do with the items being pirated by some of the businesses in China. Similarly, the Chinese counterretaliation list had even less in common with the United States list. The United States targeted textile and apparel imports, toys, consumer electronics, while the Chinese Government listed United States agricultural products, telecommunications equipment, and heavy machinery, among others, as its targets for prohibitive tariffs.

Our two-way trade is more linked now than ever. We should not play protectionist politics with China in the hopes we can contain the collateral damage within a single sector that we could sustain in an unnecessary trade war.

Our trading relationship has grown far more complicated. And as we set out to improve our trading relations with China, we should never forget these strategic issues.

Mr. Chairman, America's retailers stand ready to assist you and other Members of this Subcommittee in your efforts to ensure that the United States negotiates a tough, but fair, protocol with the Chinese Government and, in turn, the Taiwanese Government, and we thank you for allowing us to testify.

[The prepared statement follows:]

TESTIMONY OF ROBERT HALL
NATIONAL RETAIL FEDERATION

I. Introduction

Good afternoon, I am Robert Hall, Vice President and International Trade Counsel at the National Retail Federation ("the Federation"), the nation's largest trade association representing the American retail industry. Our membership includes the leading department, specialty, discount, mass merchandise and independent stores, as well as 32 national associations and 50 state associations. Our members represent an industry that encompasses over 1.4 million retail establishments, employs more than 20 million people, 1 in 5 American workers, and registered 1995 sales in excess of $1.3 trillion.

Mr. Chairman, the American retail industry thanks you and members of this subcommittee for scheduling this important hearing on the accession of China and Taiwan to the World Trade Organization (WTO). I feel confident that your committee's work can lead to a better, more coordinated U.S. government approach to dealing with two of our most significant trading partners, China and Taiwan.

The U.S. retail industry urges caution to both Congress and the Administration as you proceed in WTO accession talks with China and Taiwan. We should negotiate tough, but fair, accession protocols that serve not only Chinese and Taiwanese interests, but also the interests of all segments of American industry and American families. We urge the U.S. negotiators not to bow to domestic protectionist sentiments, but rather to treat China as the important trading partner it is, both as a growing U.S. export market and a siginificant source of products that American families buy every day.

II. U.S. Support for the Membership of China and Taiwan in the WTO Should Flow from the Effort to Broaden and Strengthen the U.S.-China Relationship

The Federation supports the earliest possible admission of China and Taiwan to WTO as part of a broad Administration policy of engagement and cooperative trade relations with these two very important economies. The longer they are not bound by international trading rules that help to make trade more stable, the more difficult it is to trade and invest with them. Our opportunities to export to them, import from them and invest in them are severely restricted, by both uncertainty regarding the stability of the relationships, on the one hand, and by specific, tangible barriers to trade and investment on the other.

The Clinton administration has recently embarked on an important initiative to stabilize the political and economic relationship with China. This relationship has suffered greatly and unnecessarily over the last year. Important U.S. trade and investment opportunities in China were lost in the process. It is indeed time to make a concerted effort to build a stronger relationship on a platform of cooperation and mutual respect. This is the direction in which we are now headed, and thankfully in time to have a positive effect on bringing China, and consequently Taiwan, into the WTO.

It is in this spirit that the Federation strongly supports the extension of permanent most-favored-nation (MFN) tariff treatment to China. It is in the interests of American families to do so. The annual renewal ritual increases uncertainty, making it very difficult for retailers, who typically place orders with China 18 months ahead of delivery, to source from China. Yet it is China that offers American consumers value-priced goods, as well as goods like silk apparel, that are simply not available from other manufacturers, even in the United States. The uncertainty of continued MFN forces retailers to gamble: should we pay more to buy the goods we would have gotten from China from other suppliers, so that we can know for sure what price we will pay for them, and pass the higher prices on to our customers? Or should we risk the uncertainty of sourcing from China, hoping that MFN will continue so that we can pass the cost savings on to American families? The dramatic drop recently in imports of apparel from China shows you how significant an impact this uncertainty can have. In many instances, retailers and other importers opted to source goods from countries other than China, countries where continued MFN was assured, and where retaliation over perceived wrongs was not likely.

III. Textile Trade Problems Should Not Be Permitted to Compromise Our Broader Goals

The Federation also strongly suggests that Congress and the Administration not permit textile trade issues to become stumbling blocks that set us back from our broader goals. Unfortunately, our dealings with China on textile issues, so far, threaten to do just that. Just last week, while lacking the evidence to bring civil or criminal charges, the Office of the U.S. Trade Representative nevertheless punished China by reducing its quota for instances of transshipment of certain apparel products, and China has reacted with strong concern to the action. More important, we are approaching the expiration of a bilateral textile agreement with China. Renewal of that agreement is of paramount importance to retailers. We would prefer the renewal to include some important improvements to the pact, improvements we have already suggested to the Office of the U.S. Trade

Representative. However, if opening the agreement threatens a host of disputes and further restrictions on U.S. textile and apparel imports from China, then retailers would prefer a simple rollover of the existing agreement. Again, our aim is to preserve the U.S.-China relationship, to improve the terms of the dialogue, and to foster mutual respect that will ultimately bring China into the WTO as soon as possible. A long and contentious negotiation over the contents of a new, more protectionist U.S.-China textile agreement should not be permitted to threaten that ultimate goal.

With the introduction of H.R. 3654 (the Spratt textile bill), the U.S. textile and apparel industries have already laid a proposal on the table to severely restrict China's access to the U.S. textile and apparel markets as part of the price China would have to pay for U.S. support to join the WTO. But how can we hope to gain greater access to China's textile and apparel markets when we are so quick to close ours to them? Remember the Agreement on Textiles and Clothing (ATC) does very little to liberalize U.S. tariffs on Chinese imports, just quotas. If we put off quota liberalization as the textile industry demands, why should not China and Taiwan put off their textile trade liberalization to the disadvantage of American exporters, including U.S. textile manufacturers?

In trade with China, we have crossed the bar of intra-sectoral trade battles. As we learned from the intellectual property rights (IPR) debate earlier this year, the U.S. retaliation list had very little to do with the items being allegedly pirated by some businesses in China. Similarly, the Chinese counter-retaliation list had even less in common with the U.S. retaliation list. The U.S. targeted textile and apparel imports, toys and consumer electronics, while the Chinese government listed U.S. agricultural products, telecommunications equipment and heavy machinery, among others, as its targets for prohibitive tariffs. Our two-way trade is more linked than ever. We should not play protectionist politics with China in the hopes we can contain the collateral damage within a single sector that we could sustain in an unnecessary trade war. Our trading relationship has grown far more complicated and as we set out to improve our trading relations with China, we should not forget these strategic issues.

IV. Conclusion

Mr. Chairman, America's retailers stand ready to assist you and others members of this Committee in your efforts to ensure that the United States negotiate a tough, but fair, accession protocol with the Chinese government and, in turn, the Taiwanese government. We thank you for allowing us to testify this afternoon.

Chairman CRANE. Thank you, Mr. Hall.
Mr. Bremer.

STATEMENT OF CHARLES V. BREMER, DIRECTOR, INTERNATIONAL TRADE, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. BREMER. Thank you, Mr. Chairman.

Among the issues and challenges facing the domestic textile industry, which ATMI represents, and its 634,000 full-time employees, none is more daunting than international trade, and no single element of that challenge looms larger than China, the world's largest textile and apparel exporter.

China has captured this role of primacy by a long and systematic pattern of unfair and illegal conduct, conduct which renders China ineligible for and undeserving of membership in the World Trade Organization.

Before China can be admitted to the WTO, it must look like, sound like, and act like a responsible member of the international trading community. At the very least, this would entail the accomplishment—the accomplishment, not the notice of intent, not the commitment, not the agreement, not the promise—of the following reforms.

It must have a convertible currency with one and only one rate of exchange.

It must cease the repeated violation of trade agreements to which it is a signatory.

It must end the subsidization of its exports. It must stop dumping its exports in foreign markets.

It must open its domestic markets to imports, which means among other things, lowering tariffs to reasonable levels, binding them to the WTO, removing capricious and arbitrary nontariff barriers, and adopting truly transparent rules and regulations.

China must abolish its export performance-linked investment laws.

It must not constrain its import trade through State-controlled quasi-commercial enterprises.

And finally, it must cease forthwith its massive and unremitting intellectual property violations which are nothing less than naked theft.

With regard to this last item, ATMI realizes that China signed an agreement earlier this year to terminate such practices. But, ATMI is not as sanguine as others that this commitment will be honored. China promised the same thing in 1992 and in 1995. Our industry continues to be victimized by Chinese theft of our members' intellectual property.

But, even if China does end its intellectual property piracy, it has made no commitment to cease any of the other practices cited. Any of them individually would be grounds to carefully consider China's accession to the WTO. Collectively, they should forbid even the consideration of China's accession.

Thus far the United States has been steadfast in articulating the conditions under which it will consent to China's membership in the WTO, and it should continue to do so.

Despite what they may say publicly, the rest of the world privately expects and hopes the United States will continue to exhibit leadership in this respect. No one, it seems, and certainly no one in Geneva, wants to stand up to China, preferring, as is so often the case, to leave that burden to the United States.

That being so, the United States has the right to dictate the terms for China's accession, and those terms, ATMI respectfully suggests, Mr. Chairman, should be those set forth above.

There remains one further condition regarding China's accession about which the United States must be unyielding—whether China will be permitted in the WTO as a developing country, thus exempt from many of the disciplines and obligations which bind the developed members.

It is ludicrous for China to seek accession as a developing country member, and it would be folly for any sitting member of the WTO to accept China's self-described developing country status.

Any country that is self-sufficient in the production of military hardware, that sells guided missiles, that has nuclear weapons and the wherewithal to deliver them, and which is engaged in a commercial satellite launching program in competition with France and the United States, is not a developing country, pure and simple.

Any country whose exports are larger than Korea's, Spain's, Switzerland's, or Taiwan's and are growing faster than any other country in the world is not a developing country. The country whose trade surplus with the United States has grown even larger than Japan's is certainly not a developing country by any trade-related criterion.

Finally, it is worth reviewing for the Subcommittee China's outrageous behavior with respect to customs fraud and textile quota circumvention.

The U.S. Customs Service has estimated that illegal shipments of textiles and clothing from China, primarily through Hong Kong and Macao, amount to between $2 and $4 billion per year.

We are pleased the U.S. Customs Service and the Office of the U.S. Trade Representative are intensifying their efforts to combat China's repeated circumvention of its textile trade agreement with the United States and United States laws and to impose the appropriate penalties.

In conclusion, Mr. Chairman, ATMI earnestly recommends to the Congress and the administration that the United States continue its policy of requiring China to conduct its trade affairs in a responsible, transparent, and forthright manner before it can be admitted to the World Trade Organization.

Thank you, Mr. Chairman, for the opportunity for ATMI to speak on this important matter.

Chairman CRANE. Thank you, Mr. Bremer.

Mr. Hatano, does the large amount of State involvement in the Chinese economy make it harder for the semiconductor industry manufacturers to resist Chinese demands to transfer technology and source components locally and comply with the local investment restrictions?

Mr. HATANO. Absolutely. A lot of the rules that the Chinese Government has put on make it very difficult. And, I think one of the

other problems we have is that in other contexts, if you are dealing with other countries and you want to transfer technology on a commercial basis, there is a market there. You can go to one company; if they are not offering a good deal, you can go to another company.

The problem with China is, because it is pretty much centrally government-controlled, with the exception of a few local governments, you are dealing much more with one body, and you do not have that same bargaining power that you do in other contexts.

Chairman CRANE. A question that I would like to put to Mr. Anderson, but have Mr. Bremer comment, too: What industries do you believe would be most negatively affected if China were to enter the WTO as a developing, rather than developed, country?

Mr. ANDERSON. The impact, Mr. Chairman, would be to allow China to continue the kind of predatory practices that they currently employ.

While there is no hard and fast rule as to what conditions are for a developing, as opposed to a developed, member of the WTO, it implies at least much longer phaseouts of WTO inconsistent practices. It implies at least the grandfathering of many practices that are detrimental to the United States.

So, I think it would fundamentally mean continued harm, a continued downward pressure on Unitied States workers' wages, and continued pressure on United States industry, as has been noted by many of the witnesses here today, to transfer plant and equipment and technology to the People's Republic of China on terms that have nothing to do with their commercial interests.

It would be disaster for this country if we acceded to that kind of situation.

Chairman CRANE. Mr. Bremer, I think I heard you speak on that with regard to a targeted industry. Do you have any broader view of that.

Mr. BREMER. Yes, Mr. Chairman. I believe that if China were allowed to join the WTO as a developing country, nearly all manufacturing industries in this country, with the exception of the advanced and high-tech industries such as computer manufacturing, but every other manufacturing industry and any industry dependent upon intellectual property would suffer.

As a developing country member, China could postpone its adoption of the investment and—the intellectual property codes of the WTO for years. As a developing country member trying to continue its subsidization of its exports—even though I understand the U.S. Department of Commerce says there are no subsidies in China; I find that ridiculous—they can continue their subsidization, and they can continue dumping.

Every manufacturing—except the very, very advanced and high-tech—and the intellectual property industries in this country would continue to suffer for years.

Chairman CRANE. Mr. Hatano or Mr. Hall, do you have any thoughts on that?

Mr. HATANO. None, sir.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Yes. Thank you very much, Mr. Chairman.

I guess I am asking a basic question here which does not have anything to do with a lot of the testimony.

Here we are sitting as American legislative representatives or business representatives, and we are looking down the road, and you have got this potential behemoth out there whose economy is very small at the moment. I mean, it is the counterpart of the Benelux countries or something like that. But, you know the number of people and the ability of the individuals there, and the technology is going to be great.

So, how would we really handle it, because we recognize that if we go to the Smoot-Hawley route, that that is not going to be good?

And yet at the same time, we have got to reach out, whether it is with other regional agreements or through GATT or maybe even not admitting China to the WTO as a developing country, maybe just as a mature country.

What are the basics here? What are we dealing with?

And, this is long term because we get sort of mixed up in the individual things, whether it hurts semiconductors or whether it hurts textiles or other egregious changes in the rules.

What are the fundamentals that we should be wrestling with in this Congress?

Mr. ANDERSON. Perhaps I could respond first, Congressman.

I think the issue confronting, this Subcommittee and the administration is how to deal, with a country that currently pays little, if any, attention to the kind of trading and commercial norms that the World Trade Organization is predicated upon.

It is a challenge not only for the United States, but for the rest of the world community to bring in a country that, by definition, has little to do with the basic principles of the World Trade Organization.

If we are going to move toward a rules-based international trading system, China perhaps is the supreme test.

Mr. HOUGHTON. Well, let me just interrupt. So, we do not allow them into the World Trade Organization.

But as you know, China does not have a legislative body. China does not have any judicial system. It is all really by administrative fiat over there. And it probably will continue that way for a while.

So, we do not put them in the World Trade Organization. But what do we do? What is our role?

Mr. ANDERSON. Well, I do not think the issue, Congressman, is whether one lets them into the World Trade Organization or not.

Assume for a moment that we do not let them in. We are of the view, that the existing trade and investment relationship—they are not in the WTO today—has been very detrimental to the interests of this country.

Mr. HOUGHTON. Certainly, certainly.

Mr. ANDERSON. We are of the view that it is necessary to take a much more vigorous approach toward our relationship with China.

Mr. HOUGHTON. All right. Now let us just hold here, OK. That is fine as a generalization.

What is the most important, specific thing we should do?

Mr. ANDERSON. If China, for example, is found to be in violation of freely negotiated agreements—for example, the 1992 memorandum of understanding on market access—where China committed to eliminate practices that required the transfer of technology, or

required as a condition of investment export performance—the USTR says they are in violation of this agreement—

Mr. HOUGHTON. Right, right.

Mr. ANDERSON [continuing]. We should deny access to the United States market for a stipulated segment of Chinese-produced goods.

Mr. HOUGHTON. All right. So, you would be willing—I am not saying it is a bad idea—but you would be willing to face an all-out trade war over that particular issue?

Mr. ANDERSON. No, sir. I would be willing to——

Mr. HOUGHTON. No, but that is—those are the dice you are playing with.

Mr. ANDERSON. No, sir. I would be willing rather to begin a process where the United States vigorously upholds its rights under freely entered into agreements.

The sad position we have found ourselves is that the agreements we have reached mean little, because we do not have the will to vigorously enforce them.

Mr. HOUGHTON. Both public and private will, right?

Mr. ANDERSON. Yes, sir.

Mr. HOUGHTON. Are there any other ideas on this?

Mr. HATANO. Yes, sir. I think one of the things we have been looking at is the development of Japan and Korea over the last several decades and how they grew from having no industries at all to having very large semiconductor industries and what lessons have we learned as an industry within the government, and what lessons have been learned through that process.

One of the lessons, I think, that we have learned is to deal with the problem early. In the case of Japan, their industry was engaging for a long period in having a closed market, subsidies, dumping, and so forth, before both the industry and the government in the United States, responded vigorously in the mideighties. By that time, the DRAM industry was largely gone from the United States, and to this day we have a relatively small share worldwide in that area.

So, the lesson there is to deal with this problem early. And I think in that regard, it is very good that we are trying to address many of these concerns within the context of China's accession into the WTO, rather than waiting to deal with it after the problems have become a lot larger.

The second lesson that I think we have learned is that we are dealing a lot more on an industry-to-industry basis and trying very early to build the links with the Chinese industry and the Chinese Government in order to build an understanding with them as to how our industry has developed through free market forces.

An example of this might be tariffs. We got rid of our tariffs in the United States, and we did it for very selfish reasons. We did it because that helped the computer companies in the United States, and it helped our customers, and ultimately that helps U.S. semiconductor producers. So, getting rid of U.S. semiconductor duties was in our interest.

We are trying to deliver that message to the Chinese, that if they were to get rid of their semiconductor duties, that helps build their electronics industry, which ultimately helps their semiconductor industry.

So, we are trying to address this thing to them as a win-win, not as a zero-sum game.

Mr. HOUGHTON. Let me just interrupt for 1 minute, because I guess the light is flashing, and I guess we public ought to stop this.

But, Mr. Chairman, if I understand correctly what these two gentlemen have said, is that in order to trade fairly, we must be resolute in terms of those things which we consider important for us to stand by, and therefore we have got to be tough about it—not tough, mean; but tough, fair. And that somehow the Government and the private industry must work closely together.

I do not mean to generalize this, but I think——

Chairman CRANE. We will take a generalization.

Mr. HOUGHTON. All right, fine. Thank you, Mr. Chairman.

Chairman CRANE. Well, that concludes our hearing, and I want to express our deep appreciation to you for sharing your views and expertise with the Subcommittee, and I look forward to an ongoing working relationship as we go into that 105th Congress.

With that, this hearing stands adjourned.

[Whereupon, at 3:27 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement for the Record Submitted by the American Apparel Manufacturers Association to the Subcommittee on Trade, Committee on Ways and Means U.S. House of Representatives

re: China's Accession to the World Trade Organization

The American Apparel Manufacturers Association (AAMA) appreciates this opportunity to express its views pertaining to World Trade Organization (WTO) membership for China. AAMA opposes China's accession to the WTO until China demonstrates a sincere willingness and capability to obey international trade agreements and provide reciprocity in its international relationships.

AAMA is the central trade association of the U.S. apparel industry, representing more than 70 percent of U.S. apparel production. AAMA members make everything from socks to caps, from underwear to shirts and sweaters, to suits and overcoats. While the industry is large, most of the companies are relatively small. Most companies have sales under $20 million and many have sales under $10 million. There are approximately 850,000 apparel manufacturing jobs in the U.S. and almost every state has some apparel employment. Nineteen states have more than 10,000 apparel jobs and eight of those have more than 50,000 jobs. Approximately 40% of the American apparel workers are minorities and 90% are women.

The United States and China have maintained a bilateral arrangement for trade in textiles and apparel over the past several years, and our experience with China has taught us several lessons. Chinese apparel and textile suppliers pay their workers merely cents an hour, subsidize and dump their exports, and illegally ship billions of dollars worth of merchandise to the United States by circumventing international trade laws and agreements. In return, China restricts market access for U.S. apparel products through the use of tariffs and non-tariff barriers to trade, fails to protect the intellectual property rights of international commercial enterprises, and does not provide an environment of transparency with regard to the basis rules and regulations of doing business.

It is a fact that the world has become an international marketplace, and a nation's access to the benefits of global commerce should be explicitly linked to its record of performance. Therefore, AAMA believes it would be both unwise and unjust to afford China membership in the WTO until it ceases the practice of flaunting international trade laws and rendering exports to the Chinese market all but impossible.

AMERICAN OILSEED COALITION

American Soybean Association
National Cottonseed Products Association
National Oilseed Processors Association
National Sunflower Association
U.S. Canola Association

Oilseed Grower Coordinator
John Gopsley

1000 Connecticut Avenue, NW
Suite 1106
Washington, DC 20036-5302

Phone:
202/371-5512

Fax:
202/331-7036

Oilseed Processor Coordinator
Allen Johnson

1255 Twenty-Third Street, NW
Washington, DC 20037-1174

Phone:
202/452-8040

Fax:
202/835-0400

September 16, 1996

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
233 Cannon House Office Building
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The American Oilseed Coalition (AOC), the trade association representing U.S. oilseed producers and processors on trade policy matters, would like to take the opportunity of your upcoming hearings on the World Trade Organization (WTO) Singapore Ministerial Meeting and the Accession of China and Taiwan to the WTO to express how closely our industry's growth is linked to continued global trade liberalization in the oilseed and oilseed products sector.

In the case of the Singapore Ministerial, we have urged the Clinton Administration to include a Zero Tariff Initiative for oilseeds and oilseed products on the ministerial agenda. A zero tariff initiative for oilseeds and oilseed products would focus the attention of WTO members on both the need for continued liberalization of world trade in this sector (some members are attempting to move in the opposite direction) and on the importance of beginning the process before the Continuation of the Uruguay Round Agriculture Negotiation gets under way in 1999.

China is the world's largest market for oilseeds and oilseed products and therefore Chinese Accession to the WTO is the most important trade policy issue before us currently. It is not only vital that the terms and the conditions of Accession for oilseeds and oilseed products be liberal, transparent, and compatible with our Level Playing Field initiative, it is also important that China's trade relations in general be conducted within the framework of WTO rights and obligations. (The details of the joint ASA/NOPA position on Chinese accession to the WTO is outlined in the attached copy of our December 7, 1995 letter to USDA on the subject.)

Finally, we also would like to express our strong support and appreciation of Acting USTR Charlene Barshefsky and her staff for their leadership in these priority issues for the AOC. Ambassador Barshefsky and the USTR staff continue to take an active role in advancing oilseed and oilseed product liberalization and we commend them for their efforts.

Sincerely,

John Long
Chairman

Encl:
T013

540
MARYVILLE CENTRE DR.
SUITE 400,
ST. LOUIS,
MISSOURI
63141

PHONE:
(314) 576-1770

FAX:
(314) 576-2786

1255
TWENTY-THIRD
STREET,
N.W.
WASHINGTON,
DC
20037-1174

PHONE:
(202) 452-8040

FAX:
(202) 835-0400

December 7, 1995

Mr. Richard Schroeter
Deputy Administrator, International Trade Policy
Foreign Agriculture Service
U.S. Department of Agriculture
14th & Independence Ave., S.W.,
Washington, D.C. 20250

Dear Rich:

As you continue your negotiations with the Chinese regarding their accession to the WTO, and further to our previous correspondence of July 17, 1995 and October 10, 1995, we appreciate the opportunity to forward for your consideration the following:

* ASA/NOPA Concept Paper on a "Harmonized Import Regime for China's Oilseed Complex"; and

* Our industry considered analysis of "China's Import Needs for Oilseed and Products" (1996-2005)

We look forward to discussing these documents with you at an appropriate time, but wish to advise that they have been developed through joint consultations between ASA and NOPA and represent our collective best thinking on these subjects.

With kindest personal regards,

Cordially,

Sheldon J. Hauck,
President, NOPA

John F. Long
President, ASA

Encls: (2)

P701.2

Harmonized Import Regime for China's Oilseed Complex

A single tariff-rate quota (TRQ) would be established for all vegetable oils, including palm. The TRQ quantity would be the average of the previous two years' imports of all oils; it would be adjusted annually.

Similar aggregated TRQs would be established for all oilseeds and all protein meals, including fishmeal.

The tariff rate within the TRQ would be zero percent for oils, meals and seeds. The tariff rate for imports in excess of the TRQ would be five percent the first year, then four percent, three percent, and two percent in subsequent years, then zero percent in the fifth year and into the future. The TRQ structure would end in the fifth year.

n. b. The current applied tariffs for soybeans is 3%; for soybean meal 5% and soybean oil 13%. The 5% over quota tariff would not seem to be an unreasonable approach to this question.

Products subject to state trading (vegetable oils) would be treated much like non-state-traded items. However, quantities of state-trade items equal to 50 percent of the previous two years' imports would be reserved for Ceroils to import at the zero-percent in-quota tariff rate. Non-state-trading entities could import the other 50 percent at the zero-percent rate, plus additional amounts of that item as long as the overall TRQ for vegetable oils was not exceeded. Non-state traders then could import more at the above-quota tariff rate, even if Ceroils had not exercised its right to import its full in quota amount. (In essence the "sub-quota within a quota' concept becomes more of a restriction on Ceroils than on non-state traders.) Ceroils' reserved share of the in -quota business would decline to 40 percent, 30 percent and 20 percent over the first four years, dropping to zero in the fifth year.

Consideration must be given to developing alternative mechanisms to transfer unused portions of the state traded TRQ to non-state traders if not fully utilized to ensure that all of the zero or low duty quota is utilized.

e.g. The TRQ for a given year shall be increased by an amount equal to the unused portion of the state traded TRQ from the previous year.

Comments

- This arrangement would provide harmonized treatment immediately for all products within the oilseed complex. Harmony would be maintained throughout the transition period and institutionalized into the future.

- This arrangement would simplify the import regime for the oilseed complex. Instead of having separate treatment for three categories of products--those subject to TRQs, those subject to both TRQs and state trading, and those subject only to

tariffs--there would be one overall framework, with special treatment afforded to state-traded items.

- This framework would lead to significant trade liberalization for the oilseed sector. The actual tariff rates negotiated may differ from those suggested, but as long as they are low and harmonized, the result will be meaningful trade policy reform. Time frames for phasing out TRQs and state trading also could change, but the five-year period suggested would have the transition mostly completed when the next round of WTO multilateral agricultural negotiations begins in 1999 or 2000.

- If Chinese negotiators are seeking to increase customs revenues, this proposal could be modified slightly to achieve that objective. For instance, if the in-quota tariff rate was set at two percent and the above-quota rate at seven percent, we would expect a large volume of trade to occur that actually would pay the tariff upon entering the country. Since the over-quota tariff is not prohibitive, there would be little pressure to waive it when additional imports are needed. Since the incentives to avoid tariffs are minimal, smuggling should be greatly diminished. Thus, this structure would tend to be enforceable because there would not be much pressure to import around it. That would be even more the case if value-added taxes (VATs) would be eliminated from foods in China.

- This arrangement is compatible with the oilseeds "level playing field" (LPF) initiative currently being promoted by the oilseed industries of several countries.

- The Chinese have not suggested implementing TRQs for protein meals. Offering them a TRQ system for meals may give them a greater sense of control over that trade, while maintaining equivalent import treatment of the entire complex. It is useful to include fishmeal in this TRQ because the Chinese normally import several hundred thousand tons of it. Since soybean meal imports have been small, combining all meals together will give a relatively large initial TRQ, within which soybean meal imports might be able to compete quite effectively.

- Are China's official trade statistics sufficiently accurate to be used in calculating the size of the TRQs? If not, what other trade data might be available?

- Some accounting system will be required to keep track of how much product is entering at the in-quota tariff rate. If China wishes to use a registration system for this purpose, that might be acceptable as long as registrations are issued automatically for over-quota amounts.

APPENDIX I

China's Import Needs for Oilseeds and Products
(1996 - 2005)

China's trade and investment policies are expected to favor imports of oilseeds to meet growing protein meal and vegetable oil needs. This has been the traditional world pattern for countries with large and growing deficits of meal and oil. China's oilseed processing industry is antiquated, however, and crush capacity near ports is limited. Forecast oilseeds, soybean meal and vegetable oil import needs for marketing years 1996/97 - 2004/2005, taking into account time to expand crush capacity near ports, are as follows (Million Metric Tons):

	1996/97	1997/98	1998/99	1999/2000	2000/20001
Oilseeds[1]	1.5	2.0	3.0	4.5	6.0
Vegetable Oil	3.8	4.2	4.4	4.6	4.7
Soybean Meal	1.0	1.5	2.2	2.7	3.2

	2001/2002	2002/2003	2003/2004	2004/2005
Oilseeds[1]	7.5	9.0	10.5	12.0
Vegetable Oil	4.9	5.1	5.4	5.7
Soybean Meal	3.5	3.9	4.5	5.2

China's past vegetable oil and protein meals usage trends are of limited value in forecasting future consumption levels and import needs due to the following factors:

- Rigid rationing of vegetable oil and animal products consumption prior to 1993.
- Past constraints on imports.
- Acceleration of the rapid urbanization trend.

[1] Soybeans are expected to make up over 90 percent of oilseeds imports.

By utilizing appropriate assumptions, China's future import needs can be projected with a "reasonable" degree of reliability. China's trade, investment and other policies will, of course, determine actual future import levels. The following key assumptions were utilized in determining China's import needs for marketing years 1996/97 - 2004/2005:

KEY ASSUMPTIONS

- GDP growth in China for the period 1995-2000 will average 10 percent per year, and 7 percent per year in the period 2000-2005.

- Rapid urbanization will continue. The following population shifts reflect trends observed in China and one percent annual population growth:

CHINA POPULATION

	1994	2005
Total	1.198 billion	1.340 billion
Rural	855 million	804 million
Cities and Towns	343 million	536 million

The above population shift will stimulate both animal products and vegetable oil consumption.

- Domestic oilseed production will increase by 3 percent and vegetable oil production from local oilseeds will expand by 4 percent per year between 1996 and 2005. Higher oil extraction rates are expected from new oilseeds varieties and modernization of oilseed processing plants. Also, most of China's increased oilseed production is expected to be rapeseed, with only a small annual increase in soybean output. Below is a comparison of current U.S. and China oilseed extraction rates:

U.S. AND CHINA VEGETABLE OIL EXTRACTION RATES (PERCENT)

	U.S.	CHINA
Soybeans	19	15
Rapeseed	40	33
Sunflower	40	34
Cottonseed	17	15

- Vegetable oil consumption will increase at an annual rate of 8 percent in the period 1996-2000 and 5 percent in the period 2001-2005.

- Protein meal consumption (soybean meal equivalent) will increase at an annual rate of 10 percent in the period 1996-2000 and 8 percent in the period 2001-2005. The rapid growth of soybean meal usage will be due largely to greater usage of soybean meal in hog rations and very sharp expansion of the broiler industry.

  In September, 1995 China had 436 million hogs of which 85 percent were in the back yards of rural residents and receive very little protein supplements in their rations. With urbanization (see above) much of the backyard production will shift to commercial operations to supply the larger urban population. This shift of hog production will also stimulate increased vegetable oil usage because the Chinese moving to cities and towns will no longer have the lard from the hog or two they slaughtered for their own use each year.

- Domestic protein meal production (soybean meal equivalent) will increase by 3 percent per year in the period 1996-2005.

- There will be no direct consumer rationing of vegetable oil and animal products, nor excessively high consumer prices which would curtail consumption.

- Moderate growth of world prices for oilseeds and products.

- There will be large foreign investment in China's oilseed processing industry.

STATEMENT OF CAMPBELL SOUP COMPANY BEFORE THE TRADE SUBCOMMITTEE OF THE HOUSE COMMITTEE ON WAYS AND MEANS REGARDING CHINA AND TAIWAN'S ACCESSION TO THE WORLD TRADE ORGANIZATION

I. INTRODUCTION.

This statement is filed by Campbell Soup Company ("Campbell"), headquartered in Camden, New Jersey, in response to the August 22, 1996, House Ways and Means Committee invitation for public comments relating to the Trade Subcommittee hearings on China and Taiwan's application to accede to the World Trade Organization ("WTO").

This statement summarizes Campbell's priority in seeing that Taiwan reduces its 25 percent ad valorem tariff on canned condensed soup (HTS No. 2104.10.11 and 2104.10.19) to 12 percent upon entry into the WTO, to be reduced to 7 percent over 3 years. While a reduction in the soup tariff is the company's highest market access priority, Taiwan's 32.5 percent and 35 percent tariffs on cookies and "V-8" vegetable juice, respectively, are also important to the company.

II. ABOUT CAMPBELL SOUP COMPANY.

Campbell is a major U.S. food processing company known internationally as one of the leading manufacturers and marketers of branded consumer food products. Net sales in its fiscal year ending July 1996 were $7.7 billion, of which $5.3 billion were U.S. domestic sales. Campbell employs 40,650 people worldwide and operates more than 75 facilities in over 22 countries.

Campbell is the largest manufacturer of soup in the U.S. and purchases enormous quantities of U.S. agricultural products. For example, Campbell uses millions of pounds of chicken, corn, tomatoes, broccoli, carrots, wheat flour, corn syrup and potatoes.

Campbell Soup exports to Taiwan are manufactured principally in Sacramento, California. Campbell's chicken broth, creamy chicken with corn, cream of chicken, cream of mushroom and corn potage are expected to be the most popular canned soup flavors in Taiwan.

III. CAMPBELL'S LONGSTANDING EFFORTS TO REDUCE TAIWAN'S TARIFFS.

Since 1988, Campbell has requested U.S. Government assistance to significantly reduce Taiwan's soup tariff. Despite a number of "unilateral" trade liberalization initiatives by Taiwan, the high soup tariff has only been reduced 5 percent since 1989 and this reduction was made only last year. The National Trade Estimate Report on Foreign Trade Barriers has indentified Taiwan's high soup tariff in every Report since 1991.

Current soup exports by Campbell are small, principally due to the 25 percent tariff which increases the average price per can of soup in Taiwan to nearly 150 percent more than the price paid by U.S. consumers.

Campbell's market analysis reveals that Taiwanese eating habits, tastes, and food preferences are similar to those in Hong Kong, where there is no duty imposed on canned soup and broth imports. The roughly 21 million people in Taiwan today consume less than 1 can of soup per capita per year. Since Hong Kong's 5.8 million people are consuming over 5 cans per capita annually, there is undoubtedly enormous potential demand for Campbell's soup in Taiwan, demand that can only be satisfied with a significant reduction in the import duty.

IV. TAIWAN'S RESPONSE TO U.S. GOVERNMENT REQUESTS FOR A TARIFF REDUCTION ON SOUP IMPORTS.

Nearly two years ago, when the bilateral negotiations with Taiwan were still active, Taiwan officials informed both Executive Branch officials and Members of Congress that it would have a difficult time reducing the soup tariff because its Council on Agriculture was engaged in research involving soup production involving "the extraction of poultry or animal bones" and that "some of our [Taiwan's] domestic producers are already engaged in this business" which "would benefit our [Taiwan's] livestock industries by using their by-products".

At the outset, Campbell uses only the highest grade ingredients in its soups, ingredients which are not based on animal by-products.

Second, our examination of store shelves in Taiwan indicates that of the very small quantity of canned soups available there, only about 10 percent are produced in Taiwan.

Third, no nation with a significant canned soup market relies on livestock industry by-products as a major ingredient for those soups. Creation of a significant canned soup market (as exists in the United States and Hong Kong) requires top quality products at reasonable prices. Campbell has the quality products and will sell them at reasonable prices in the absence of prohibitive tariffs.

Even if Taiwan is able to establish production capabilities for its livestock by-product canned soups, it does not have a market for them. Such a market will not emerge without the kind of aggressive market-building activities which Campbell will undertake if it can deliver high quality products to consumers at reasonable prices, not inflated by prohibitive tariffs.

V. CONCLUSION.

The United States trade deficit with Taiwan was $9.7 billion in 1995, nearly $50 million larger than in 1994. As a condition to entry into the WTO, the U.S. should insist that Taiwan make significant tariff reductions on highly competitive U.S.-processed food exports such as soups and broths. The history of Taiwan's failure to live up to earlier trade liberalizing commitments made to the United States strongly suggests that tariff reductions of interest to U.S. exporters such as Campbell must be made **prior** to the U.S. agreeing to Taiwan's membership in the WTO.

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

HEARING ON THE ACCESSION OF CHINA AND TAIWAN
TO THE WORLD TRADE ORGANIZATION

STATEMENT OF THE DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. (DISCUS) for inclusion in the printed record of the Subcommittee's hearing on the accession of China and Taiwan to the World Trade Organization (WTO). DISCUS is the national trade association which represents U.S. producers, marketers and exporters of distilled spirits.

I. Introduction

Securing enhanced access to the markets of China and Taiwan is critical to the U.S. distilled spirits industry. Exports have become increasingly important to the U.S. distilled spirits industry, as we have faced a 28 percent decline in sales in the United States since 1980. Both China and Taiwan have rapidly rising incomes, expanding imports of consumer products, and a tradition of consuming distilled spirits. With its huge population and rapidly rising incomes, China may well be the industry's most promising export market over the long term. Taiwan has the potential for more immediate export gains once our companies no longer face barriers to their full participation in the market. Assuming the terms are adequate, accession to the WTO will ensure that both China and Taiwan reach their full potential for exports of U.S. distilled spirits.

The development of WTO accession packages for China and Taiwan presents an excellent opportunity to address the most egregious market access barriers that constrain U.S. distilled spirits exports and those of other spirits producers around the world. DISCUS urges the U.S. government to join with its counterparts in Europe and North America to address the following issues in negotiating terms of accession with China and Taiwan.

II. Market Access Barriers to Distilled Spirits in China

The U.S. distilled spirits industry believes that China has tremendous potential to become a major importer of U.S. distilled spirits. However, high tariffs are currently forcing trade into unofficial channels, which makes it difficult for U.S. spirits exporters to develop and implement long term strategies to penetrate the market. Besides high tariffs, there are many other barriers to trade such as a *de facto* import monopoly, restrictive distribution system, and intellectual property rights violations. Together, these barriers prevent U.S. exporters from realizing the true potential of this fast growing market.

Many of these barriers are incompatible with the fundamental objectives of the General Agreement on Tariffs and Trade (GATT). Negotiations on China's accession to the World Trade Organization (WTO) and ongoing bilateral discussions offer the opportunity to bring China's legislation and practices into conformity with GATT/WTO, which will enhance exporters' chances of success in penetrating the China market.

A. Rationalization of Importation and Distribution System

Foreign firms are at a severe disadvantage in the Chinese market for imported distilled spirits since they are barred from distributing and marketing their own products, official imports are limited to a few government controlled importers, and customs treatment is uneven throughout China. It is essential that the terms of China's accession to the WTO guarantee foreign firms national treatment with respect to importation, distribution, and marketing of imported distilled spirits.

1. Restrictions on Distribution by Foreign Firms

Foreign firms are prohibited from setting up wholly-owned distribution companies. They are even barred from investing in joint-ventures with Chinese distributors. U.S. distilled spirits companies are being forced to rely on a small group of Chinese importers and distributors that have little experience in promoting consumer goods. Without the right to import and distribute their products, U.S. companies are unable to manage the development of their brands in the market place. These unwarranted restrictions are seriously hindering the growth of U.S. exports, while contributing to the thriving gray market for imported spirits. Therefore, the right of foreign companies to establish distribution subsidiaries must be guaranteed as part of the terms of China's WTO accession protocol. In addition, U.S. negotiators should use this opportunity to identify any differences in the regulations applied to private and government-owned distribution networks.

2. Import Monopoly

Traditionally, China only gave the right to import distilled spirits to the China National Cereals, Oils and Foodstuffs Import and Export Corporation (CEROILS). While some other government controlled entities appear to have secured import rights, the current system is still too restrictive to allow foreign spirits producers to meet demand for their products. Although the quota system for distilled spirits was technically eliminated in December of 1995 according to the terms of the 1992 MOU, the strict issuance of licenses that facilitates the existence of the monopoly remains a significant barrier to expanding imports into China. The curtailment of CEROILS' *de facto* monopoly on imports will encourage the creation of competing importers and distribution networks. This competitive environment is more likely to be able to meet demand, and begin to replace the gray market for imported distilled spirits.

3. Automatic Registration

China has introduced an automatic registration system which requires importers to advise the Chinese government of the quantity and value of imports before they arrive. While the automatic registration system does not have a quantity limit like a quota, the fact that an imported item must be registered before it is permitted to be imported opens up the possibility that the new system could be used to limit imports. It is no coincidence that this new automatic registration system was installed at the same time the quota system was dropped at the end of 1995 in compliance with the 1992 MOU. The automatic registration system is administered by the State Planning Commission, and purportedly is to be used only for statistical purposes. However, we fear that it will be used to restrict the volume of imports. Unless dismantled, automatic registration may become a significant barrier to imports of distilled spirits in the future.

B. Reduction of Tariffs

High tariffs restrict access for imported distilled spirits to the Chinese market. These high tariffs, which are assessed on an *ad valorem* basis, are largely responsible for the substantial volume of imports entering through unofficial channels.

1. Tariff Levels

Despite a reduction from 150 percent to 80 percent on March 1, 1995, and a further reduction to 70 percent on April 1, 1996, China's tariffs on imported distilled spirits are still excessive. High tariffs place lawfully imported products at a significant competitive disadvantage in the market place. During the Uruguay Round negotiations, major participants agreed to eliminate tariffs on whisky and brandy over a period of ten years. The United States should seek a commitment from China to reduce significantly and ultimately eliminate its tariffs on imported distilled spirits as part of the terms of accession to the WTO.

2. *Ad Valorem* Rates

The distilled spirits industry has advocated the use of specific rates in assessing tariffs on distilled spirits. Specific tariffs are more easily applied and reduce the incentive for

importers to undervalue imports, particularly when faced with high tariff levels. The conversion of China's tariffs to specific rates would reduce the incentive for importing spirits through unofficial channels, while minimizing the adverse impact on suppliers of high value products. China should be encouraged to adopt a specific tariff as an interim step toward the eventual elimination of tariffs for imported distilled spirits.

C. Application of Domestic Taxation

A lack of transparency pervades China's application of domestic taxes. The application of domestic taxes to imported spirits may adversely affect the competitiveness of foreign suppliers of distilled spirits in two respects:

1. *Ad valorem* Consumption Tax

China has recently harmonized its consumption taxes for various types of distilled spirits, with a single rate of 10 percent. While this harmonization is welcome, China still uses an *ad valorem* method to calculate the consumption tax, which tends to be discriminatory to high quality imported products. As part of its terms of accession, China should be encouraged to adopt a system of specific taxation, utilizing a single rate of tax for all distilled spirits based on alcohol content.

2. VAT

It is widely reported that in some cases the VAT has only been levied on imported products, and that many domestic producers do not pay VAT at all. The inequities and irregularities in the administration of the VAT must be addressed to ensure that imported consumer products, including distilled spirits, are not subject to discriminatory taxation. The terms of China's accession to the WTO should require China to provide national treatment in its application of the VAT to imported distilled spirits.

D. Protection of Intellectual Property Rights

China has a serious problem with counterfeiting of domestically produced premium spirits brands. U.S. spirits exporters are very concerned that the high level of unofficial imports also will lead to rampant counterfeiting. As part of its terms of accession, WTO members should insist that China fully adhere to the provisions of the Agreement on Trade Related Intellectual Property (TRIPS), including the provisions related to the protection of trademarks and geographical indications for distilled spirits.

E. Transparency and Enforcement of Laws and Regulations

The lack of transparency in the implementation and enforcement of China's laws and regulations continues to pose a significant barrier to expanding trade. The 1992 U.S.-PRC Memorandum of Understanding (MOU) on Market Access requires China to publish all laws and regulations affecting trade. The United States should insist that China reiterate its MOU commitments as part of its protocol of accession to the WTO. In addition, the recently passed Foreign Trade Law requires China to practice a uniform trade policy and publish all its trade regulations in a complete and transparent manner. Unfortunately, the latter law only covers trade in goods, but not services, such as distribution. U.S. distilled spirits producers would like to see this law extended to cover services, such as distribution.

III. Market Access Barriers to Distilled Spirits in Taiwan

Taiwan and the United States have been involved in years of productive negotiations toward developing an accession package for Taiwan. Therefore, Taiwan's market access issues are not quite as fundamental as China's. However, some key issues remain unresolved, and should be addressed as part of Taiwan's accession package.

A. Adoption of a Non-discriminatory Conventional Tariff and Excise Tax Regime

1. Tariffs

Taiwan will enter the WTO as a developed country, and should reform its tariff system to conform with those of other developed countries. Taiwan's tariffs should be bound for all types of distilled spirits, and reduced to levels comparable to other developed WTO members. Specifically, Taiwan should adhere to the Uruguay Round "zero for zero" agreement by eliminating its tariffs on whisky and brandy, and should join other WTO members in extending the "zero for zero" agreement to all other spirits. Finally, Taiwan should establish a system of specific tariffs for imported distilled spirits as part of its accession package to the WTO.

2. Excise Taxes

Taiwan should be required to replace its existing monopoly tax system with a transparent and non-discriminatory excise tax system that applies equally to imported and domestic products and does not provide special treatment for "traditional Chinese" spirits. Excise taxes should be applied at a level comparable to those of other developed WTO members, and should take the form of a single specific tax rate for both imported and domestic spirits based on alcohol content.

B. Advertising

Taiwan has made great strides in removing discriminatory restrictions on the advertisement of distilled spirits products. Over the past year, Taiwan has introduced regulations permitting the advertisement of distilled spirits on broadcast and cable television and other electronic media subject to certain conditions. However, there remain some print media restrictions that apply only to distilled spirits, and not to beer and wine. As part of the WTO accession package, Taiwan should agree to permit advertising of distilled spirits in newspapers, and in magazines without a time limit.

C. Protection of Intellectual Property Rights

As in China, the distilled spirits industry is very concerned about counterfeiting and establishment of a gray market. As Taiwan dismantles its government monopoly for distilled spirits production, enhanced regulations should be established to protect imported brands from counterfeit goods in the Taiwan market. Taiwan should establish a requirement of a certificate of origin issued by the manufacturer or the customs authorities in the country of export for imported distilled spirits. This measure will reduce the likelihood of large scale counterfeiting and curtail the development of a gray market for imports. As with China, as part of its terms of accession, WTO members should insist that Taiwan fully adhere to the provisions of the Agreement on Trade Related Intellectual Property (TRIPS), including the provisions related to the protection of trademarks and geographical indications for distilled spirits.

IV. Linkage of Accession of China and Taiwan

DISCUS believes that both China and Taiwan should accede to the WTO based on sound commercial terms. The terms of accession negotiated with each applicant should satisfactorily address the concerns of U.S. exporters before they are accepted by the United States. While it is desirable that both China and Taiwan accede sooner rather than later, it is possible that one may offer acceptable terms in advance of the other. Should this situation arise, DISCUS would encourage the U.S. government to move forward with each applicant *individually* based on their own merits.

V. Conclusion

The accession of China and Taiwan to the WTO is important to the U.S. distilled spirits industry. It is our desire that both China and Taiwan accede to the WTO in the near future based on sound commercial considerations. To achieve a sound commercial

environment, the distilled spirits industry urges the U.S. government to secure the following commitments from China and Taiwan in their terms of accession to the WTO:

China

- The right of foreign suppliers of distilled spirits to engage directly in the importation and distribution of their products;
- the substantial reduction and eventual elimination of tariffs on imported distilled spirits;
- the conversion of *ad valorem* tariffs and taxes to specific rates based on alcohol content;
- the strengthened protection and enforcement of trademarks and geographical indications for distilled spirits; and
- the uniform and transparent application of all trade laws and regulations affecting imported distilled spirits.

Taiwan

- The adoption of a non-discriminatory conventional tariff and excise tax regime;
- the elimination of remaining restrictions on advertising;
- enhanced protection against smuggled and counterfeit spirits, and
- the protection of geographical indications for distinctive American distilled spirits.

Thank you very much.

Sincerely,

Fred A. Meister

Fred A. Meister
President/CEO

STATEMENT OF
HEALTH INDUSTRY MANUFACTURERS ASSOCIATION
ON
TAIWAN'S ACCESSION TO THE WORLD TRADE ORGANIZATION

Thank you, Mr. Chairman and members of the subcommittee, for this opportunity to provide the views of the U.S. medical device and diagnostics industry on Taiwan's accession to the World Trade Organization (WTO).

The Health Industry Manufacturers Association (HIMA) is a Washington, D.C.-based trade association and the largest medical technology association in the world. HIMA represents more than 700 manufacturers of medical devices, diagnostic products, and health information systems. HIMA's members manufacture nearly 90 percent of the more than $51 billion of health care technology products purchased annually in the United States, and 50 percent of the $120 billion purchased annually around the world.

The U.S. medical device and diagnostics industry is a powerful reason why the quality of health care continues to rapidly rise in America, Europe, Japan, and many other parts of the world. The industry develops products that make possible faster, less invasive diagnosis and treatment, that facilitate treatment in less expensive and more comfortable settings such as the home, and that improve overall efficiency in the health care system. During the past 20 years, advances in such fields as fiber optics, imaging, biomaterials, and electronics have revolutionized medicine.

Our industry's focus on export markets has enabled us to provide access to these advances to patients around the world. In 1995, U.S. exports of medical device products totaled $11.5 billion, reflecting 12 percent growth over the previous year and contributing to a trade surplus for our industry of $5.4 billion. Nineteen ninety-six is proving to be an even better year for growth in medical device exports.

The purpose of this testimony is to alert the committee that the Taiwanese government is instituting policies that will block its own citizens' access to better health care by substantially foreclosing the ability of U.S. firms to compete and sell life-saving and life-enhancing technologies to the patients who rely on them.

As Congress reflects on whether to accept Taiwan's bid for WTO accession, we would ask that Members of Congress consider the violations of WTO principles described below, the negative impact of the violations on American business, American workers, and, perhaps most poignantly, on patients in Taiwan whose access to quality medical device products is being threatened. With these considerations in mind, we feel obligated to recommend against accepting Taiwan into the WTO until these violations can be fully resolved.

Violation of Important WTO Principles

In June 1996, Taiwan's national health insurance authority began to implement a new reimbursement policy whereby it sets the price for individual medical device products. At a time when the rest of the Taiwan government has been taking steps to conform to WTO policy, thus positioning the country for WTO accession, the health insurance authority seems to have been oblivious to the need to provide national treatment to foreign suppliers and to conduct its policy making and implementation activities in a transparent and open fashion. Thus, Taiwan's new medical device pricing policy defies the core WTO principles of national treatment and transparency, threatens U.S. industry's access to the Taiwan market, especially in high value-added product areas, and will lower the quality of health care available to Taiwan citizens.

Failure to Provide National Treatment. In affording foreign companies national treatment, the WTO promises "the same treatment as domestic companies in respect of all laws, regulations, and requirements affecting their internal sale." In violation of this principle, Taiwan has suggested that prices for imported medical device products be set based on different, and less favorable, considerations than those used in determining price for domestic products.

Specifically, Taiwan has become the only country in the world to require that importers turn over their business-proprietary and highly sensitive import cost data, and it is using this data to help determine the lowest possible price at which a manufacturer can sell in Taiwan. In some cases, price may even be set below cost. Domestic companies, by contrast, are not asked to share any information on their cost. Rather, they are given the same price as foreign products, even though domestic products are by and large of inferior design and are manufactured to lower quality standards at a considerably lower cost than foreign products.

The deliberate result of this policy is to significantly reduce or eliminate the price differential between high quality foreign products and low quality domestic products. By eliminating this differential, U.S. manufacturers in many cases would be forced to significantly pare down their product offerings in Taiwan, eliminating their most innovative and creative health care products and supplying generic products only. Because U.S. industry competes internationally on the basis of its ability to bring to market creative new health care solutions which enhance efficiency in the health care system and make patients better faster, a policy that forces our companies to retreat to a generic product strategy would harm U.S. industry most by denying it the opportunity to market its best products. It would harm patients most by denying them access to the health care technologies they need.

Lack of Transparency and Openness. The WTO is replete with general requirements for openness and transparency. Again, Taiwan's health insurance authority, in instituting its new policy on the pricing of medical device products, appears to have been unaware of these general requirements, as well as efforts by the rest of the government to come into compliance in order to accede to the WTO. As evidence of the lack of transparency and openness which characterizes the new medical device pricing policy, consider the following:

- Taiwan has yet to publish its policy for setting new prices;
- Oral explanations of the new price-setting rules by government officials often conflict with actual U.S. company experience;
- Taiwan is the only country in the world that implements a price list for medical devices but that does not make that list public. Even manufacturers are not notified by the government when their own prices are changed;
- Taiwan is the only country in the world that implements a price list for medical devices but does not include the manufacturer in negotiations over what its price will be;
- Prices may be set or adjusted at any time. Uncertainty regarding timing of price reductions compromises industry's ability to engage in long term business activities;
- Not until U.S. industry raised complaints through official U.S. Government trade channels would Taiwan's health authority agree to even meet directly with manufacturers to hear complaints about the impact of the new policy or general suggestions for how policy might be improved.

Most troubling to U.S. industry is the pervasive lack of interest on the part of national insurance officials in the value of the products that manufacturers bring to the health care setting. At no point in the system, described briefly above, does the insurance authority ask if a product is any different or better than a competing product. For instance,

- Does the product incorporate a new technology that adds value? For example, a knee implant made of a new and stronger composite material could last longer without needing to be replaced.
- Does the product incorporate additional features that make it more efficient? For example, a new device might simplify a surgical procedure and thereby eliminate the need for an additional health care worker(s) to be present during the procedure.
- Does the product reduce cost elsewhere in the health care system? For example, disposable hand-held laparoscopic equipment can reduce hospital stays for gall bladder patients by several days as compared to traditional open surgery.

Under each of these scenarios, adoption of advanced technologies could trim overall health care costs by thousands of dollars per patient treated. However, such considerations have been completely lost in Taiwan's haste to implement its new price list. Because Taiwan's new system is closed and non-transparent, manufacturers have not even been allowed the opportunity to make the case for their products' value directly to the Government.

Recent Progress

Because our industry has taken the first steps toward initiating a trade action against Taiwan as a result of this new policy and because that action has been strongly supported by several members of this subcommittee, we have seen over the past week the first signs of a new openness to industry views. We have put forward a proposal that would ensure that foreign suppliers are afforded treatment similar to that of domestic suppliers, clarify the rules under which medical technologies are priced in Taiwan, and institute a system in which medical technologies can be recognized for the value they bring to the health care setting. Taiwan's health insurance authorities will be in Washington next week to explore our proposal in further detail.

We are in high hopes that next week's discussions will lead to a breakthrough that would allow our industry to continue the uninterrupted supply of innovative health care products that can help the people of Taiwan live better and longer. It would be ironic, indeed, if we failed, since Taiwan's government has been seeking to improve the quality of care in Taiwan for the past year, through providing universal health care coverage to all citizens. To now begin denying access to the products people need to stay healthy is surely not the direction in which the government or the people of Taiwan want their health system to move.

Conclusion

However, we cannot be certain of progress. To date, our experience has shown that Taiwan's health authority appears to be more receptive to our thoughts and concerns when political pressure is applied. Therefore, in order to achieve a positive resolution, we believe our government needs to take a visible stand in favor of American industry, the American worker, and the people of Taiwan. We need you to let Taiwan know that failure to meet the principles of national treatment, openness, and transparency in the area of medical device reimbursement will be adequate grounds to seriously consider holding up Taiwan's bid for WTO accession.

Thank you, Mr. Chairman and members of the subcommittee, for allowing us to present our views. We look forward to working closely together with you as we proceed to resolve this difficult but important issue.

Statement of Steve Beckman, International Economist
International Union, United Automobile, Aerospace and
Agricultural Implement Workers of America (UAW)
to the
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
on
The Possible Accession of the People's Republic of China to the WTO

September 19, 1996

Mr. Chairman, the UAW appreciates the opportunity to share its views with the Subcommittee on the negotiations for accession of the People's Republic of China (PRC) into the World Trade Organization (WTO). We believe the negotiations with the PRC are a critical test of the WTO's ability to address the interests of American workers in international trade. In addition, we share your view that Congress must play a role in ensuring that any proposed accession protocol strengthens international discipline over practices that could be harmful to the employment and living standards of American workers.

The UAW is convinced that it would be naive and counter-productive to expect to change the PRC's trade practices after WTO accession when those practices have been recognized and raised as WTO-incompatible in the process of the accession negotiations. The leverage to remove practices that are problematic for American workers must be utilized now if it is to be effective.

There are many PRC practices that trouble American workers. However, since the annual MFN debates have identified them, it is not necessary to repeat them all. It must be stated, though, that the WTO rules are extremely generous to developing countries. Therefore, we believe that the PRC should only be admitted to the WTO as a developed nation, acceding to all WTO agreements and codes. Even then, a very detailed listing of obligations for the PRC to meet prior to accession is a necessary requirement.

The treatment of imports and local production in the PRC's auto industry is a source of great concern to the UAW. With its 1994 announcement of a plan to make the auto industry a "pillar industry", the PRC has made auto industry development a priority and many government programs are putting this policy into effect. Recent announcements regarding the plans of the PRC government for auto production are quite expansive. The target for annual production is 5 million vehicles by the end of the decade; current production is less than 2 million vehicles.

The virtual requirement that companies selling in the PRC invest in local production facilities, which is a part of the government's plan, must be challenged. The extremely high PRC tariffs and broad import licensing authority contained in current policies combine to act as effective barriers to imports of vehicles and parts and as inducements to export-oriented production in the PRC. These market-closing and export-promoting PRC barriers must be removed.

The impact of the PRC's "pillar industry" policy on U.S. auto industry trade can already be measured. While the escalating overall U.S. deficit in trade with the PRC has received wide attention, bilateral auto trade has not. In 1995, U.S. exports of vehicles and parts to the PRC totaled $180 million and U.S. imports were $635 million; the U.S. trade deficit was $455 million. In 1993, prior to the implementation of the program, the U.S. trade balance in automotive products with the PRC was a surplus of $521 million. A deterioration of $1 billion occurred in only two years. In the first quarter of 1996, this trend continued, with U.S. exports to the PRC falling further and imports increasing.

A continuation of the auto policy will mean a growing imbalance and greater pressure on American auto workers' jobs. As it is very hard to win protection for the U.S. industry through domestic procedures, we are especially concerned about this potential. Consequently, a full accounting of all government programs related to auto industry development must be provided and commitments to the elimination of export performance requirements and other similar unfair practices must be agreed upon before WTO accession. In addition, special safeguard measures to respond to injury or the threat of injury related to imports from the PRC must be available to American workers. The size and the non-market structure of the PRC's economy make such protections essential.

The UAW is also concerned about aerospace trade and investment. Through the use of concerted government policies, the PRC is creating a sophisticated aerospace industry and is willing to use the leverage of its market in order to succeed. The use of forced technology transfer, local production offsets and other unfair practices has been documented. Many other countries, particularly in Asia, are competing to become centers of aircraft and parts production, but the PRC has a leg up on its competitors because of the size of its market. U.S.-based aerospace firms have already agreed to onerous conditions in order to win access to the market in the PRC by acceding to co-production deals and technology transfers. We are very concerned that work in the aerospace industry has been, and will continue to be, relocated from the U.S. UAW members lose their jobs and their families and communities suffer when this occurs. The PRC's aerospace policies must be carefully addressed in the WTO accession negotiations. This must include, but go beyond, the PRC's accession to the Civil Aircraft and Subsidies Codes to address all forms of government inducements for local production, transparency in aircraft procurement decision-making by government-owned and other entities, as well as a complete listing of all government support programs, direct and indirect, for the PRC's industry.

The labor policies of the PRC government also must be addressed in the WTO accession talks. It was recently announced that all foreign investments would have to be unionized, with the official PRC unions to be recognized. It is our experience that the PRC unions too often have been more interested in the health of the government's policies than of the workers they are supposed to represent. Abuses of workers are said to be rampant. There must be enforceable obligations on the part of the PRC to rectify the mistreatment of workers prior to WTO accession. Otherwise, there will be little pressure for change in the government's treatment of workers in the future. Commitments by the government of the PRC to support the creation of a WTO working party on trade and worker rights and to eliminate exports of products made with forced and prison labor (and to allow monitoring of this commitment) must be included in an accession agreement.

It is important that Congress play a constructive role in advising the Administration on the accession negotiations and in defining the issues that must be addressed. We note the legislation introduced by Representative Gephardt, which would require Congress to vote on the accession agreement before the Administration could accept it. We strongly believe that Congress must be involved in the process of setting tough yet appropriate terms for the accession agreement and we look forward to working with the Committee and others in Congress to achieve that goal.

There are several trade and investment issues that are of concern to the UAW that also have much broader impacts. The effective implementation of the WTO rules on protection of intellectual property rights must be assured in the PRC's accession agreement. The trade regime of the PRC, including regulations and other government policies in addition to all relevant laws, must be fully transparent so that those outside the PRC have access to all the information needed to represent their interests in dealings with the government. Finally, the trade tools that are presently available to the U.S. government must remain in place. The continuation of conditional Most Favored Nation treatment for imports from the PRC and the annual reviews under the Jackson-Vanik provision are needed to ensure that commitments

have been fulfilled and that conditions for the PRC's workers and citizens improve over time.

The negotiations on WTO accession for the PRC have been ongoing for years, yet it seems that many of the most basic issues are yet to be adequately addressed. The UAW believes the U.S. government must resist the growing pressure to accelerate the pace of the talks at the expense of a comprehensive, enforceable accession agreement that addresses the variety of issues that have been raised with the PRC government. The size of the PRC economy and its potential for substantial growth ensure that the terms of this accession negotiation will have a profound effect on production and trade globally. The impact on all subsequent accession agreements and the willingness of WTO members to fully comply with the organization's rules must not be underestimated. The interests of American workers must be reflected in any agreement that truly benefits the U.S. economy. We urge the Administration to proceed on that basis.

Statement of

The Labor-Industry Coalition for International Trade (LICIT)

on

The Proposed WTO Accession of China and Taiwan

Submitted to the Committee on Ways and Means Subcommittee on Trade

October 1, 1996

We appreciate the opportunity to testify on the proposed WTO accession of China and Taiwan. This statement sets out the views of the Labor-Industry Coalition for International Trade (LICIT). LICIT, along with its subsidiary, the Coalition for Open Trade, brings companies and unions together to advocate increased, balanced and equitable international trade. Companies and labor organizations that have joined in recent LICIT statements on trade policy are American Flint Glass Workers; Association for Manufacturing Technology; Bethlehem Steel; Chrysler Corporation; Cincinnati Milacron; Communications Workers of America; Corning Inc.; Industrial Union Department (AFL-CIO); Intel Corporation; International Brotherhood of Electrical Workers; International Union of Electronic Workers; Motorola Inc.; UNITE; United Rubber Workers; and United Steelworkers of America.

LICIT considers it essential that China's accession to the WTO occur only on the basis of commercially acceptable terms and conditions. We believe that China must be prepared to adopt the full range of WTO disciplines, and that, although the protocol of accession might recognize and provide for special situations that confront China and other economies in transition, China must signal its clear intent to participate in the world trading system in a manner fully consistent with its WTO obligations.

China is a major player in the international trade community today, and its actions have important implications for all trading nations -- including the United States, whose trade deficit with China exceeded $33 billion last year and is still growing. To become a WTO member, China must subscribe fully to the range of principles underlying the organization -- for example, most-favored-nation status, national treatment, and transparency. Allowing China to become a WTO member on any other terms would be damaging commercially and would lead all developing countries to expect exemptions from these fundamental principles. Likewise, permitting China to maintain substantial protection for extended periods of time after its accession would create troubling precedents with potentially harmful consequences for many U.S. industries.

In negotiating China's proposed WTO accession, the U.S. Government should be guided by the following objectives:

First, the negotiations must yield real market access -- the ability to sell products and services freely in China, without regard to accompanying investment in China.

- Real market access will require, as an initial matter, rapidly phasing down China's high tariffs -- particularly tariffs on manufactured goods. The trade-weighted average tariff that U.S. goods currently face in China is estimated to exceed 25% (a conservative figure that does not take account of numerous prohibitively high tariffs, ranging from 79-145%, that prevent imports altogether). The trade-weighted average U.S. tariff, by contrast, is currently 2.5%. China must eliminate this disparity over a period of no more than three years.

- China must also eliminate restrictions on basic trading rights (*e.g.*, the ability to import and export from China). Currently, only designated enterprises can trade products they manufacture in China. Similarly, non-Chinese companies generally cannot sell or service end products not made in China. These limitations significantly curtail U.S. firms' access to the Chinese market.

- To provide real access, China will also have to address the problem of discriminatory business costs. Presently, foreign firms in China pay more than domestic firms for a variety of business expenses, including advertising, hotels, air travel, and office rental. The requirement to use designated foreign employment companies to hire local employees imposes additional, and inappropriate, costs.

Second, where foreign companies do invest in China, their operations should not be subject to export, technology transfer, profit re-investment or other onerous performance requirements.

Third, China should be required to assume the full mantle of WTO obligations as soon as possible, and for those areas where a transition period is required, it must be tightly defined. For example, an acceptable protocol of accession must commit China to meet the obligations of the TRIPs Agreement as a developed nation and without a transition period. Effective intellectual property protection is in China's interest and will encourage inbound investment.

Fourth, China's programs aimed at promoting economic growth and development at home must be consistent with WTO principles, and should be crafted to avoid distortions in world trade flows.

LICIT also supports the Administration's intention, as expressed by Acting USTR Charlene Barshefsky in her oral testimony before this Subcommittee, to include in China's protocol of accession a special safeguard measure applicable to imports from China after accession.

We recognize that the negotiations over China's accession are exceedingly difficult and have supported the Administration's premise that progress on the WTO accession issue will be advanced by progress on bilateral trade issues. We believe the strategy of pursuing negotiations on important bilateral issues, such as intellectual property rights, is the right one and should continue as part of a coordinated effort to bring China's trade practices in line with international norms.

Meat Industry Trade Policy Council
122 C Street, N.W., Suite 875
Washington, D.C. 20001
(202) 347-3600

September 18, 1996

The Honorable Dan Glickman
Secretary of Agriculture
14th & Independence Avenues, SW
Washington, DC 20250

Dear Secretary Glickman:

As China and Taiwan's applications for accession to the World Trade Organization move ahead, the Meat Industry Trade Policy Council (MITPC) would like to reiterate its deep concern regarding China and Taiwan's barriers on imports of beef and pork. As an initial matter, we request that China and Taiwan be required to meet all standards and requirements of current WTO members with no exceptions for agriculture.

As you know, China maintains one of the highest rates of import protection for its beef regime in all of Asia. Because of the availability of cheap domestic product, imported beef utilization is confined to joint venture hotels and restaurants. China's major hotels buy beef at prices approximately 120 percent higher than the price of the same item in Hong Kong, the major transshipment and supplying point. Chinese duties on imported beef should be lowered to no more than 20 percent to allow the limited number of end-users access to high-quality imported beef at reasonable prices.

China consumes approximately 50 percent of the total pork annually consumed in the world. While the Chinese government has attempted to assuage U.S. concerns by announcing that the hotel and foreign restaurant sector may be liberalized, this sector represents only a small portion of China's entire market. As a general rule, China simply does not permit the importation of fresh chilled and frozen pork and most pork products. China's market must be open to pork imports with tariffs bound at zero or very low levels to guarantee meaningful market access. Moreover, China should not be permitted to erect unscientific sanitary barriers or to require the utilization of state trading organizations.

With regard to Taiwan: we are concerned that the U.S. maintain its firm stand on beef tariff equalization. If Taiwan must equalize the tariff levels on high quality and manufacturing quality beef, the tariffs must be equalized at a lower level than the current tariff on high quality beef. We would have great difficulty with an approach to tariff equalization which simply dropped the tariff on manufacturing beef to the current tariff level on high quality beef, or raised the tariff on high quality beef to the level currently applied to manufacturing beef. Further, Taiwan has a ban on the importation of beef variety meats. This ban should be rescinded and tariffs should be bound at low levels that permit trade.

Taiwan's per capita consumption of pork, which is higher than per capita consumption in the U.S., is the highest in Asia. Variety meats represent the largest part of Taiwan's pork consumption. Unfortunately, Taiwan has a de facto ban on pork variety meats and selectively restricts other cuts of pork. Taiwan, as part of its accession to the WTO, should open its market to all types of pork imports with tariffs bound at zero or very low levels to guarantee meaningful market access.

We appreciate your attention on these important matters.

Sincerely,

Alan Tank,
Chairman, Meat Industry Trade Policy Council

American Farm Bureau Federation
American Meat Institute
American Sheep Industry Association
National Cattlemen's Beef Association
National Pork Producers Council
U.S. Meat Export Federation

cc: The Honorable Charlene Barshefsky,
Acting USTR
Robert Cassidy, USTR
Dorothy Dwoskin, USTR
Suzanne Early, USTR
Paul Drazek, USDA
August Schumacher, USDA
John Reddington, USDA
Lisa Hardy-Bass, USDA
Geoff Wiggin, USDA

Congressman Jerry

Solomon

SERVING THE 22nd DISTRICT, NEW YORK

WASHINGTON OFFICE

2206 Rayburn Office Building House of Representatives Washington, D.C. 20515 Phone 202-225-5614

TESTIMONY BEFORE HOUSE WAYS & MEANS SUBCOMMITTEE ON TRADE
"ACCESSION OF TAIWAN AND CHINA TO THE WTO"
SEPTEMBER 19, 1996

I am grateful to Chairman Crane and the members of the subcommittee for this opportunity to address you today on the subject of the potential accession of Taiwan and the People's Republic of China to the World Trade Organization.

First I'd like to address Taiwan. It is ironic that we are here today discussing Taiwan's potential accession to the WTO because just this past Tuesday, the International Relations Committee reported out my resolution, H.Con.Res. 212, which addresses this very issue. I am happy to report that the resolution will be on the floor under suspension next Tuesday. The resolution simply endorses a European Parliament resolution which urges greater representation in international organizations for Taiwan, and that is what I am here to do today.

Mr. Chairman, I can think of no other country that so richly deserves prompt accession to the WTO. We all are familiar with the great economic success story of this island nation. An impoverished third world island just forty five years ago, Taiwan has vaulted to being the 19th largest economy in the world and has become the sixth largest trading partner of the U.S. With an economy characterized by low inflation, low unemployment and a $12,000 per-capita GNP, Taiwan is nearly on par economically with countries such as Spain and Ireland.

More importantly, Taiwan's successful transformation to democracy has got to be taken into account when considering WTO membership. This year's presidential elections have rounded out this transformation and today Taiwan is marked by free elections, a free press and respect for human rights and civil liberties. In so doing, Taiwan has provided an excellent model for the rest of Asia.

Finally on Taiwan, Mr. Chairman, I would submit that the United States has a special moral obligation to support Taiwan's early membership in the WTO. Back during the Cold War, we really didn't have a more steadfast ally in our struggle against Communism than the Republic of China on Taiwan. They were integral in stopping the spread of that deadly system in Asia and for that we owe them a debt of gratitude.

Turning to Communist China, well, we just couldn't have a darker and more contrasting situation. Instead of the democracy we have in Taiwan, we have a vicious totalitarian dictatorship that consistently ranks at the bottom of the world in terms of respect for human rights.

Instead of the solid reliable trading partner we have with Taiwan, we have a crooked and duplicitous regime that refuses to allow open and fair access to American goods, blatantly violates trade agreements and consistently has racked up huge trade surpluses against the U.S. Indeed, we have all seen the June trade figures in which, for the first time, Communist China surpassed Japan as the largest contributor to our trade deficit. I am sure it will not be the last.

And finally, instead of the peaceful ally we have in Taiwan, we have a virulently anti-American regime that is engaged in a massive military buildup, regularly bullies its neighbors, and is recklessly abetting the spread of weapons of mass destruction to fellow rogue states around the world.

Mr. Chairman, supporting Communist Chinese entry into the WTO would be an extremely short-sighted policy for the United States. It would put the U.S. stamp of approval on the record of this regime, and as news events display every week, they simply don't deserve it. Mr. Chairman, support for Communist Chinese entry into the WTO would be nothing but a continuation of the policy of engagement which, as I've said before, is failing before our very eyes.

In closing Mr. Chairman, I would simply urge this Committee and this Congress not to put Communist China on the same plane as Taiwan. To do so would be factually incorrect, politically foolish and economically damaging Most of all, it would represent a complete travesty of justice.

Again, I thank the committee for the time here today.

○