

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

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**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/](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.

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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 20515-1305

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 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 BROWNBAC, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF KANSAS**

Mr. BROWNBAC. 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 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. commercial 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 Chinese 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 too 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 a 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-

criminary, 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.

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*"LIVING FROM DAY
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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 and the P.R.C. hold 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.

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.

"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."

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."

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.



*Executive Director,
Lynn Murray Sien - 顏琳*

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 begrudgingly 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

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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.

	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

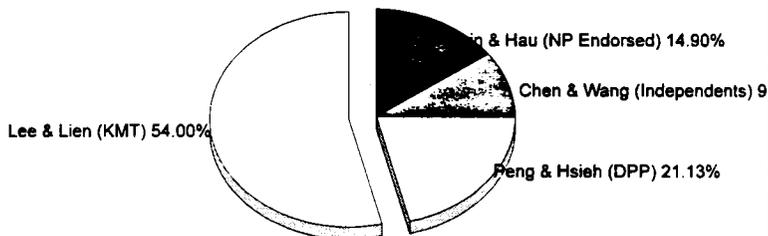
MARCH 23, 1996

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 PROGRESSIVE 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 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 NTS200 BILLION STABILIZATION FUND TO PURCHASE AN ESTIMATED NTS70 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 NTS27.5: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\$ million

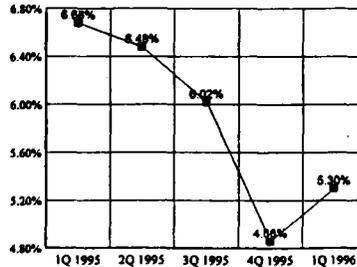
	Total	United States	Hong Kong	Europe	Japan
Investment	193.32	66.06	21.57	30.6	150.47
% change	(29)	(74)	(45)	(77)	25

Exports and Imports
March 1995 to March 1996
in US\$ million

	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

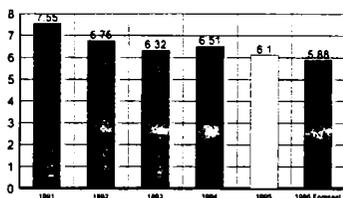
- 1986** THE "ZANG-WU," AN UNOFFICIAL OPPOSITION PARTY, CONTESTS SEVERAL SUPPLEMENTARY SEATS IN THE LEGISLATIVE YUAN AND THE NATIONAL ASSEMBLY.
- 1989** THE DPP FORMALLY PARTICIPATES IN THE ELECTION AND WINS SEATS IN THE LEGISLATIVE YUAN AND SEVERAL COUNTY MAGISTRATE AND CITY MAYOR POSITIONS.
- 1991** 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

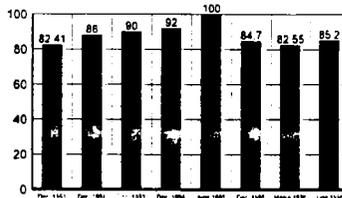
ECONOMIC PERFORMANCE REMAINS HEALTHY DESPITE CROSS STRAIT TENSIONS

- * 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 TOTALLED 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-

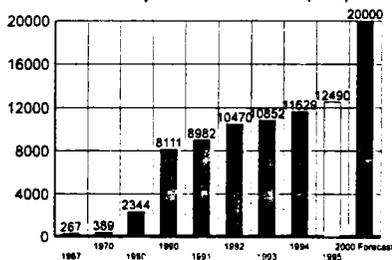
Real GDP Growth %



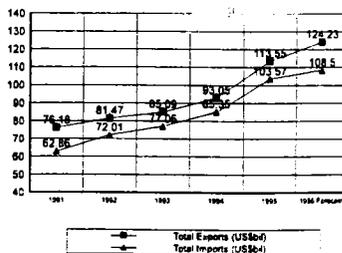
Foreign Exchange Reserves (US\$ bil)



Per Capita GNP 1967-1995 (US\$)

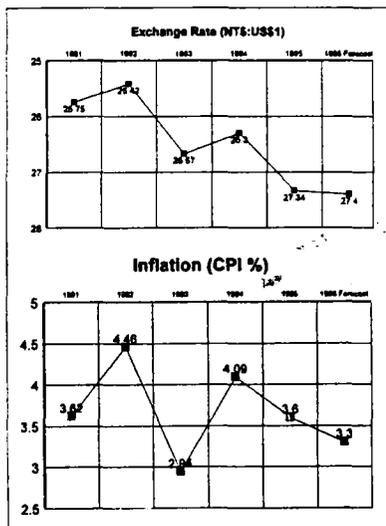


Total Exports and Imports



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, MICE, 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 U.S. 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)

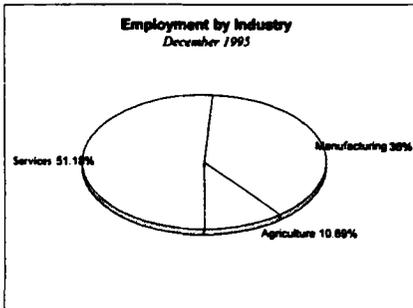
18TH HIGHEST GNP IN THE WORLD IN 1995 AT A TOTAL VALUE OF US\$264.6 BILLION.

25TH HIGHEST PER CAPITA GNP LEVEL REGISTERING AT US\$11,400 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.
- * 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 SUCCESSSES (AND POTENTIAL SUCCESSSES) IN TAIWAN INCLUDE THE FOLLOWING:
- * 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.
- 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 DISSIDENT 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.
- * 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.
- 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.
- * BILATERAL TRADE BETWEEN TAIWAN AND THE US GREW 10.2% TO REACH US\$48.2 BILLION IN 1995.
- 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.
- * 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.

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 services
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
Southern Bell International (U.S.)	September 19	Mobile communications, international telecommunications
Landis & Gyr Corp. (Switzerland)	October 24	Optical payphones, stored value cards, electricity meters
Chemtall GMBH (Germany)	November 27	Lithium compounds
Bell Communications Research (U.S.)	December 12	Telecommunications network services
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 TRANSHIPMENT 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

TRANSHIPMENT 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 MEDIA PRODUCTION

- * 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-DETENTE. 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.

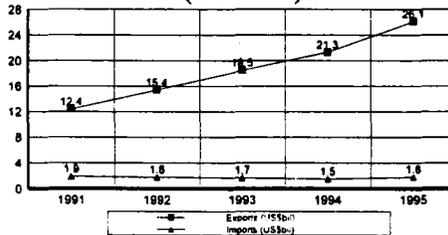
ROC Indirect Trade with PRC

	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 MICRO-MANAGED 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 RE-

STRICTIONS 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 SUCCESSSES 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.

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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
	Carboallfan	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.

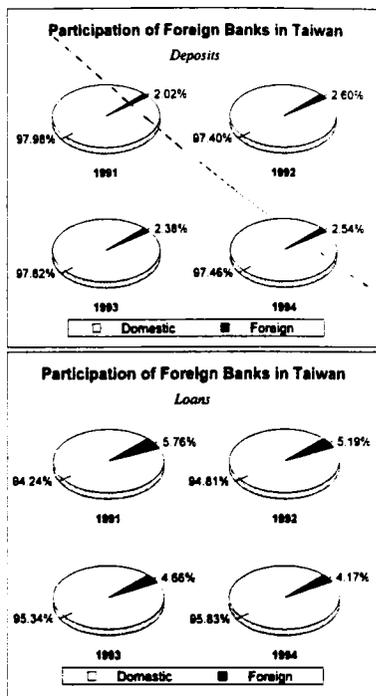
- 2.2 PERMIT DIRECT CROSS-STRAIT FINANCIAL DEALINGS.

- 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:
- PERMITTING MARKETING (INCLUDING MEDIA ADVERTISING AND DISTRIBUTION) OF FOREIGN MUTUAL FUNDS BY BANKS, SECURITIES ADVISORS, SECURITIES HOUSES, AND INSURANCE COMPANIES.
 - PERMITTING SECURITIES HOUSES TO BROKER AND DEAL IN ALL FOREIGN LISTED SECURITIES AND INVESTMENT PRODUCTS.
 - 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
 - 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 INTERNA-



TIONAL 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 PROCFS S TO DEVELOP ITS OWN ENVIRON-

MENTAL PRIORITIES AND PLANS. INCREASED FOREIGN PRESSURE AT THE MOMENT WILL ONLY ALLENATE 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, INEF-

FICIENT 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.

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.

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	300
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

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	\$7,135	\$7,492	5.00%
South Korea	\$5,097	\$5,097	18.00%

PROJECTED SEMICONDUCTOR PLANTS

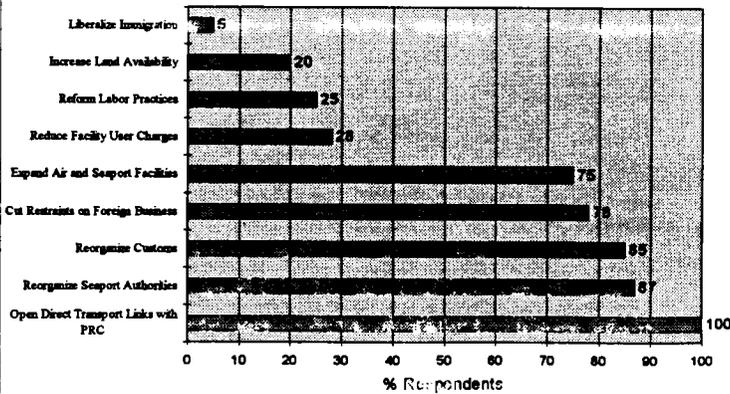
Company	Investment (NT\$ million)	Expected Completion	Products
Yunguard International Semiconductor Corporation	20	4Q 1996	DRAM/SRA
TSMC	30	October 1996	Foundry/OE
	35	1997	Foundry/OE
TI-Acer	35	2Q 1997	DRAM
UMC	27	3Q 1996	Foundry/OE
	27	November 1997	Foundry/OE
	29.4	3Q 1997	Foundry/OE
Men Ya	20	3Q 1996	DRAM
Powertech	20	March 1996	DRAM
IBMC (Hitachi Group)	31	4Q 1996	Memory/ASIC
Microtron	30	2Q 1997	3V Memory/Log
Wahmed	35	1997	SRAM/Logic
Mind	40	1H 1997	DRAM
AMC	20	1997	DRAM
Habit	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 NPTC 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 NPTC 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 NPTC 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.

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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 permanent 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:]

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-

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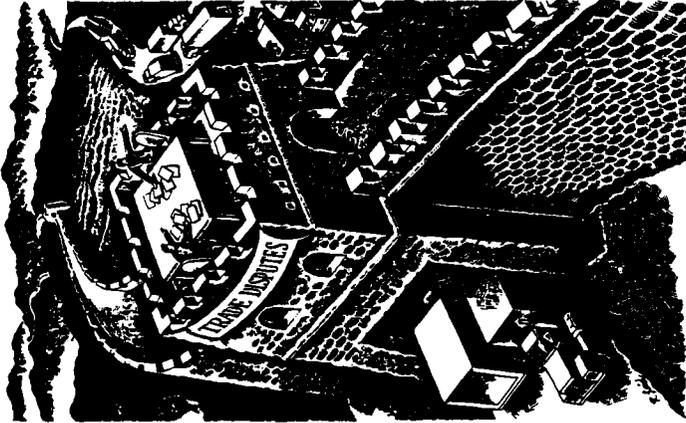


Illustration by Robert Carter

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note 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 Guohua, 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 re-

cent 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 enterprises 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, serious 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 ac-

tions. 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 mediating 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 generate 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 concerned 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, unopposedly 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,

ter 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 negotiators 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

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 unimpeachably 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 af-

an effort to integrate three nonmarket economies—Hungary, Poland, and Rumania. 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 redress 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 pre-condition 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 its 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 of 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 significant 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 United 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 SOYBEAN
ASSOCIATION
NATIONAL COTTONSEED
PRODUCTS ASSOCIATION
NATIONAL OILSEED
PROCESSORS ASSOCIATION
NATIONAL SUNFLOWER
ASSOCIATION
U.S. CAROLA
ASSOCIATION

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:

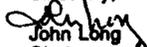
The American Oilseed Coalition (AOC), the trade association representing U.S. oilseed producers and processors on trade policy matters, would like to take the opportunity of your upcoming hearings on the World Trade Organization (WTO) Singapore Ministerial Meeting and the Accession of China and Taiwan 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

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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:

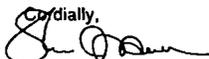
As you continue your negotiations with the Chinese regarding their accession to the WTO, and further to our previous correspondence of July 17, 1995 and October 10, 1995, we appreciate the opportunity to forward for your consideration the following:

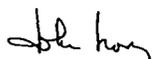
* ASA/NOPA Concept Paper on a "Harmonized Import Regime for China's Oilseed Complex"; and

* 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.

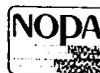
With kindest personal regards,

Sincerely,

 Sheldon J. Hauck,
 President, NOPA


 John F. Long
 President, ASA

Encls: (2)

P7012



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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.

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	2000/2001
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

	<u>1994</u>	<u>2005</u>
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>U.S.</u>	<u>CHINA</u>
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 *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 whiskey 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,

A handwritten signature in black ink, appearing to read "Fred A. Meister". The signature is fluid and cursive, with the first name "Fred" being the most prominent.

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.

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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 Wiggln, USDA

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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.

