THE HERITAGE LECTURES

150

U.S.-Republic of China Economic Issues

Problems and Prospects

Edited by Martin L. Lasater

The Heritage Foundation

The Heritage Foundation

The Heritage Foundation was established in 1973 as a nonpartisan, tax-exempt policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty, and a strong national defense. The Foundation's research and study programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world.

Heritage publishes its research in a variety of formats for the benefit of policy makers, the communications media, the academic, business and financial communities, and the public at large. Over the past five years alone The Heritage Foundation has published some 1,000 books, monographs, and studies, ranging in size from the 564-page government blueprint, *Mandate for Leadership II: Continuing the Conservative Revolution*, to more frequent "Critical Issues" monographs and the topical "Backgrounders" and "Issue Bulletins" of a dozen pages. At the start of 1981, Heritage published the 1,093-page *Mandate for Leadership: Policy Management in a Conservative Administration.* Heritage's other regular publications include *National Security Record, Education Update*, and *Policy Review*, a quarterly journal of analysis and opinion.

In addition to the printed word, Heritage regularly brings together national and international opinion leaders and policy makers to discuss issues and ideas in a continuing series of seminars, lectures, debates, and briefings.

Heritage is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954, and is recognized as a publicly supported organization described in Section 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of The Heritage Foundation through tax-deductible gifts.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002
U.S.A.
(202) 546-4400

U.S.-Republic of China Economic Issues

Problems and Prospects

Edited by
Martin L. Lasater

The Lehrman Auditorium
The Heritage Foundation
June 17, 1987

Participants

Richard V. Allen, former National Security Advisor to President Reagan, is Chairman of the Asian Studies Center Advisory Council.

Chang King-yuh is Director of the Institute of International Relations in Taipei.

Philip Chen is Director of The Asia and The World Institute of Taipei.

Congressman Philip M. Crane represents the 12th Congressional District of Illinois.

Edwin J. Feulner, Jr., is President of The Heritage Foundation.

Senator Phil Gramm, is the junior senator from Texas.

Edward L. Hudgins is Walker Fellow in Economics and Director of the Center for International Economic Growth at The Heritage Foundation.

Senator Robert Kasten is the junior senator from Wisconsin.

Sandy Kristoff is Deputy Assistant in the Office of the U.S. Trade Representative.

Joseph Kyle is corporate secretary for the American Institute in Taiwan.

Martin L. Lasater served as Director of the Asian Studies Center until November 1987.

Benjamin Lu is Director of the Economic Division of the Coordination Council for North American Affairs.

Wei Wu holds a doctorate in economics from Washington University in St. Louis.

ISSN 0272-1155

Table of Contents

Preface

In my years as President of The Heritage Foundation, I have chaired or participated in well over a thousand meetings. Few can match the proceedings in this slim volume for stimulating discussion on a complex topic. The subject is the close, longstanding economic relationship between the United States and the Republic of China on Taiwan and how to strengthen it through a Free Trade Area.

In a Free Trade Area, trading partners agree to eliminate over time those restrictions, such as tariffs or certification requirements, that stand in the way of completely free trade. The U.S. currently is phasing in such an FTA with Israel, and earlier this year a similar agreement was signed with Canada. With Congress poised to enact a thousand-page trade bill aimed at imposing protectionist strictures on America's Asian trading partners in an attempt to "do something" about the U.S. trade deficit, the good advice in this volume could not be more timely.

The conference, held last June 17, is the third cosponsored by The Heritage Foundation and our good friends at The Asia and The World Institute in Taipei. The first was held here in January 1986 and the second that July in Taipei. It is our hope that, instead of attempting to erect a protectionist wall around America, policy makers will use the recommendations here to craft means to open up markets of both countries to the benefit of all.

Edwin J. Feulner, Jr., Ph.D.
President
The Heritage Foundation
February 1988

Dr. Edwin J. Feulner, Jr.: Good morning, ladies and gentlemen. I am Ed Feulner, President of The Heritage Foundation, and on behalf of my colleagues at Heritage and especially the Asian Studies Center, it is my great pleasure to welcome you here this morning.

We have an exceptional opportunity today to discuss a very important subject for us all: U.S. trade policy. Specifically, our topic is the problems and prospects of U.S. trade with the Republic of China on Taiwan. This seminar is the third in a series that The Heritage Foundation has cosponsored with The Asia and The World Institute of Taipei.

The first seminar in this series was held in this room in January 1986. Our second seminar was held in July of last year in Taipei. An idea originally launched here in January 1986 at our first seminar was that of a U.S.-ROC free trade area. It has since received considerable attention in *The Wall Street Journal* and other publications. Subsequently, there was intensified concentration on that subject during the July meeting in Taipei. Today's seminar is a continuation of those earlier discussions and will focus on the free trade area concept.

Once again, it is my very great pleasure to be able to co-chair this session with my colleague, Dr. Philip Chen. Dr. Chen is the Director of The Asia and World Institute of Taipei. He holds a Ph.D. in government from the University of Massachusetts and is the founding chairman of the Graduate School of American Studies at Tamkang University in the Republic of China. Those of you acquainted with ROC affairs know Philip Chen and his close involvement with public policy issues in his country. Welcome Dr. Chen, back to The Heritage Foundation.

Dr. Philip Chen: Dr. Feulner, Senator Gramm, ladies and gentlemen. As our two countries' economic relationship progresses, it is inevitable that the Republic of China and the United States face each other with some troubling issues. That should not be cause for despair. After all, if there is no relationship, there are no problems. It is only when there is a rich and growing relationship that interaction begins.

Many of us here today have witnessed the remarkable growth of economic, social, and political developments in Taiwan. In particular, its growth in foreign trade has made the ROC well known throughout the world. For years, the United States has been our number one trading partner. Bilateral trade has run from $270 million in 1965 to $24.4 billion in 1986, constituting nearly 40 percent of the ROC's total trade. The ROC is the sixth largest trading partner of the United States.

ROC exports have expanded remarkably. In 1986, close to $40 billion worth of goods was shipped abroad, creating a trade surplus of $15 billion with the U.S. When the U.S. economy is doing well, the American people buy more imported goods, and other countries dependent on the U.S. market thrive. When the U.S. economy catches cold, the rest of the world is affected as well.

The U.S. economy generally is doing well now. However, some problems persist, and solutions are being sought. President Reagan has outlined a six-part program for improving America's competitiveness through increased investment, increased research and technology and education, regulatory reform, budget deficit reductions, international protection for intellectual property, and international economic and monetary compression.

The ROC is fully aware of the responsibilities associated with successful national development. A number of steps already have been taken, such as increased market access for service industries. Insurance firms, advertising, and consulting have been approved for entry into the ROC market. Duties on many items have been reduced. Major purchases from the U.S. were approved, such as the boilers for thermal power plants, airplanes, and subway systems. We believe that trade liberalization will ultimately benefit ROC competitiveness as well as balance the deficit for the U.S., but these measures can be effective only for the short-term difficulties. For the long term, perhaps a free trade area between the United States and the ROC could be the best solution for bilateral trade.

Dr. Feulner: The next individual I am going to introduce is also no stranger to The Heritage Foundation. He has known of our activities since our earliest days. Someday I will remind him of a discussion he and I had when he was a professor at Texas A&M. I tried to bring him to The Heritage Foundation, but he thought he might wait and try a different route to Washington. This led to his coming to Congress and having a remarkable impact in a very short period of time.

With a Ph.D. in economics, Senator Phil Gramm is uniquely qualified to discuss economic matters. Before entering the political arena, he was professor of economics at Texas A&M University for twelve years. There he wrote extensively on economic questions centering on energy policy. He published two books, *The Role of Government in a Free Society* and *The Economics of Mineral Extraction.* But Phil's greatest contribution has certainly been since he became a legislator. He is the author or coauthor of a number of landmark legislative measures, including the Gramm-Latta Budget Act, the Gramm-Rudman-Hollings Balanced Budget Act, and the recently introduced Gramm-Kemp trade bill.

Phil Gramm is a man of conviction. After serving the Sixth Congressional District of Texas as a conservative Democrat, he was stripped of his seniority for supporting President Reagan's economic program. Phil then decided to leave the Democratic Party. He was overwhelmingly reelected in a special election as a Republican, and in 1984, he was elected to the United States Senate with more votes than had ever been received by a candidate for a statewide office in the history of Texas.

Phil Gramm is aggressive and bright. With only two terms as a Congressman and little more than two years as a Senator, he has already gained the kind of respect and admiration from his peers that takes most politicians a lifetime to build. He is a rare breed, a statesman and an intellectual.

And now for our keynote address, please join me in welcoming Senator Phil Gramm.

Senator Phil Gramm: Let me first say I appreciate the opportunity to be here. Ed mentioned the Gramm-Rudman legislation, and I would like to say next I had hoped to come here today famous as a result of Gramm-Rudman, but that did not quite happen. It all started the day before the President went to Iceland for the summit. He invited me over to the White House and very ceremoniously took a little drape of velvet off a small easel, and there was a mockup of a new postage stamp, commemorating the passage of the Gramm-Rudman-Hollings balanced budget law. Sure enough, there was a picture of Senator Warren Rudman and a picture of me, and then above poor, forgotten Senator Fritz Hollings' name, it said "No photo available."

I was very excited that I was about to be immortalized by the Post Office. Subsequently we found out that, before the Post Office can issue a commemorative stamp on a controversial subject, they have to do a field test to find out if the public will accept the stamp. We had the terrible misfortune of having Washington, D.C., chosen as our field test area. And as you have guessed, the stamp failed the field test. You might be interested in knowing why. It failed the field test because the stamps were not sticking to the envelopes. They looked into it and found that the problem was that all the bureaucrats were licking the wrong side. So that is how glory passes you by in this world.

I want to congratulate The Heritage Foundation for its work, not just on the subject of trade, but on most other subjects that are important to the future of the U.S. And today, in the midst of the debate that probably will begin this week or next on the trade issue, the timing could not be improved for this particular seminar.

Now, I could rattle off many statistics about the success of the Republic of China on Taiwan, but we all know those statistics. From a war-torn nation of refugees in 1952, with a per capita income somewhere between $50 and $200 a year, the Republic of China has grown into a world power in terms of economic production, with a per capita income approaching $3,500 a year.

It is nothing short of an economic miracle. It did not occur because the U.S. government gave the Republic of China on Taiwan $1.5 billion of aid. There is no doubt that, during that transition period in the late 1950s, the aid was important. But we have spent little money through our foreign assistance program that produced better results than that $1.5 billion of aid. The plain truth is that, during the period when aid was being received, Taiwan primarily practiced import substitution, and while it industrialized very rapidly, the real sustained growth came only with the elimination of U.S. aid, when Taiwan shifted to a policy of aggressive promotion of exports. The percentage of manufactured products going to export rose in ten years from 9 percent to 50 percent, and the economic miracle was well underway.

In looking at the trade relationship between the Republic of China and the U.S., it is important to see the context of what is demonstrated about growth and the promotion of all the things that we in the U.S. and freedom-loving people around the world want to promote. Because, in a very real sense, Taiwan and the mainland of China both undertook a great experiment in terms of human behavior, growth and opportunity, and the well-being of mankind. There have been two great social experiments: on the mainland, a government that practiced communism for a long period of time in a purer form than it has ever been practiced on the face of the earth; and on Taiwan, a group of refugees on an island with relatively few natural resources who followed an economic system based first on moving ownership of the land into the hands of the people who actually tilled the land, and second, on actively promoting the development of individual initiative and capitalism.

As a result, we have seen a microcosm of two different approaches to economic development and also a microcosm of a great international struggle that had been under way for decades. In fact, you can tell the whole postwar [World War II] history of the world by looking at Communist China and at Free China. The postwar history of the world has been dominated by the Soviet Union emerging from World War II with its capital stock decimated, its economy in shambles, yet going out to sell the second-rate idea of communism, an idea of production and resource distribution that has never worked anywhere in the world with any degree of efficiency.

The U.S. went out into the world trying to buy friends with money, often promoting economic policies we would never impose on ourselves, that were not working anywhere in the world, nor had they ever worked. The result was that, every place we came into conflict with the Soviets or with their proxies in terms of force of arms, we either lost or had a bad draw.

The only success that we have had in the postwar period has been through trade. In Asia, with the initial development of markets with South Korea, Japan, and Taiwan, we were able to totally stop the spread of communism as a viable economic alternative. In a very real sense, the hope of freedom has been sustained on the rim of Asia by the development of a capitalistic miracle that is the envy of the world.

In Europe, the Marshall Plan proved a sop of aid that provided a political cover for Congress to open up markets to European goods in the U.S. That in turn produced the miracle of the Marshall Plan in terms of trade and growth and all the results that have come from that.

It is very interesting in looking at the progress of the ROC and at the lack of progress on mainland China to note that, after these two great experiments, today the communists are trying capitalistic ideas, not the other way around.

It is interesting to note that, while Chiang Kai-shek died never having taken his army back to liberate the Chinese people on the mainland, they are, in a very real sense, being liberated by the power of the free market idea that he helped plant in Taiwan. They are being liberated, not by the force of arms, but by the power of ideas. A very important element of these ideas is trade.

I do not need to tell you that the U.S. is in the midst of a debate that is important for the future of mankind. Protectionism is a dagger aimed at the heart of everything we have developed in the postwar world. Keep in mind that all U.S. successes in the postwar era have come from trade, that the development of a world market and the prosperity that world market has brought have stopped the spread of communism, and that this has reversed the tide in the battle for the hearts and minds of mankind. Then add the fact that Congress will soon be starting debate on bills that are aimed at reversing that process, at closing markets, at denying access to American markets to our trading partners around the world, and thereby inevitably at producing retaliatory action that will reduce U.S. trade. And you will realize just how crucial this trade debate is.

Unfortunately, there are some basic economic truths that Congress does not understand. One of these is you cannot have more jobs with less trade, and another is that you cannot trade less without having lower living standards. If protectionist legislation is passed, those sad, harsh truths are going to be felt around the world. And the implications go far beyond just U.S. living standards. The implications go to the very heart of the conflict we have had with the Soviet Union and with communism as to what is going to be the dominant force in this world, freedom or totalitarianism.

This battle will not be won or lost in one debate or on one bill. It is clear that politically the U.S. is going in the wrong direction today, but that does not mean the direction cannot ultimately be reversed.

Let me talk a little bit about American trade problems relating to Taiwan, and then talk about what our alternatives are. We are all aware that our third largest trade deficit is with the ROC. Obviously, that has made the ROC a target for much of the protectionist activity in Congress, whether it is the rollback of quotas and textiles or so-called voluntary restraint in the export of goods to the United States. And the result has been the same: less trade, less growth, less prosperity.

Where do the American trade deficits come from? I never tire of trying to explain this to my colleagues. But there is one problem with trying to debate the protectionist issue and that is that the arguments for protectionism are all short, concise, demagogic cliches. The arguments for trade are all somewhat complicated explanations of how markets work and how trade benefits everybody.

But the basic point is that the U.S., by and large, has produced its own trade deficit. You should recognize that all of the so-called facts that you hear every day on the floor of the United States Senate and on the floor of the House are absolutely incorrect.

First of all, there is no truth whatsoever to the assertion that we are losing jobs in the United States because of trade or the trade deficit. I never cease to be amazed that this point is made over and over and over: "For every billion dollars of trade deficit, we lose 25,000 jobs." Yet nobody ever says where the jobs went.

You will look around the world in vain to find them. Some jobs have been lost by American companies; other jobs have been gained by American companies. And the jobs that have been lost and the jobs that have been gained reveal a lot about the politics of the debate.

The U.S. has created 13 million new jobs since the trade deficit soared in 1982. No other nation on earth can match that performance. We have produced more jobs since our trade deficit skyrocketed in 1982 than Europe and Japan combined.

The second myth in the debate is that we are losing manufacturing jobs. That is a total and absolute falsehood. The United States has created

405,000 manufacturing jobs since 1982, more manufacturing jobs than created in Europe and Japan combined during the same period. You have heard the myth that we are becoming a service industry, a taco industry as my colleague from Texas says, that we are becoming deindustrialized. There is no evidence whatsoever to substantiate that claim. Manufacturing as a percentage of GNP in the U.S. has been roughly 20 percent for 60 years.

We now hear the latest of the myths, that is, we are losing high-paying industrial jobs and we are gaining low-paying service jobs. There are no facts to substantiate this claim. In fact, real wages in manufacturing, where the number of jobs has gone up by 405,000, have risen by 7 percent since 1982. From 1971 to 1982, real wages fell by 6 percent. The truth is that, since 1982, the United States has gained more from world trade than any other nation on earth and, in fact, from the very inception of the American colonies.

We also hear an alarm of terror that we are becoming a "debtor nation." In fact, the U.S. was a debtor nation from the time the first Pilgrim stepped on Plymouth Rock until about 1922, and during that period, suffered the most rapid period of sustained economic growth in the history of mankind and became the world's greatest economic and military power. Nonetheless, the U.S. could be a creditor nation again by just making a few more bad loans in Central and South America.

What has happened is that there has been a 70 percent decline in U.S. foreign investment because the economy, under the Reagan program, has been so attractive that capital has stayed at home. We also have had an increase of about 35 percent in foreign investment coming into the United States. The combination of those two things has meant that the U.S. economy has been greenlined by both domestic and foreign investors.

This has happened for two reasons. Number one, the U.S. has grown faster than the rest of the world since 1981. And second, since 1980 the U.S. has had the highest real interest rates in the world. We all know where they came from—a combination of fiscal and monetary policy that have been dictated by huge federal budget deficits—the deficit that really matters. These huge budget deficits have meant that the federal government has preempted about half of all the domestic capital that has been generated since 1981, which has produced the highest interest rates in the world.

I remember as a graduate student reading the words of an international banker, Walter Bagehot, who said 8 percent will draw gold from the moon. We have proved that real interest rates in that range will literally strip the rest of the world of capital. The plain truth is that, despite all the rhetoric, we have robbed Europe and Japan and much of the rest of the world of their capital, which has been sucked up into the American economy by this huge magnet of high interest rates, and this capital has funded the federal debt, which in turn funded the strong economic recovery of the 1980s. Now we are in the process of blaming the very nations whose capital rebuilt our economy. What a terrible paradox it is.

Obviously politicians want someone to blame for their problems. And the problems are manifest in a disproportionate shift of jobs. Of the 13 million new jobs created in the Reagan years, only 4 percent have gone to unionized industries. The number of jobs going to firms that hire less than 50 people is skyrocketing; in those that hire less than 200 people it has grown very rapidly; in firms hiring from 200 to 500, it has grown at a fairly substantial pace; but the number of jobs in firms hiring above 500 has actually declined.

The political stress derives from the fact that most of the jobs that have been lost because of trade are in large industries that are tied in politically with large and powerful trade unions. Most of the jobs gained have been in small, efficient producers, who are too busy working and generating jobs and growth and opportunity to be in Washington lobbying. Every job that has been lost has produced a hue and outcry. But as foreign capital has come in to build new industries and generate new technology and new tools, nobody has run an ad in the paper praising it.

That, basically, is the problem. We have a trade deficit because of a huge capital inflow with our high real interest rates along with high equity returns. Foreigners have beat the door down trying to invest in the U.S. To do that, they have to buy dollars, and they have bid up the value of the dollar relative to foreign currencies in the process. That has made imports cheaper, exports less competitive, and as we all know, the balance of trade plus the capital account equal the balance of payments, and two have to sum to zero.

Protectionism is not the way to deal with the U.S. trade deficit. We could put a 20 percent tariff on every import coming into the United States, but there is no reason to believe that that would guarantee a reduction in our trade deficit. That is because a 20 percent tariff would lower American demand for foreign goods, reduce the supply of dollars on the world market, and drive up the value of the dollar relative to foreign currencies, making U.S. exports more expensive. And if investment decisions were not changed, the capital account would not change. Therefore, exchange rates would adjust until the trade account came back into balance with the capital account. The net result would be that the only impact would occur because America was poorer, because real wages were lower, because living standards were lower, because growth rates were lower. The U.S. could improve the trade deficit if, by being poorer, it could be made lower, but that would occur only through the poverty effect, which is generally not what most politicians have in mind.

How to get out of this mess? First of all, the blame cannot be put entirely on the U.S. government and politicians. Part of the problem is that our trading partners have been very protectionist. The truth is, we are not as free or fair traders as we would like to believe, but our trading partners by and large are worse. They are protectionist for the same reason that all nations are protectionist, which is that greedy, narrow, special interests in the Republic of China and everywhere else have dictated policies that benefit them at the expense of the working men and women of the Republic of China and at the expense of the working men and women of America. Protectionism always hurts the country that it is supposed to protect.

Obviously, one way out of the problem is to lower trade barriers across the board. Congressman Jack Kemp and I have introduced a bill that I can safely predict will not become law this year. But with equal safety, I can predict that ultimately it will be the law of the land. Maybe not in its exact current form; hopefully in a better form. It recognizes that there cannot be fair trade by having less trade, and it proposes beginning with a Free Trade Area in North America by completing U.S. agreements with Canada to have a Free Trade Area so there are no economic barriers on our northern border. This could be followed by similar agreements with Mexico and the Caribbean Basin nations—all on a reciprocal basis lowering trade restrictions and ultimately eliminating them.

If we did that, we could forget about our problems in Nicaragua. If we did that today, communism would be finished in the Americas. But because we have failed to do it, communism continues to be a very real threat.

We should follow the FTAs in Latin America by promoting trade expansion areas around the world. And it ought to be a challenge that the U.S. makes to every other trading nation on earth. Of course, it would have to restrict systems that have a viable market. And we must devise some way of dealing with the communists where there is no market system. But those difficulties can be worked out, and we have tried to come up with a way of working that out in the Kemp-Gramm bill.

I am aware that there has been discussion in the Republic of China of entering into a Free Trade Area with the United States. That clearly is the direction toward which we need to move. If we could establish a Free Trade Area in the Pacific involving the Philippines and Taiwan and South

Korea and Japan and Thailand, within two decades communism would be in full retreat in Asia and we would win back all that was lost in Vietnam and in the Korean conflict.

Clearly, that is the wave of the future. In order to move in that direction, there must be people who have the courage to stand up and argue for that position against the special interests. There is no other way to make it come about. The Lord did not make many zealots. So if you want people to defend a position, you must build a base of support for it. That is why the activities here at The Heritage Foundation, here at this conference, are so vitally important.

Ideas do have consequences. The world is governed and dominated by ideas. Ultimately, those who control ideas dominate government, dominate the world. Even in so practical and political an institution as the U.S. Congress, ideas ultimately dominate. By planting seeds today to develop the only idea that is worthy of free men and women—the idea of individual freedom and capitalism and free enterprise—we are planting the seed that will allow us to wash away the protectionism of this Congress. Ultimately, these ideas will enable us to enter the 21st century with free markets, with expanding trade, and with expanding freedom.

If we do that, Presidents of the United States will not have to satisfy themselves by saying, "Not one inch of free territory has fallen to the communists on my watch." There are few U.S. Presidents since World War II who can say that. If we can promote an expansion of trade and free enterprise, if we can open up markets, the day will come when we can talk about liberating the people of the world, including the people of the Soviet Union. That has to be our objective, and that is what this trade issue is all about.

Guest: From what I understand, the Senate will attempt to register, or perhaps even restrict, foreign investments in the U.S. Not only are foreigners giving us goods, apparently they are giving us money, and this is looked at by some as a hostile act.

Senator Gramm: You can see it in two headlines: "Toyota Invests in Plant in Tennessee; America Loses Control of Capital and Economy; Bad News for America; or "Texas Instruments Invests in Hong Kong; American Capital Leaves; Jobs Lost; America Loses." Those are flip sides of the same transaction. How can the U.S. be a loser? In fact, the only perfect model of what these people, at least outwardly, appear to want is old Communist China, a totally isolated economy. And, as I have said on many occasions, what a terrible paradox it is that, at the same moment in history when Communist China is coming out from behind its ideological Great Wall and recognizing that trade is the answer, there are so many people in the greatest trading nation on earth who believe trade is a problem.

Mr. Richard V. Allen: Senator, is there a realization in Congress that the vaunted large-scale investments that were announced in the People's Republic of China on the mainland have not materialized and that most of the U.S., European, and other investors have really not fulfilled their expectations on the mainland? In fact, they have sought other places, such as the Republic of China and the ASEAN countries, as targets of investment.

Senator Gramm: I think there is a realization of that. Not many people have followed it very closely. There was a flurry of press and general media attention concerning U.S. investment and the opening up of China, but the people that have followed it have recognized that, as is the usual case, more is said than done.

What is interesting about the Chinese experiment is that there cannot be a closed political system and an open economic system. While talking to the leaders of Communist China, it is clear that they believe that they will achieve the benefits of the free market system with greater incentives. But their goal is to become a world power and then to exercise the same kind of totalitarian influence internally and externally that they have today. Those goals are mutually exclusive. And how that experiment comes out or whether, in fact, the experiment ever occurs is going to be very important to the future of mankind.

Guest: There is one aspect of protectionism that I do not think you touched on in your remarks. You recognize that many of our trading partners are more protectionist than we are. Is there a case for using protectionist measures as a device for eliminating the protection that our trading partners have imposed upon us?

Senator Gramm: I am not aware of that actually being the case. I think the problem with threatening protectionism as a device for ending protectionism is that the political forces in our country actually want protectionism. What frightens me about all the discussion that is occurring in Congress about, "We just want our trading partners to be as fair as we are," is that it is not what those folks really want. They do not want trade, period. The United Auto Workers wants to stop imports.

As an example, on the textile bill, I counted nineteen members of the Senate one day, Republicans and Democrats, who claimed, "Look, we are not protectionist. We just want other nations to be fair; that is what we want." So on the spur of the moment, I introduced my "protectionist smoke-out" amendment. That amendment was aimed at what you are talking about. It said that the Trade Representative would do an assessment once a year of the degree of protection in the markets of all of our trading partners, and if a nation were found to be less protectionist than we were, they would be exempt from the provisions of the textile bill.

That amendment, after a heated and passionate debate and after a lot of lobbying by the textile industry, which sent everybody two shirts, and the labor unions, ended up getting 22 votes. It got 22 votes because these people do not want fair trade. They do not want our trading partners to treat us equally. They do not want imports, because they do not want competition.

The same forces that try to promote the protectionist policies would be against repealing it if our trading partners did end their protectionist policies against our goods. There has been a lot of focus on the Gephardt Amendment. The Gephardt Amendment is not the worst provision of these trade bills. The worst provision of the trade bill is Section 201 of the Senate Finance Committee bill, because Section 201 has nothing to do with unfair trade. It has to do strictly with a sudden surge of imports that allegedly harm U.S. industry and ultimately with protectionism. The argument applies when any industry either is losing jobs because of this surge of foreign competition or is threatened with the loss of jobs. If the International Trade Commission determines that this is the case, the members who do not agree with the majority finding do not get to vote. Only those who were in the majority can vote on the remedy. The President has no ability to look and see how that is going to affect the consumer, the living standards of America and many other things, other than national security, which he does have, albeit very narrowly defined.

If the Commission votes for protectionism, the President is forced to implement protectionism for five years, with a three-year expansion. But can anyone explain how an industry after eight years of no competition is going to be more competitive? In fact, it is like saying we were two and nine in football last year, so let us end the football program for eight years so we can get competitive again. I mean, there is no possibility of that happening.

Guest: What has been the response from the leaders of the Republic of China when you have talked to them about the trade issue?

Senator Gramm: If we really had a policy of reciprocal free trade, the Republic of China would be one of the nations that would likely be willing to enter into the agreement. If we could adopt the Kemp-Gramm bill, the ROC would be one of the first nations on the Pacific rim we ought to approach with an expanded trade area. Ultimately, I think we would be joined by all the nations of the Pacific rim.

* * *

Dr. Feulner: I would like now to introduce one of the Republic of China's most widely known and respected scholars, Dr. Chang King-yuh, former Director of the Government Information Office in the Republic of China, and now Director of the Institute of International Relations in Taipei. He holds a Ph.D. in political science from Columbia University and is a frequent visitor to the United States. It is always a pleasure to welcome him back to The Heritage Foundation.

Dr. Chang King-yuh: Thank you very much, Dr. Feulner. It is indeed a pleasure to be here, and I would like to congratulate The Heritage Foundation and The Asia and The World Institute for cosponsoring this very important event.

The trade relations between the Republic of China and the United States started, of course, very early. The U.S. "Empress of China" sailed into Canton port on August 28, 1784. That is when bilateral trade began, and from 1825 to 1895, China had a modest surplus of trade. From 1896 to 1967, trade favored the United States. From 1968 until this moment, it has been in the ROC's favor.

Now, of course, the U.S. has been our number one trading partner for many years. And the ROC is now the number six U.S. trading partner. We are also the third largest U.S. overseas market for agricultural products—the largest importer of U.S. apples, second largest for corn, third largest for cotton, soybeans, and grain. But there is an imbalance of trade reaching about $14 billion last year, even though, on per capita terms, each ROC citizen spent $278, or roughly 7.4 percent of his or her annual income last year, buying American products. Each American citizen spent about $84, or less than 0.5 percent of income, on goods produced in Taiwan.

Both sides are trying to cope with the trade imbalance. The ROC government has been trying to remove trade barriers and is attempting to accelerate the internationalization of its economy. And we hope that, through work on both sides, we can continue to expand our economic ties.

We are very fortunate this morning to have a distinguished group of panelists. First is Congressman Philip M. Crane. Congressman Crane is a Republican from the 12th Congressional District of Illinois, and he is a veteran, serving his tenth term in the U.S. House of Representatives.

Congressman Crane has served in many important positions. He is now a member of the key Ways and Means Committee, and he is also the ranking Republican on the Trade Subcommittee. He has a Ph.D. in history from Indiana University. He will be discussing the congressional perspective of the U.S.-ROC trade relationship. Congressman Crane.

Congressman Philip M. Crane: Thank you. I come to you to represent a point of view, namely, the perspective from the Congress of the United States. Yet I am very unrepresentative of the Congress of the United States, because the fact is, Congress is increasingly proceeding down a protectionist path. In this way, Congress is making a scapegoat not just of foreign trading partners, but of American consumers and the long-term best interests of the free trading market worldwide.

The Gephardt amendment has been diluted only moderately from last year, and last year's Gephardt amendment specifically targeted certain trading partners, including the ROC. They left out some specific language this time, but it is clear that our Pacific Basin trading partners would feel most of the impact.

These trading partners have not committed any crimes. They simply are doing what the U.S. tried to teach and encourage them to do at the end of World War II. That is the perversity of this protectionist legislation. If there were no ROC, we would be creating one and pouring billions of American dollars in foreign aid into it to guarantee the survival of a dream and an ideal that Americans still embrace overwhelmingly—regardless of some of the flakes in our State Department. Americans yearn for the day when the ROC will be reunited with the mainland, but in a free society. The minor gestures the communists have made toward relaxing some of their totalitarianism notwithstanding, they still have a long way to go.

But the fact is, here is this bizarre situation today, condemning the ROC and other trading partners for doing the things that we encouraged them to do. And they have done it so successfully that now we are whining. I have never seen so many crybabies from the corporate world in this country as I have seen in this whole trade issue: People who are trying to find excuses rather than taking the traditional U.S. approach that when the going gets tough, the tough get going. Rather, it is time to roll up your sleeves and get back to work, and figure out where the U.S. has lost its productive and competitive edge in world markets.

The experience was brought home to me very forcefully in 1981 when I had the opportunity to visit Japan with the American Productivity Center. We talked to many of the CEOs over there and visited some of the biggest corporations. The Japanese, like the Chinese, are a very polite people so they did not want to offend the American delegation. But they asked some very pointed questions.

We visited a Nissan auto plant, and if we had not believed in Nissan autos prior to that experience, we wanted to buy one as soon as we walked through the plant. It was obviously a first-rate quality product. They had a totally robotized body assembly line, including door panels. And the president of Nissan said to us: "You know, you people invented robots. Why haven't you robotized?"

The fact is, over 67,000 of the world's robots are operational in Japan and only about 14,000 in this country. And he noted, as we walked down that production line, that there were no cigarette breaks; there were no industrial accidents; there was precision and quality control not possible with humans; and everyone could go home at night with one fellow sitting at the control panel, and those bodies would continue to roll off. We had no answer for him. And to this day, Detroit still has not fully robotized its body assembly lines. One can only wonder why.

Equally significant, the Nissan management-labor relations are vastly superior to ours. They told us that ours is an adversarial relationship with labor pitted against management and government pitted against business. Then they quoted John Kennedy with his famous statement, "A rising tide lifts all boats." If we in the U.S. would work more cooperatively together between labor and management and business and government, everybody would be the beneficiary.

Then they asked us why the U.S. had such negative tax laws with regard to savings and investment. Every one of us was taught by our parents: you should not squander your paycheck at the end of the week in instant gratification; rather, you should put something aside for a rainy day in the future.

And if you do that, for example, by investing in a publicly held corporation with your after-tax dollars, when that corporation makes a profit, those dollar investments get hit a second time; when it makes a dividend distribution, they tax the dollars a third time; and then when you sell your stock and enjoy a capital gain, they get it a fourth time. The ultimate obscenity is when you die, they lose you as a productive taxpayer, but they come in and zap your bereaved spouse and loved ones. What could be more counterproductive?

We have had this kind of tax code in place since the Great Depression. It was based upon Keynesian thinking that the way out of the Depression was not to encourage people to save, but to encourage people to go into debt and to spend. So we built incentives to spend by giving tax breaks for going into debt, and punishments for saving. The consequences are that only 3½ percent of personal income goes into savings now. But in Japan, it's 20 percent of personal income that traditionally goes into savings and investment. And this has ramifications. If you plot the origins of the U.S. trade deficits, you will see a direct correlation between the rising prosperity that commenced about 1982 with the tax bill we passed in 1981. And you will see consumption levels in the United States really starting to take off.

In short, it is the voracious appetite for consumption in the U.S. that is the principal factor behind the trade imbalance. We simply are not producing enough to meet local demand. The Japanese are filling a portion of our demand; the Taiwanese are filling a portion of it; the European Community is filling a portion of it. But the fact of the matter is, our trade imbalance is not the result of unfair trading practices. Bruce Smart, our Deputy Secretary of Commerce, estimated that, if the whole world practiced fair trade, it would have about a 10 percent impact on our trade imbalance. And that means 10 percent of the $170 billion imbalance last year, which would have been $153 billion. This suggests that there are a lot more factors involved in our deficit than unfair trading practices. The foremost is the American penchant for consumption, coupled with all of the incentives to consume that we have built into the system.

In addition, you should factor in a government that is running deficits of the magnitude last year of $220 billion. The government is living vastly beyond its means, too. Unfortunately, we are squandering the legacy of the upcoming generations for short-term gratification. It has created other problems for us, including the massive trade imbalances that we suffer.

Dr. Chang put this into a perspective that cannot be stressed enough when he noted that the Chinese on the island of Taiwan are consuming at three or four times the rate, in per capita terms, of American goods than we are consuming of goods coming out of the ROC. What do you expect them to do? Raise their levels of consumption so dramatically that the trade imbalance is reduced? Or do you want to take the kind of action that some of my colleagues support and just close the trade door?

When the Textile Protection Act was up last year and focused on textiles coming out of the ROC, the five textile-producing states in this country were crying over their loss of markets. Ironically, those five states had below the national average in unemployment rates, and the estimated cost of saving 71,000 textile jobs with that protectionist legislation would have come at the expense of 62,000 jobs in retailing and transportation in this country. Most of that loss would have occurred in such states as my home state of Illinois, Rust Belt states, all of which had unemployment rates significantly higher than the national average.

In addition to that, you invite retaliation. And the easiest way to retaliate is against American agricultural exports, our biggest single export item. The ROC has been doing us a great favor in importing American agricultural goods. Back about three or four years ago, the ROC government was warehousing 350,000 metric tons of rice, trying to figure out how to unload their surpluses worldwide. Yet they continued to import American agricultural goods. And the fact of the matter is that it would be cheaper in many instances for the people of Taiwan to import agricultural products from Australia.

I was over in Taiwan with my wife and son during the Easter recess and had a chance to talk to some of the officials about the prospect of creating a Free Trade Agreement along the lines of the one we have with Israel. I also talked to Clayton Yeutter about this when I got back. The fact of the matter is, the ROC is a natural for an FTA.

I did not encounter any opposition or hostility to the idea in the ROC, and we at least profess to believe in the concept here. To be sure, Clayton Yeutter has his hands full right now trying to negotiate that Free Trade Agreement with Canada before the end of this year and also with the GATT negotiations.

But the point I made to Clayton and I mentioned it while I was in Taiwan is that, if we can get the process started in 1988 to reach an FTA, it is almost an irreversible thing once it is started, even if it is not consummated before the end of the Reagan Administration. That is the kind of positive initiative I would like to see this Administration take in promoting free trade during its declining hours.

We have the votes to kill the protectionist mood, but keep in mind that there will be a presidential election year. Gephardt probably has more AFL-CIO support than any other Democratic candidate. And any Democrat running for public office knows that the unions play a vital role organizationally in the nominating process, but not in the election. In fact, Mondale was killed in part because of the conspicuous support he had from the unions. But this kind of support just may get Gephardt the nomination. To insist upon buying American and "bashing the Japs" and to attack any of our trading partners who enjoy a favorable balance of trade with us—that makes for good politics.

The fact of the matter is, we are going through a bad time, but we are principally suffering from self-inflicted wounds. And these self-inflicted wounds can be remedied by sensible policies, which we are not now pursuing, sad to say. These are things that should be corrected at home, not corrected at the expense of staunch allies and good trading partners, such as the Republic of China.

Dr. Chang: Our second speaker will be Dr. Joseph Kyle. Dr. Kyle has a doctorate in economics from Duke University and has been a foreign service officer for the past three decades. He is currently the corporate secretary for the American Institute in Taiwan. Dr. Kyle will discuss the Administration's view of U.S.-Taiwan trade issues.

Dr. Joseph Kyle: Ten years ago today, I was sitting in the U.S. Embassy in Taipei, fat, dumb, and happy as economic counselor. The only problem was whether to have lunch at the Taiwan International Businessman's Club or some Chinese restaurant.

Our trading problems were, at that time, miniscule compared to what they are today. I spent most of my time doing things like counseling American businessmen who wanted to invest in Taiwan, taking care of the myriad trade complaints that obviously surface in any bilateral trading relationship. But the issues in front of us now have really developed within the past decade. What I would like to discuss is what has happened in the past ten years, and what is the Administration's current position.

Please be sure, I am not a member of the Administration. I am a member of a private, nonprofit-making corporation in Taiwan. I am no longer a Foreign Service Officer; I am a retired Foreign Service Officer.

But I have been involved in these negotiations over the past several years, so I believe I can say with some surety that I understand what the Administration's position is and what the main issues are.

As I mentioned, ten years ago we did not have the type of problems we now have. The starting point of any discussion on our trade relationship with the ROC is recognition that its economic success over the past fifteen or twenty years has depended to a large extent on its continued access to the U.S. market for its exports. The ROC has grown from the eighth largest trading partner of the United States in 1981 to the fifth largest in 1986. During those few years, exports to the United States more than doubled, from $8.6 billion to $21.3 billion.

Typically, the ROC ships almost 50 percent of its exports to the U.S. These sales frankly have been the only means by which the ROC has been able to achieve the economies of scale necessary to be competitive in the international marketplace in manufactures. Domestic demand with a population of 19 million people is just not sufficient to sustain such scales of production.

We know that Japan is not opening its markets. Developing countries around the world are not generating sufficient demand, and the European Economic Community has been very careful to avoid import surges from the ROC and the other so-called newly industrializing countries.

The United States market historically has been important to Taiwan for emerging and even sophisticated exports, such as electronics, telecommunications, steel, office equipment, personal computers, and machine tools, not even to mention such industries as textiles, footwear, and agricultural products. Clearly, the United States has been and probably will continue to be, the basis for the ROC to launch its international efforts to compete in high-tech and more sophisticated industries.

Over the past several years, rightly or wrongly, there has developed a widespread perception in the U.S., in Congress, the press, the private sector, and the Administration, that the U.S. has not been getting a fair shake in its bilateral trade relationship with the ROC. The ROC has been building up ever larger trade surpluses, both bilaterally with the United States and globally over the past several years. With the U.S., the surplus in the last five years, that is, 1982 through 1986, has been $52.5 billion. In the year 1986, Taiwan recorded the world's third largest surplus with the U.S.; by U.S. Commerce Department figures, $15.7 billion. Only Japan and Canada run larger surpluses.

In some recent figures, the trade figures of January through April 1987 compared with January through April 1986, ROC exports this year are about 36 percent over the same four months last year. Exports to the U.S. are up 28.5 percent. The ROC trade surplus with the U.S. in the first four months of this year is running 29 percent over what it ran in the first four months in 1986. If things continue this way, in extrapolating the figures for the rest of 1987, the ROC trade surplus to the United States will approach $18 billion, which will be a 20 percent increase over 1986.

The growing prominence of this trade surplus has coincided with wider recognition in the U.S. of the remaining barriers to foreign participation in the economy of the ROC and a rising chorus of American complaints about those barriers. This Administration's response has been based on the principles that are applied to other major trading partners, which were first enunciated in the President's September 1985 trade action plan and reaffirmed in this year's State of the Union message.

The principles are: One, to maintain an open market. This includes presidential vetoes of things like the Jenkins bill, denial of import relief for footwear, and attempts to avert protectionist trade reform legislation.

Two, to launch the Uruguay round of bilateral trade negotiations in order to strengthen the global trading system, to improve market access for all countries, and to extend relevant GATT rules to allow new areas of international trade in services, investment, and intellectual property. And three, more bilateral efforts to eliminate the unfair trade practices of our major trading partners. This is the only part, frankly, of the Administration's trade program that has received wide approval from Congress and large segments of the private sector. Most people think it needs to be intensified.

In terms of U.S.-ROC relations, this third element has been the most controversial and is the element that relates most directly to our discussion today. I would like to point out that we have been no more aggressive with the ROC than with any other country, as indicated by the list of the U.S. government-initiated Section 301 cases for major GATT initiatives. For example, we initiated 301 cases against Japan in leather and cigarettes, and we also initiated a dumping case against semiconductors. We initiated 301 cases against Korea in insurance and intellectual property. We initiated a 301 case against Brazil in information; 301 and GATT cases against the European Economic Community's canned fruit subsidies and various feed grains; countervailing duty cases against Canadian lumber; major reductions in the Generalized System of Preferences benefits for Mexico because of lack of intellectual property protection, against Brazil for limited market access opportunities, and against Korea for agricultural import restrictions.

Nevertheless, the more aggressive posture of the U.S. in its dealings with the ROC over the past couple of years, especially in the now famous, or infamous, beer-wine-and-cigarette case of last year, has elicited, unfortunately, some anti-American feeling in the ROC, which claims we are trying to bully a weaker country and a good friend. The people in the ROC have great difficulty understanding how their exports can hurt the huge American economy; yet in fact, import surges from the ROC have hurt seriously a number of U.S. industries: for example, bicycles, hardware fixtures, and machine tools.

The position of the Administration is that it is preferable to solve our bilateral trade problems quietly without public confrontation, but that requires us to solve them promptly. The U.S., obviously, cannot back down every time an issue is sensitive to one of its trading partners. Unfortunately, experience has shown that U.S. trading partners do not voluntarily take initiatives to reduce their trade barriers. Strong pressure by the U.S. with credible, concrete intimations of market restrictions on its part were necessary to obtain even the most modest improvements in access that we have achieved recently. In the case of the ROC, this means tariff reductions, opening the insurance industry, opening the beer-wine-tobacco market, and last year, customs and evaluation implementation.

In all fairness to the ROC, there is one area in which we have had a lot of trouble around the world, the area of intellectual property rights, and there the ROC has made major steps. With the exception of one little piece of legislation that we are waiting to see passed, the Fair Trade Act, the ROC has its legal framework in place. What is needed now, of course, is implementation.

The ROC will be under close scrutiny this year, on the Hill, in the Administration, and in the press for evidence that it is doing its fair share to create market opportunities for U.S. goods and services exported to the ROC. In order to survive this scrutiny, the ROC should be considering taking certain measures during these coming months.

Additional reductions are needed in tariffs, that is to the level below 10 percent on products that U.S. exporters identify as having significant potential, albeit over the past couple of years, the ROC has opened up its market and reduced a number of tariffs. As a result of the April trade discussions here in Washington, reduction of tariffs on 62 items was announced, and since that time, there have been further reductions on over 800 items. But tariffs in general, particularly many items in which we feel we are competitive, are still too high.

Also, they should announce a rapid schedule for implementing national treatment in some of the service sectors. We have a problem, for example, in cracking the market in the insurance industry. Our bankers are not very happy with some of the unfair trade practices to which they are subjected. Our shipping industry is unhappy with some of the restrictions imposed upon them. And there are other service industries in which we feel that markets should be open and can be opened without harm to the ROC economy.

Another matter that I will not touch with a ten-foot pole or even a twenty-foot pole is the issue of appreciation of the New Taiwan dollar. But obviously there is pressure from the Administration to achieve a value of that dollar compatible with the equilibrium in ROC international payments that should take care of it.

Another issue that we are concerned about because of the size of the trade deficit is intensifying efforts for procurement of American products for major projects of state-owned industries and in the private sector. I should add that a great deal has been done. The recent announcement by Premier Yu Kuo-hwa that the ROC will be spending well over a billion dollars to buy U.S. aircraft is a very good statement. Also, some of the other major companies, both private and public, are intensifying their efforts to go to the U.S. whenever they can if the U.S. can be competitive in terms of price, quality, and service. Those are the criteria. And in some of them, unfortunately, the U.S. is not competitive.

The question of whether or not the trade issue is a threat to the relationship of the U.S. and the ROC is moot, but it certainly is possible for Taiwan to avert damage to this long, historical relationship, and in the process, to strengthen its ability to compete successfully in the 1990s. One of the things that is becoming clear is that the ROC economy—in fact, its whole social, political, economic system—is undergoing a major transformation.

I think there is realization on Taiwan by the leaders, by the business sector, by the public at large, that what has worked for the ROC in the past will not work in the future. So this is a golden opportunity to make the structural changes in the economy that have to be made to remain competitive over the next decade or two.

I would add that the timetable is somewhat short. Failure to take action within the next several months will increase greatly the odds that Congress will include restrictive provisions in the trade bill that could have a detrimental effect on the ROC. Also, the Administration must intensify the pressure publicly on the ROC to achieve a better measure of reciprocity.

Dr. Chang: On the Chinese side, we have Mr. Benjamin Lu. He is Director of the Economic Division of the Coordination Council for North American Affairs. As such, he is the chief negotiator for the ROC on bilateral trade issues in the United States. He will be discussing the issue from the perspective of Taipei.

Also from the Chinese side, Dr. Wei Wu, who holds a doctorate in economics from the Washington University in St. Louis, will be joining us as a resource person. But now, welcome Mr. Lu.

Mr. Benjamin Lu: It is my great pleasure to be on this panel today. The Heritage Foundation has chosen the right time for this discussion of some of the issues between the United States and the ROC. In terms of the trade relationship between the ROC and the U.S., it is important to understand the very fundamental differences between our two countries and their economies.

First, Taiwan is a small island that occupies an area of land only one-third that of the state of Ohio. Its population, however, is over 19 million people, which makes the ROC one of the most densely populated areas of the world. Only one-quarter of the land is arable. Taiwan has very few natural resources and, as is the case with any island economy, relies heavily on trade in order to survive economically. The ROC has experienced substantial sustained growth in real output for the last thirty years. The strategy for economic development has been based on planning introduced in the early 1950s. Gross national product grew at an average rate of 8 percent in the 1950s, 9 percent during the 1960s, 10 percent during the 1970s, and by nearly 11 percent last year.

We appreciate fully how dependent our economy is on its export performance to sustain growth rates. Over 50 percent of our GNP depends on our exports of goods and services. The U.S. is our largest trading partner, and the gross exports to and imports from the United States have grown substantially over the last twenty years, rising from about $270 million in 1965 to nearly $24 billion last year. We are now the number six trading partner of the U.S., and about 22 percent of our total imports are accounted for by U.S. products. I think it is important to remember, however, that just 4 percent of total U.S. imports come from the Republic of China.

There has been much discussion over the last few months about the trade surplus that my country has vis-a-vis the United States, which last year totaled about $13.6 billion. I think it would be wrong to apologize for this surplus. But rather, we are here today to discuss why the surplus exists, if it should change, what would make it change, and how it is affecting our overall relationship.

Trade takes place because it benefits both sides. There is a clear demand for ROC exports to the U.S. that enable customers in America to enjoy a broader range of products at more reasonable prices. These exports provide an economic lifeline for the economy of the ROC. At the same time, however, our economy is greatly dependent on certain exports from the U.S., including agricultural goods, machinery, high-technology items, and other major project components. In addition, we would like to buy a good deal of Alaskan oil if the restriction on such sales were liberalized.

Regrettably, we have recently heard that the perception exists that the U.S. is not getting a fair share in its trading relationship with the ROC, that the trade deficit is so large because the ROC is unfair. This explanation is a simplistic and incorrect response to what is an enormously complicated issue.

First, the ROC and the U.S. are at very different levels of industrial development, and the structure of our economy differs from many of our developing country competitors. The ROC enjoys a comparative advantage vis-a-vis the U.S. and many other countries. We are able to provide a unique variety of products and, in particular, consumer products that many developing countries cannot make technically and many developed countries, including the U.S., cannot sell economically. The U.S. is a huge market for consumer products, and Taiwan has been able to meet the demand.

Over the years, we also have had higher levels of productivity and have been able to translate technological advances quickly into commercial successes. As you undoubtedly know, the ROC has one of the highest savings rates in the world, which has, until recently, discouraged consumer spending and domestic demands for imports.

But it is important to add that, no matter what we or any of America's other trading partners do, the U.S. is going to continue to record substantial trade deficits until the U.S. budget deficit declines, U.S. domestic consumption is moderated, and its savings rate increased.

My government is sincere about trying to bring the financial trade balance into what is considered in Washington a more acceptable range through a very serious effort to open the ROC market and to purchase as much as possible from the U.S. Since 1979, the ROC has negotiated a series of bilateral agreements with the U.S. that have resulted in a substantial liberalization of our import market. Thus far, we have unilaterally cut duties on nearly 2,000 items that have been identified as being of interest to American exporters. As a result, the average effective tariff rate was 7 percent last year, and by 1990, it will be reduced to 5 percent. Few developed countries, much less developing countries, can claim to have such a low rate of duty.

In our most recent liberalization package, we made tariff reductions on 860 items representing cuts of between 20 percent and 50 percent. Many of these reductions were deeper even than the U.S. had requested, but we felt that an additional effort would underline our firm commitment to a broad-based liberalized economy in the ROC.

At the same time, at the request of the U.S., the Republic of China has greatly reduced its long-term barriers. We have made substantial revisions in our investment policies, removing most local content requirements and export performance requirements. We liberalized our service sector, where the U.S. has been highly competitive, especially in fast food chains, banking, and insurance. We have liberalized our leasing policy, and we have abolished our quota system and our surcharge on the importation of U.S. films.

Recognizing the importance of intellectual property rights protection, over the past several years the ROC has substantially revised its relevant laws. It now has in place what is universally regarded as one of the most stringent intellectual property rights laws in the world.

To spur further the importation of American goods, we have sent twelve special buying missions to the United States since 1978. The missions have purchased over $8 billion from U.S. suppliers. We have recently signed our third grain purchasing agreement with the U.S., which is designed to buy about 18 million tons of grain. The first two agreements, signed in 1976 and 1981, purchased 27 million tons of grain from the United States.

The Republic of China is one of the most substantial buyers of American agricultural commodities. We are the third largest purchaser of U.S. corn, barley, and soybeans in the world. 100 percent of our soybean imports comes from the U.S.; 99 percent of our corn; 83 percent of our tobacco; 64 percent of our apples. We purchase more U.S. apples than any other country in the world, despite our small market size. We are a substantial market for U.S. farmers.

On the industrial side, we have worked very closely with the U.S. Department of Commerce to help establish the American Trade Center in Taipei. This center was established in the early 1970s, and since then we have successfully introduced and promoted U.S. products to importers in the Republic of China. Our support for the Center will continue. Likewise, our government has assimilated many U.S. contracts for major procurement projects in the ROC. We expect that the demand for major U.S. procurement will increase over the years to come.

Finally, we appreciate the concern expressed by some agencies within the U.S. Administration about the value of our currency. I should note that, since January 1986, at the same time that we have significantly liberalized our trading regime, the value of the NT dollar has risen by about 25 percent. This currency adjustment is being felt severely by our industries, most of which are small or medium-sized companies, which are unable to procure on a global basis and do not have the capital to absorb what is to them a significant currency realignment.

It is important to remember that major structural and policy changes are no easier to achieve in the ROC than in the United States. In this regard, I should point out that our industrial base is different from that of the U.S., which operates on a capital-intensive mammoth scale and is structurally better able to absorb currency fluctuations.

What does the future hold for the U.S.-ROC bilateral trade relationship? I have to tell you frankly that there is a great deal of concern in my country about the current politicization of trade policy in the United States. Trade has become a political and therefore an emotional issue, and that makes the conduct of a trade relationship all the more difficult. It also makes it increasingly hard to sift through the rhetoric to discover what is actually going on in the economy.

In particular, the idea currently being discussed in Congress to retaliate unilaterally against major trading partners is short-sighted and hopefully will be dropped. It seriously risks jeopardizing the important trade liberalization as well as the substantial restructuring that is taking place in our economy.

The policies of the U.S. are often seen in the ROC as protectionist. I think it is important for policymakers here to put themselves in our shoes. Trade in our country is also an emotional issue, perhaps even more so than in the United States, because our economic and political well-being depends so crucially upon it.

The government of the Republic of China has been cooperative in meeting reasonable requests over the past several years. We will continue. We can expect to see significant changes in the U.S.-ROC trade balance this year. I have already pointed out the substantial appreciation in the value of the NT dollar, which will make it easier to sell U.S. products in Taiwan. We expect consumer demand to rise considerably, and we have a number of significant major project opportunities arising over the next few years, including several hospital projects, an expansion of Tai Power, the development of rapid transit systems in Taipei and Kaohsiung, and significant outlays for telecommunications and computer equipment. We expect U.S. exporters to be major beneficiaries of those projects.

In summary, we view our bilateral trade relationship as mutually beneficial. We recognize the difficulties it currently faces, and we are eager to work with our American friends to solve these difficulties. This is the sincere commitment that my government will implement. In our panel discussions this afternoon, I will outline the seriousness of this pledge.

Dr. Chang: Thank you very much, Mr. Lu, for a comprehensive review of the issue and also a forthright analysis of the Chinese stand.

Guest: In the Republic of China, which are the firms that are building the things that are being shipped to the United States? Are they American firms or Republic of China firms? What is the percentage on that? I would like to address the question to Dr. Kyle.

Dr. Kyle: There was an article in *The Wall Street Journal* some time ago, which pointed out that many of the products are actually exported back to the United States by American multinationals. It is true that this is taking place. Historically, four or five of the top ten exporters from the ROC to the U.S. have been American companies. So this is a factor in the problem.

The U.S. has encouraged foreign investment to go into the ROC. That has been one of our major objectives over the past couple of decades. American private investment now is almost $2 billion, and almost any American company of any size or consequence is in the ROC in one way or another.

Mr. Lu: I think approximately 25 percent of our total exports to the U.S. were made by the American multinationals in the ROC.

Dr. Kyle: That is difficult to quantify. I was talking to a major U.S. industrialist the other day who has an investment in the ROC. He told me that they are sourcing from nine countries in that plant. They use part A from this country, part B from this country. They even export from the United States to the ROC to put a piece into the machinery. Then they ship it back to the United States or Japan or to third country markets. With the global economy the way it is, I just do not see how you can quantify. Some say 25 percent; I do not know how they can determine that figure.

But another problem is that, unlike Japan or Korea, the ROC does not have large industries. The biggest company is Formosa Plastics. It has investments around the world. Then you have Ta Tung, an electronics firm, a couple of others, then there is a rapid dropoff. Most of the companies in the ROC are small or medium-sized, and they make a part, a component, or a finished product.

For example, when I was over in Taiwan, we had a big problem with bicycles. A shipment of 85,000 bicycles went to the United States to a major company such as Sears. Handlebars fell off, brakes failed, people were killed, and so forth. It was a big scandal. There were, at that time, more than 190 bicycle manufacturers in Taiwan.

The industry policed itself, set up the Taiwan Bicycle Export Manufacturers Association, developed quality control procedures, and weeded out a lot of the small companies that were uncompetitive. I do not know how many they have now. Fifteen or twenty companies dominate the United States market. And of these, two, including Schwinn, are made in the ROC.

But most of the ROC companies do not have the capital or the management to achieve the economies of scale necessary to compete on their own in this or any other market. The whole industry in the ROC is structured completely differently from that in Korea or Japan. This is a problem that the ROC is going to have to face. They must find a way to achieve economies of scale; they are going to have to consolidate and put more investment in their companies.

Very few companies have the money to put in R&D, for example. What has happened? The government has had to step in and fund R&D. These structural problems are going to have to be overcome in the next several decades.

Guest: How have the exporters of the Republic of China met the decline in the value of the American dollar? Have they raised prices? Have they reduced profits, or are they operating at a loss, or what?

Mr. Lu: I would say ROC firms have been doing all of these things, adjusting their profits and reducing their prices. As I said, most of our firms are small or medium-sized, so it is hard for them to make those adjustments. If you look at the first quarter figures, the growth of our exports has already been slowed down, and the growth rate of imports from the United States has been picking up.

The growth rate of our exports to the U.S. in the first quarter is 28 percent, which was about the same in the corresponding period of last year. The growth rate of our imports from the United States is 27.3 percent, compared with 14 percent last year for the corresponding period. So that is a very good sign for U.S. exports to the ROC.

Guest: Dr. Kyle, do we have any restrictions on exporting computers to Taiwan?

Dr. Kyle: The only restrictions we have are those imposed upon exports for security reasons.

Guest: What about mini-computers?

Dr. Kyle: No. But if you want to sell a Cray or something like that, forget it. There are a number of Chinese-American companies now in the U.S. and on Taiwan, which are developing Chinese computers, in effect, doing their own programming and everything. They have an extraordinary way of developing software and hardware for Chinese computers.

Guest: Congressman Crane, you are in favor of a Free Trade Agreement between the U.S. and the Republic of China, and Senator Gramm echoed those sentiments. But I know for a fact that the Administration is not enthusiastic about this at all, especially with regard to the Republic of China. So I would like to know your view on how supportive Congress is of this concept of entering into a Free Trade Agreement with the ROC. You indicated you think the talks should start some time next year. If that should happen, what is the probability of having such an agreement before the end of this decade?

Congressman Crane: I think the Administration is caught in terms of the rhetoric it has embraced. We are the great champions of free trade worldwide. The logical consequence of that is to promote expanded Free Trade Agreements. The fact of the matter is, the most logical country in the Pacific Rim with which to pursue an FTA is the Republic of China on Taiwan. The ROC is amenable to the idea, and you are absolutely correct about the Administration's lack of enthusiasm. I think it goes directly to our State Department, which fails to legitimize the Republic of China.

The protectionist members of Congress, again, are people locked in by their own rhetorical commitments on platforms all over the country. They say: "What we are really attempting to do is not put up protectionist walls but guarantee that there is fair trade, free trade. If we do not have access to a market out here, there is a reciprocal impediment to a foreign country finding access to our markets. But what we really believe in is free trade."

If we can get these negotiations started, the protectionists will end up in a situation where they have no alternative but to go along with it. But our most serious impediment is coming out of the executive branch, and I think it originates in the State Department.

Guest: So it is rather a political issue rather than a trade issue?

Congressman Crane: Yes.

Guest: Dr. Kyle, would you please comment further on the relationship between the presence of U.S. companies in the ROC and the U.S.-ROC trade deficit.

Dr. Kyle: It is absolutely true that one of the problems has been American multinationals going out there in the 1950s, 1960s, and 1970s. Labor was good and fairly inexpensive, productivity was high, and the work ethic was strong. So they went out there to build factories and ship stuff back to the United States.

This is becoming less and less a factor in the ROC economy. For example, as wage rates have gone up, the U.S. companies may move to other countries where the wage rates are lower and they still can get a high degree of productivity. But more and more American companies now going into the ROC are not looking to the ROC as a base from which to export to the United States, but as a base to export to other countries in Asia.

Guest: If the current Senate Finance Committee version of the trade bill becomes enacted, there may well be a provision in it that would require the President to retaliate against countries currently in violation of bilateral trade agreements. Dr. Kyle, are there any existing bilateral trade arrangements with the ROC that are currently in violation? Dr. Lu, if this provision were enacted, what would be the ROC response?

Dr. Kyle: We do not have any bilateral trade agreements with the ROC. We have only general trade agreements. So we are not in violation of any. We have had many discussions. We have reached a number of conclusions, and we have reached understandings on a number of things, but we do not have an agreement, per se, except in such things as textiles, for example, where we have a longstanding agreement. But in the general trade area, no.

Mr. Lu: It has never happened that the ROC has violated an agreement with the United States. So my first response is, we do not think it is necessary to have that provision in the bill. And second, we have been proposing to the U.S. to establish some kind of dispute settlement mechanism.

Guest: Dr. Kyle, I assume it is correct that the Administration does not accept the Gephardt principle that there should be a statistically pure, equal balance of trade between the United States and its trading partners. But when you move down from that position and recognize the fact that 19 million people in the Republic of China cannot possible buy the same total amount of goods as 240 million people in the United States, what standard is the Administration to apply in determining a suitable level of trade between the two countries?

Dr. Kyle: You cannot quantify it. In other words, the deficit we have this year is going to be $15 billion, maybe $18 billion; the point is next year to reduce it 10 percent, then 15 percent, until it disappears into a vacuum. All the Administration has asked for in the ROC is a level playing field. The thing the Administration asked for is competition, for the ROC to eliminate tariff and nontariff barriers to enable us to compete. We have not asked that they do it on a bilateral basis to freeze everybody else out. If they want it on a most favored nation basis, fine. All we want is to have the markets opened, to take the pressure off, so that we can be competitive in the service industries and get the tariffs down. If even then we cannot compete, so be it.

Congressman Crane: When I was in Taiwan in April, they indicated to me that American contractors are going to build the subway over there, that it is an American firm they negotiated with, in violation of GATT, because the Japanese could have done it cheaper.

They are bending over backwards to engage in expanded trade even when it has been economically disadvantageous. They told me the same thing was happening with a major highway project, where again they were negotiating with American contractors at higher costs than they had from the Japanese on an option to buy. Moreover, they are excluding totally Japanese automobile imports. Now, you know, it strikes me that this is one of the staunchest allies this country has ever had. Faithful and consistent, they are bending over backwards to make accommodations to the United States.

What disturbs me is that I have heard so much whining. We live in Peoria, Illinois, and I taught at Bradley University. Caterpillar tractor was the major employer. At that time, it was Caterpillar's world headquarters. They had 30,000 employees. Now they are down to 9,600, and they will never get the lost jobs back.

A relocation firm in Princeton, New Jersey, does analyses to tell you where to locate a business. They found that the second worst town in the United States, second only to San Francisco, where no one would dream of locating a manufacturing industry, is Peoria, Illinois. One of the problems is that Peoria has the highest hourly manufacturing wage rates in the entire country. That goes back to when the UAW had a stranglehold on the Caterpillar plant there.

And Caterpillar does not care. What difference does it make because where else is the consumer to go? That was fine when they had an exclusive market worldwide. They do not have that market now. And the fault rests here at home. I blame management easily as much as I blame the unions. The unions are at fault, too, but it was management in Detroit who said: "Nobody's going to buy those funny looking little beetles that are coming into this country from Germany. They're ugly little cars and they're too small."

The fact is, management overlooked the demographics of what was taking place in the postwar era. People moving out to the suburbs needed two cars. They could not afford two American cars. So they bought beetles. And Detroit still has that kind of arrogant attitude. When they received the voluntary restraint orders in 1982, they promptly jacked their prices up. They came in with the biggest profit year in the history of Detroit in 1983, and then distributed million dollar bonuses to management in 1984 for their good work. And this is after they had leaned on the unions to exercise some restraint.

The U.S. must acknowledge this and face up to its own deficiencies and shortcomings and stop picking on good allies like the ROC. I am not saying that the ROC, Japan, and the European Community do not engage in some unfair trade practices. Let us work on these and negotiate quietly. All the tools are at the disposal of any Administration right now without a new trade bill. The trade bill takes a very bad approach and punishes those people for succeeding at what we had hoped and prayed they would be able to accomplish.

Guest: The number one concern of ROC business circles may be the fast appreciation of the New Taiwan dollar. I guess the ROC has received enough of a message from the U.S., both the Administration and Congress, that the ROC should take actions in a three-point policy: 1) open up its markets; 2) appreciation adjustment of currency exchange; and 3) stimulate domestic consumption and demand. Recently a group of ROC business people echoed this concern about the currency issue. They even told the U.S. that they would push their government to open up the market and stimulate domestic consumption and demand, in order to stop the continued appreciation of the New Taiwan dollar. Taiwan's businessmen are concerned that they are going to lose the competitive edge to Korean products, which is not fair.

Dr. Kyle: ROC revenues are $60 billion and climbing at a rate of about a billion and a half a month. But you are going to find, as I am sure Dr. Chang will agree, a lot of concern in the ROC about this huge $60 billion surplus and what to do with it. It has created a lot of other issues that we cannot go into today. If you go to a bank in the ROC to deposit, for example, the bank will turn you away. Is that not right?

Dr. Wei: Yes. But there are other points I would like to mention. First of all, it is hard for the ROC to stimulate its domestic demand or domestic consumption. It is also difficult to stimulate internal investment. However, I would like to mention that the ROC savings rate since 1983 is the highest in the world.

Last year, savings rates reached 37.6 percent, but the investment rate was only 16 percent. This meant a 21.6 percent public debt, which is a problem we have to solve, in addition to the continually increasing foreign exchange reserves which have reached $60 billion. I would like to suggest a most important proposal—how to channel these monies into the American market.

I would suggest that the U.S. create some investment opportunities to increase employment in this country and reduce the unemployment rate. Moreover, I would like to point out that protectionism is the worst kind of policy. If Americans do not import certain materials from Asia and produce those materials at home, the costs in this country are very high.

Guest: A question for Congressman Crane. In both the House and Senate trade legislation, there are provisions to strengthen the so-called workers' rights provisions. What are the prospects for this notion of internationally recognized workers' rights becoming part of U.S. law?

Congressman Crane: First of all, the United States has never signed off on these international accords with regard to so-called worker rights. Second, the thrust behind this, obviously, is to level the playing field, except level it to everybody's disadvantage. What we have done to add to our own production costs at home, we are pushing as world norms. The language that got into the Ways and Means portion of the House bill is loose enough that it could be construed in many different ways. That is bad legislation, because it gives the capability of being subjective and saying, "I am going to beat up on this country because I do not like their trade balance. We will accuse them of violating workers' rights."

The only thing I applauded when the idea came up in committee was its impact on our trade with communist countries. It seemed that it would take care of Romania, and of the Soviet Union and Red China, and all of the slave states. I said, "If this amendment is passed, then immediately we sever all trade with any communist nation." So then they backed off.

Dr. Chang: Thanks to all our distinguished panelists, and also the participants from the floor, for a very lively session.

* * *

Dr. Feulner: For those of you who have participated in Heritage activities over the last several years, Richard V. Allen is not an unknown figure. We are very proud that he is a distinguished scholar of The Heritage Foundation and that, since its inception, he has served as the Chairman of the

Advisory Board of the Asian Studies Center at The Heritage Foundation. I am proud to call him a colleague, and to have been his collaborator for more than twenty years in various incarnations: the Center for Strategic and International Studies, the Hoover Institution, Stanford University, and the Executive Branch at various times.

Dick Allen is one of the country's foremost strategic thinkers, a frequent visitor to Asia and a commentator on Asian policies. It is my pleasure to invite him now to begin our next session on U.S.-ROC economic and political issues with a discussion of the concept of Free Trade Areas. He will concentrate on political issues, and I will address the economic issues.

Richard V. Allen: We have heard an extraordinary wealth of information addressed to the trading relationship between the Republic of China on Taiwan and the United States. it is not our intention to repeat all you have heard. But it is necessary to set the stage for a discussion of the prospects for positive proposals to resolve what seems to be a very serious and growing trade problem. I would like to begin by reminding the participants in this conference that, alone among all other nations of the world, the ROC enjoys a legislative basis for its relationship with the United States in the form of the Taiwan Relations Act.

It is useful to remind ourselves of the fundamental importance of the Taiwan Relations Act. It is not only the letter of the law, but also the spirit of the Congress and the Administration at the time the TRA was passed, and certainly the spirit of the subsequent Reagan Administration. The Taiwan Relations Act was passed with an enormous spread of congressional support, both in the House of Representatives and in the Senate, ranging all the way from the liberal to the conservative side.

It was the work of Senator Barry Goldwater and a number of other outstanding patriots that made the Taiwan Relations Act the kind of legislation it is. The main title of the Act reminds us of the special implications that it has for our discussion today: "An Act to help maintain peace, security and stability in the Western Pacific and to promote the foreign policy of the United States by authorizing the continuation of commercial, cultural and other relations between the people of the United States and the people on Taiwan."

Section 2 contains, inter alia, this language: "It is the policy of the United States to preserve and promote extensive, close and friendly commercial, cultural and other relations between the people of the United States and the people on Taiwan."

This morning, we have heard a variety of opinions. We heard from Senator Phil Gramm what was probably the most interesting presentation, without reference to notes, on the values of free unfettered trade and the dangers of protectionism that I have ever had the pleasure of hearing. Congressman Crane gave important input as well.

You have heard others declare that the idea of a Free Trade Area agreement between the United States and the Republic of China is a natural. There is growing support for the idea. Two years ago, that support was practically nonexistent. But today's growing support for a Free Trade Area agreement, which I consider to be the single most important and positive step that we can take, is taking place in a deteriorating political environment.

You have heard the horror stories of the protectionist march, the juggernaut that seems to be underway in the United States Congress. Absent some very significant domestic political catastrophe or some engagement of war abroad, it is highly likely that trade will become the premier political issue in the 1988 Presidential campaign.

How the U.S. approaches the issue of trade, whether on the basis of emotion or on the basis of cold, sober, and factual analysis, is going to be very important. I think that the FTA concept can indeed become a vehicle for a positive solution to some of our trade problems. It has a direct and immediate application in the context of U.S.-ROC trade relations.

Given the size of the existing bilateral trade deficit between the U.S. and the ROC and given the size of the overall U.S. trade deficit, we find ourselves in a very difficult situation indeed. Without a Japanese trade deficit of the magnitude that we currently suffer, the ROC-U.S. trade deficit would not be a major problem. Yet every time we wind up to take a swing at Japan, it seems that Japan has the adroit capacity of ducking and making sure that the blow lands someplace else. Our main problem is Japan. The main aggravation in the U.S. Congress is Japan, and yet we find tackling the Japanese problem both complicated and difficult. Therefore, we sometimes pick easier targets, staunch allies such as Taiwan.

The response of the United States has basically been to create a level playing field. Indeed, striving for a level playing field ought to be a central and permanent ingredient of U.S. trade policy. We are going to try to maintain open markets; we are going to try to open those markets that are closed.

We have exerted strong exchange rate pressures on the Republic of China and certain others of our trading partners. We have increased the psychological pressure on many of our partners and particularly this is the case in the ROC. And we have sought to eliminate unfair trade practices. Each of these measures and other measures that may be in the works administratively can appear to be justified. There have been numerous

Section 301 cases, for example, and most of them justified in trade terms. But the question of the remedies that the United States seeks is very important. How we apply those remedies is still more important.

Cited this morning was the now infamous case of tobacco, wine, and beer. This resulted from a fundamental misunderstanding in the ROC. A failure to enact the provisions of an agreement, fairly reached a year previously, resulted in enormous pressures from private interests in the United States upon our U.S. Trade Representative and other agencies. This led to a direct threat of 301 action. The folks in Taiwan feared such a drastic solution and accepted a solution less favorable than the one that had been arrived at a year before.

There is going to be a continuation of strong political pressure from the United States against the Republic of China and other trading allies who pursue unfair trading practices. That much is clear. But what we have to do in this process is to remind ourselves of the overall strategic framework of the relationship between the ROC and the U.S. What we need to do is to remedy this loss of corporate memory and refresh our memories about the real implications of continued pressure on the ROC and the damage it may cause.

Of course, maintaining the goal of free, fair, and open trade always has to be our watch word, and it has to be the essence of our strategy. But I would submit to you today that the United States does not have an overall strategy for dealing with the future of U.S.-ROC relations. This is not to say that the U.S. has failed to honor its obligations under the Taiwan Relations Act, because in the seven years of this Administration, a great deal has been accomplished. Certainly the spirit of the Act has been maintained in terms of defensive military equipment sales. Certainly in the field of overall relations, commercial, cultural, and the like, there has been progress. But there has been an erosion of the deep reservoir of support that permitted a U.S.-ROC relationship to prosper and to flourish.

Actions taken by the Department of State, Congress, the U.S. Trade Representative, and the Treasury sometimes have important, long-range effects on the infrastructure of the ROC economy and could, in fact, have a deleterious effect on the overall relationship between the two countries. Therefore, in the absence of some long-term strategy toward the ROC, at least one that offers a ready solution for this enormous trade imbalance, we must find some positive steps that can be undertaken in relatively short order before the process gets out of hand. Although the actions that have been taken are in the spirit of achieving short-term and important victories that demonstrate to Congress that the Administration is capable of pursuing a realistic, hard-headed trade policy in the national interest, these actions can at the same time cause all kinds of structural damage to small, thinly capitalized ROC companies, as was discussed in the panel this morning.

Seen politically, therefore, it is my view that the time fuse is very, very short indeed. We must have some clear statement of intention from Congress with respect to our obligations under the Taiwan Relations Act and our capacity to fulfill those obligations. On the other hand, we must provide a clear and present objective for a strategy designed to bring about the resolution of the current impasse.

Above all else, it is my view that we should never lose our focus on what constitutes our long-term national interests. It is my proposal that a Free Trade Area agreement is the speediest way to recognize our national interests, and it is the most logical way to address our trade problems as well.

A strong, dynamic, confident, and growing economy in the Republic of China on Taiwan is in the national interests of the United States. Seen from that perspective, it means that we are now at a stage in which our responses to sectoral trade problems, which may produce short-term political satisfaction, can easily spill over to affect the basic relationship between our two countries. Hence, our response to the trade issues could produce the kind of damage that must be avoided at all costs—damage to our long-range strategic interests.

Saying this is not the equivalent of saying that we should do nothing to enforce free and fair trade or that we should abandon some of the efforts we have underway. That kind of pressure could be deemed as positive and helpful. Some of the pressures, however, have resulted in a broader realization in the ROC that some fundamental structural changes have to take place. The Republic of China has in fact taken this issue quite seriously and moved as quickly as possible to bring about some sort of solution. These are piecemeal steps, but they add up to the overall possibility of an improved climate. Benjamin Lu, for example, correctly pointed out that some of the measures taken, including dramatically increased purchases from the U.S. and the intention to purchase more, have helped in a very significant and direct way.

But additional steps should be taken. My view is that a Free Trade Area agreement should be put on the table as quickly as possible and that discussions leading to negotiations should be opened expeditiously. We recognize that there are important obstacles to realizing a Free Trade Area agreement. One is the very act of negotiating such an agreement with the ROC. My response is that the Taiwan Relations Act and the habit and custom of the last seven years, not to mention the long tradition of friendship between our two peoples, provide ample authority for proceeding.

There are going to be domestic pressures in the U.S. and the ROC against such an agreement. These must be overcome. There will be sectoral pressures and narrow interests that must be fought. The need to inform and educate the public in both countries is very important.

Members of Congress need to be reeducated about the legislation that is already on the books. This is no small task, but it must be done. And a seminar of this type today with the participation of Congressmen and congressional staffs can make a very positive contribution. When the record of the proceedings is out and circulated among members of Congress, it will have a significant impact.

There must be more forward momentum in the ROC. There was mention today of new projects that are going to be offered to American companies: hospitals, the expansion of Tai Power, rapid transport projects in Taipei and Kaohsiung, and telecommunications projects. In this respect, the Republic of China on Taiwan is dramatically distinct from Japan. This is amply confirmed by the experience of The Heritage Foundation's Board of Trustees when they were in Japan to look at the new Kansai Airport. They had an unfettered, no-holds-barred discussion with leading members of the Liberal Democratic Party in Japan. The results were near disastrous for that evening, when the Japanese answer turned out to be, "Now, you fellows shouldn't even bother to try on this contract."

This dramatic difference between the ROC and Japan must be hammered home to our legislators. All Asian countries are not the same in their behavior towards the United States. All Asian countries do not have the same objectives with respect to the United States. It is important that we constantly reiterate these differences.

What would be the procedures for an FTA? Congress and the Administration should initiate immediately serious discussions of a Free Trade Area agreement. And we should provide whatever resources are necessary to make sure that these discussions get underway.

There are eighteen months left in the Reagan Administration. The question many of us should ask in framing the discussions is, "If we cannot have a Free Trade Area agreement in the eighteen months remaining in this Administration, what would be the prospects for a Free Trade Area agreement in the next administration of whatever political persuasion?"

We should perform the necessary hard economic studies to gather the data that will give us a better way to gauge the benefits and the risks and costs associated with the Free Trade Area agreement. There are adequate government agencies and private think tanks, such as Heritage and others around this town and throughout the country and in the ROC, which can provide the data we need. But we need it quickly, in order to be able to develop intelligent arguments and the ammunition required to push this through Congress.

We need also to make certain that facts govern our discussions, not emotion. One of the central facts is that the Free Trade Area agreement is the only logical answer to the U.S.-ROC trade imbalance and that it is in the basic national interests of both countries.

In addition, just beginning negotiations on a Free Trade Area between the U.S. and the ROC will have a very positive impact on the trade problems we are currently experiencing with other Asian countries, including Japan, the Republic of Korea, and the ASEAN states. I believe that this ROC-U.S. Free Trade Area agreement must come before any other. It must come before any new activities in the Caribbean Basin. It should come as a logical sequence to the successful conclusion of the Canadian negotiations.

In my view, achieving a Free Trade Area agreement is not an unrealistic goal. It is a positive step forward and offers a solution that can help resolve the difficulties that have arisen between two old and trusted allies.

Dr. Feulner: I will begin by pointing out that, for more than half a century, the United States has been the world leader in trying to build a fair and increasingly open international trading system, through such institutions as the General Agreement on Tariffs and Trade (GATT). Since World War II, we have witnessed the largest increase in prosperity in the history of the Western world. As the Commissioner of the European Community stated earlier this week: "World trade is up in volume terms by a factor of seven, U.S. exports by a factor of five. The United States is now three times richer than it was at the end of the 1940s, and a major reason for this has been its increased involvement in world trade."

I might add that one-fifth of U.S. industrial production is now exported and more than five million American jobs now depend directly on our exports. So efforts to legislate what House Speaker Jim Wright has called "an assertive trade policy" do not answer our trade problems, as Senator Phil Gramm and Congressman Phil Crane have agreed earlier in these discussions. Rather, further expansion of an open and free trade policy through multilateral and bilateral negotiations and the establishment of Free Trade Areas are ways to solve these problems. And Free Trade

Areas not only offer an alternative for those who call for protectionism, they also provide an opportunity to expand markets worldwide.

It would appear that the fast-growing economies of our Asian trading partners have been singled out for particularly harsh treatment under pending legislation in both the House and Senate. This has placed Congress in the awkward position of considering some of our closest political allies as economic enemies.

Everyone here concurs that there should be greater effort on the part of our Asian trading partners, including the Republic of China, to open their markets to foreign goods and services and to protect intellectual property rights. As an export driven country with tariffs still too high and mounting foreign exchange reserves, the ROC is an easy target for U.S. protectionists. It currently runs the third largest trade surplus with the U.S., up to $6.3 billion for the first five months of this year from slightly under $5 billion a year earlier.

But the Republic of China is a unique case. Very few ROC businesses export proprietary products to the U.S. A recent *Wall Street Journal* article has pointed out that Taiwanese businesses more often supply American companies like Sears, K-Mart, IBM, Mattel, and Schwinn than do their competitors. In fact, the largest exporter in the ROC is General Electric.

With one-half of Taiwan's exports going to the U.S. and 54 percent of her GNP tied to exports, the effect of a Gephardt-style trade bill could be disastrous, not only for the economy in the Republic of China, but also for U.S. firms like General Electric. American consumers, ultimately, would suffer as well.

What can the Republic of China do about it? One thing they have tried very hard to do, in response to our prodding, is lower their trade surplus by lowering their tariffs. This often has backfired. The lower tariffs in the ROC allow the Japanese to move into these market sectors. U.S. businesses have not really benefited from these well-meaning efforts by our friends in the ROC government. This chain of events winds up increasing Japan's trade surplus with the ROC and the ROC surplus, in turn, with the United States. So it fails to solve any of the problems at all.

Just recently, in an effort to reduce its trade surplus with the United States, the ROC government announced that it is opening its markets by lowering trade barriers still further, increasing imports of American goods, and appreciating the NT dollar against the U.S. dollar. Last week, the Cabinet in Taipei announced the reduction of tariffs on 331 more items by an average of 32 percent, following reduction on more than 2,000 items earlier in the year. And since September 1986, the NT dollar has risen by almost 25 percent against our dollar. Just his week, Premier Yu Kuo-hua announced plans to buy up to ten long-haul aircraft valued at $1.7 billion in an effort to narrow even further the trade surplus. And there will be yet another purchasing mission coming here from the Republic of China in another effort to try and reduce the surplus. Obviously, some positive efforts and gains have been made.

Unfortunately, the perception is that these gains are the result of the increased protectionist sentiment in the Congress. But it is very dangerous to allow protectionist pressure to appear to be the driving force in opening worldwide markets. If those of us who support free trade give protectionism alone the power of initiative, then we will find ourselves always on the defensive. Our critics never will be satisfied. This could be particularly damaging to the ROC's interest because much of its political and physical well-being in a hostile international climate depends on friendly cooperative relations with the United States.

One way to avoid protectionist legislation, and yet to address the severe trade imbalance with the United States, is through the establishment of a bilateral Free Trade Area. Under such an FTA, two countries remove substantially all their barriers to trade over a definite period of time. In an FTA, technical certification requirements are standardized, or self-certification is allowed, and capital and investment policies are liberalized. FTAs are customized to the actual situation in each pair of countries, and they are phased in during a several-year adjustment period in order to provide sector-by-sector analysis and to assuage those concerns that are raised by specific sectors. Under an FTA, businessmen and consumers have true freedom of choice: more goods are available at lower costs, and decisions are made according to economic reality, not according to artificially set prices or quota limitations imposed by government bureaucrats. The economic benefits of an FTA can be enormous, including unrestricted access of U.S. businesses to a specific foreign market, future trade certainty for entrepreneurs on both sides, lower prices for consumers, and more competitive industries.

FTAs are legal under the GATT, and they complement the multilateral trade liberalization process. If two countries wish the benefit of free trade immediately and do not wish to forgo these benefits while they wait for other countries to come along—the slowest ship in the convoy theory—they can liberalize trade bilaterally. What is even more exciting, we have seen that, as countries liberalize trade, others, fearing the effect on their own trade, want to join in similar agreements.

FTAs actually change the dynamic of the trade debate. They move participants away from calls for more protection and retaliation to demands for increased access and expanded trade. Put simply, free trade promotes more free trade.

FTAs are more than just a theory. The United States is now phasing in an FTA with Israel, which would eliminate all tariffs between these two countries and reaffirm the protection of intellectual property rights. Negotiations are currently underway with Canada, our largest trading partner. In 1985, Canadian worries about U.S. protectionist pressure and future economic competitiveness prompted Canada to ask the United States to begin negotiations for an FTA.

I think this is particularly significant to the ROC because, while the United States and Canada have the world's largest bilateral trade—75 percent of Canada's exports being sent to the U.S. and 21 percent of U.S. exports going to Canada—Canada's trade surplus with the United States is larger than that of the ROC.

Other nations, particularly the nations of Asia, also have shown an interest in negotiating an FTA with the United States. Many of the developing Asian economies have been allowed to trade under the GSP, Generalized System of Preferences, which provides those developing countries with certain tariff breaks and nontariff breaks as well. Many of the faster growing developing economies have been concerned about what will happen to them if they are forced to graduate out of GSP. The system of FTAs would help ease this process of graduation, and unlike the GSP, which gives special exemptions only to the developing country side of the trade relationship, an FTA would allow both parties to enjoy the benefits of lower quotas, tariffs, and trade barriers.

By and large, the ROC does have free and open access to U.S. markets, but the United States does not have reciprocal open access to the market of Taiwan. An FTA would change this; an FTA would provide for a more level playing field.

In the economic area, the Republic of China is very sensitive to U.S. pressures with half of its exports coming to the United States. With its limited worldwide diplomatic ties, the ROC would be severely hit, economically and politically, by U.S. protectionism. The ROC's economic future depends on maintaining access to foreign markets, particularly the American market. An FTA between the U.S. and the Republic of China would do much to head off the protectionist pressure in Congress that jeopardizes this access.

Given the U.S.-Israel FTA and the U.S.-Canada FTA, a Republic of China agreement would send a strong signal that the best way to deal with the trade problem is through free trade and the creation of Free Trade Areas.

Guest: What are the main obstacles to a Free Trade Area?

Mr. Allen: I do not think they have been clearly identified. We have alluded to some of them here. One of the most significant is the unspoken concern that negotiating an agreement with the Republic of China on this issue is somehow taboo. All we have to do is go back to the legislative basis of our relationship, the basis of the Taiwan Relations Act. There is nothing at all hindering the U.S. government from entering into an FTA.

Guest: What will the PRC say?

Mr. Allen: In trying to think this through, I cannot find a U.S.-ROC Free Trade Area agreement antithetical to the interests of Mainland China. In fact, it enhances those interests and should provide a further stimulus for them if they are continuing along a free enterprise path. The obstacles would be psychological to begin with, the second being a lack of information on the part of the U.S. Congress and Administration.

I do not think anybody in Taipei today wants to see this trade deficit go any higher. Everybody is frantically searching for a solution. So it is incumbent on us to identify those obstacles and deal with them openly and directly in the political process, and that includes reeducation of members of Congress.

Dr. Feulner: The fact is, there has been extraordinary progress toward making this a mainstream item on the public policy agenda in both capitals over the course of the last eighteen months, but the clock is ticking. We have only eighteen months left in the Reagan Administration. And if we do not get the agreement signed by then or at least move it into serious negotiations, who knows what will happen beyond that time period? An FTA with Taiwan would set a whole new agenda for the trade debate, thereby shifting the terms of how it is dealt with on Capitol Hill.

* * *

Mr. Martin Lasater: The groundwork for a substantive discussion of Free Trade Areas has certainly been prepared today. We have talked in some detail of the problems that exist in the trade relationship between the United States and Republic of China on Taiwan. This third panel will try to explore the pros and cons of one solution to these matters, the concept of a Free Trade Area bilaterally negotiated between Washington and Taipei.

Our first speaker will be Senator Bob Kasten who, as all of you know, is the Republican Senator from Wisconsin. He has served in that capacity since 1980. Prior to that time he had served in the U.S. House of Representatives since 1975. Senator Kasten has a number of very important positions in the U.S. Senate, which give him an insight into the trade question that will be very valuable to us today. He serves on the Appropriations Committee, as well as the Small Business Committee. So we look forward to his remarks. Senator Kasten.

Senator Robert Kasten: Let me begin by saying that what we are in the process of doing today is one of the most important elements of this whole matter, which is that there simply must be more people aware of the importance to the United States of America of dealing with these trade problems in an aggressive, but also positive, way. A free trade zone is an aggressive, positive step that the United States ought to consider within the context of the overall trade issue.

Often these days, the concept of fair trade gets lost in the emotional rhetoric about which protectionist measures Congress should enact first. It is clear to me, after watching the debate in the House and Senate, that Congress is having difficulty trying to balance long-term needs with some of the immediate political problems that constituents are recognizing. We are seeing important, I think very negative, protectionist pressures coming along, and it is because we have such difficult problems we have not been able to respond.

There is a real danger of overreaction to the U.S. trade deficit. A danger to our trade partners, a danger of a trade war, and a danger to our foreign policy. This does not mean that we should not take the trade deficit seriously; we must. But we also must act responsibly.

A case in point is the possible harm trade hysteria could do to our relationship with the ROC and to the political and economic well-being of this valuable ally of the United States. I believe that the Republic of China is a symbol of stability and of economic prosperity; an example, if you will, to countries throughout the world, particularly developing countries, that capitalism work.

Solving our trade deficit problem with Taiwan is a many-sided problem. The Republic of China has taken steps to open up its markets to U.S. goods: tariff cuts on many items such as farm products, textiles, footwear, hats, bicycles; opening its markets to insurance companies; liberalization of restrictions on banks; contracts for special construction projects, such as the Taipei subway, to U.S. companies; missions to the U.S. to buy billions of dollars worth of U.S. goods. And the Republic of China has allowed its currency to rise 17 percent in value compared to the dollar in the last year and a half.

These kinds of steps show a good faith effort on behalf of Taiwan. But much more needs to be done. The ROC must cut tariffs on even more items. U.S. companies must have fair access to Taiwanese markets.

There are very favorable arguments in favor of a Free Trade Area with Taiwan. But first we must ask what benefits would accrue to the United States from a Free Trade Area, and what benefits to the ROC. Is the political atmosphere in Congress and throughout our country conducive to enacting a Free Trade Area with Taiwan?

Trade has become an emotional issue for labor and for business groups. One of my principal concerns is considering a Free Trade Area in this atmosphere. Many sincere, well-meaning men and women want to do something to increase U.S. jobs, to bring down our trade deficits, to increase our manufacturing production, and to maintain the U.S. standard of living. I believe that a Free Trade Area with the ROC could be a positive solution, a starting point, one that could benefit both of our countries.

Those who worked on the Israel Free Trade Area, and who are now watching the Canadian Free Trade Area negotiations, know that certain business groups can, and will, react harshly toward a Free Trade Area with the ROC. I have my own concerns about how certain American businesses would be affected by a Free Trade Area. But these are concerns we can address and deal constructively with during FTA negotiations between our two countries.

Another problem is that the United States does not formally recognize the Republic of China on Taiwan. But as a number of people have pointed out, that is an issue that can be worked out. It is clear that the Taiwan Relations Act and other legislation and opinions demonstrate that an FTA is a practical, possible thing to work toward. We must show that an FTA is in the U.S. interests, and that it is not a threat to our relationship with the People's Republic of China. I am convinced that it is possible, and I am also convinced that it is in our best interests.

The next hurdle to overcome is the criticism that the Taiwanese would gain more from our markets than we would gain from theirs. This is an issue we have to discuss in public. I believe that an economic analysis will show United States industry stands to gain a lot from an open ROC market. And we all agree that healthy industry means more U.S. jobs, a principal advantage.

One of the things that I hope will come out of this day of discussions and panel meetings is where to go from here, how and when to act.

Clearly, one of the directions we may want to move toward would be as part of the Omnibus Trade Bill. That bill will be coming out of Congress. But although it is an immediate vehicle, it may frankly be a dangerous choice.

But we should do something soon within the eighteen-month timeframe that has been pointed out. At the same time, we may want to wait for an opening in a less volatile political atmosphere. I am not sure what the atmosphere is going to be in the Senate when we take up the trade bill, and I am not sure if we have U.S. public opinion clearly on our side as we move toward Free Trade Areas. This is one of the things that we must work on. So although the Omnibus Trade Bill is the first vehicle, the immediate vehicle, it may or may not be the best legislative vehicle for us to utilize and to move forward with.

I am personally committed to preserving the warm relationship between the Republic of China and the United States. I hope that, as we follow up on questions and comments that are raised in this seminar, we will see ways to work for an open, fair trading system with the ROC and that ultimately we will be successful in our efforts in moving toward a Free Trade Area.

Mr. Lasater: Thank you, Senator Kasten. We will now hear from Benjamin Lu, who was with us this morning. He, of course, is Director of the Economic Division of the Coordination Council for North American Affairs. Mr. Lu will give us Taipei's view of an FTA with the United States.

Mr. Benjamin Lu: In the morning panel, I elaborated on the efforts by my government to open up our market and to stimulate more imports from the United States. This afternoon I am going to talk about arranging total, free market access for the United States.

As you are aware, for several years my government has been exploring various ways to improve its bilateral trade relationship with its major and most important trading partner, the United States. In particular, we were anxious to look into ways of protecting this trade relationship from the wide swings in political activity that occur in both countries on a increasingly regular basis. Our commitment to the liberalization in our trading regime is sincere, and it is strong.

We would like to suggest the idea of beginning serious thought, discussion, and analysis of a bilateral Free Trade Area between the United States and the Republic of China. What we are proposing is similar to the model already in place between the United States and Israel and being developed between the United States and Canada. That is, over a period of time, the removal of all tariff and nontariff barriers on trade between our two countries. This would include the free flow of investment, a free flow of services, and the negotiation of practices in the areas of intellectual property rights protection, licensing standards, payment practices, and subsidies. This is a bold initiative on the part of my government, and a sincere one, and it should make abundantly clear our firm commitment to liberalize our trade regime to the fullest extent.

There seems to be a perception existing in some quarters of the U.S. Congress that the United States is not getting a fair share of ROC trade. The complaints about the ROC from U.S. industry are numerous. We have said repeatedly that these perceptions are not based on fact, and the proposal to begin serious discussion of a Free Trade Area with the United States underlies our commitment to completely liberalize our market vis-a-vis our major trading partner.

What do both sides gain from such an arrangement? Bilateral trade flows, which last year amounted to about $24 billion, should increase significantly if duties and nontariff barriers are removed. I would expect that the investment by U.S. companies in the ROC would increase substantially as would joint ventures between Taiwanese and American businesses. Taiwan has an educated, literate, highly skilled labor force. Our economic structures are complementary, and a Free Trade Area would enhance the benefits both sides derived from the bilateral relationship.

Despite its small size, the ROC is the sixth largest importer of U.S. goods. Right now, imports from the U.S. account for 22 percent of all its imports. We would expect that, with the elimination of all barriers for U.S. shipments, this share would go up quite substantially. Our economy and consumer demand hold substantial potential for increases in U.S. imports. We also have significant plans for additional major projects over the next couple of years.

The economic incentive provided for U.S. suppliers through an FTA can only help insure that the purchases are, in fact, made in the United States. U.S. agricultural exports to Taiwan are already substantial. However, we receive complaints on a regular basis that we need to liberalize this sector even further. Obviously, a Free Trade Area would do just that and finally convince those in the Congress and the Administration who question our sincerity in opening our market. U.S. trade in services is extremely competitive internationally, and we would expect the sales in Taiwan to broaden and deepen. This arrangement would have a significant and very immediate effect for U.S. exports to the ROC and vis-a-vis our major importer, Japan.

If the allegation were true, which I occasionally hear coming from

Congress, that the ROC has very significant tariff levels as well as a web of nontariff barriers, then I would think that the U.S. would be eager to enter into arrangements where these barriers would be completely removed.

What would the agreement mean for Taiwan? Without question there is a risk in competing with the strongest economic power in the world, but we in Taiwan have no other choice but to trade and we are willing to take the risk. In fact, we embrace the opportunity to trade on a totally fair and competitive basis with the U.S. As a small island economy with few natural resources, we have no other choice.

Right now, we are subject to the vagaries of trade policy developments in the United States. We are ready to accept all of the obligations and rights of a mature and honest bilateral relationship with the U.S. government. We want to avoid the political swings that affect our trade flows negatively. We want to avoid the political fallout resulting from a misunderstanding of how our economy is developing. We want to avoid future filings of trade cases, which only exacerbate problems and make equitable and mutually acceptable solutions all the more difficult. A Free Trade Area would do this.

We are prepared to have the U.S. government review our economy and its trade practices in depth, just as the United States did in the case of Israel and Canada. We will do the same in order to understand and appreciate the complexities and the potential of our Free Trade Area partner, again, as the U.S. did in the Israeli and Canadian models. We are willing to discuss special provisions in the agreement for sensitive products.

We understand and respect the U.S. commitment to strengthen the multilateral trading system. This is a system to which we have contributed and from which we have benefited. But it is important to remember in this regard, whenever a GATT Round begins in earnest, or perhaps when it is finally complete, the U.S. and the ROC would, in any case, negotiate a parallel, bilateral trade agreement as was done in the Tokyo Round. Why not set our mutual goals for this bilateral discussion at a higher level at the outset and roll up our sleeves to begin serious discussion of a bilateral Free Trade Area?

I would like to add one editorial comment. I think that such a discussion would cause some of our trading partners in the Far East to sit up and take notice and to take their trade policy discussions with both of us a bit more seriously. The FTA would only make both of us more competitive in that region of the world and elsewhere.

In summary, we see that the benefits of an FTA far outweigh the burdens on both countries. From our side, this initiative should be seen as a reaffirmation of our serious commitment to the free trade system. From the U.S. side, it would underline the concern of the Administration and Congress with opening markets abroad and providing reciprocity in international markets for U.S. exporters.

As some of you may know, we recently set up a data exchange with the United States government. We are hopeful that this information exchange can continue or expand in the coming months so that, when both sides are ready formally to launch the FTA negotiations, all of the necessary spade work is complete. We are tackling this project with great vigor in the Republic of China and very much look forward to and expect a successful outcome.

Mr. Lasater: Our third panelist is Sandy Kristoff from the U.S. Trade Representative's office. She is Deputy Assistant of that office, specializing in Asia and the Pacific. For the last three years, she has been working on bilateral trade issues with both the ROC and South Korea. She will discuss the USTR's present view of the possibility of a Free Trade Area with the Republic of China.

Sandy Kristoff: Everybody on the panel and the majority of people in the audience have asked themselves the question, "Should there be a Free Trade Area between the United States and Taiwan?" Everybody has answered with a resounding "Yes."

But it is not quite so straightforward a question. We have a lot of work to do, both within the Administration, and on the Hill. And the Republic of China has some additional thinking to do about the costs of a Free Trade Area before deciding this question. For this reason, I think I will try to offer a little negative balance.

I would agree with Senator Kasten that we share the goal of having an aggressive and positive approach to trade policy. We in the Administration also are concerned about an overreaction to the problem of the deficit. We do not think that we should overreact in terms of protectionist legislation, nor do I think we should overreact in terms of wholeheartedly moving toward multiple Free Trade Areas. I think we have to remember where Free Trade Areas stand in the context of our overall trade policy.

This Administration, and administrations prior to it, have been committed—it is the cornerstone of our trade policy—to multilateral efforts under the General Agreement on Tariffs and Trade. I think you will find this Administration moving very slowly and with a great deal of caution to arrangements that are outside of the GATT. Certainly, we are willing to explore the possibility of achieving liberalizations beyond GATT in the form of bilateral arrangements. Israel and Canada are proof of that. But we see these as complements, and not as replacements, to our multilateral efforts. As complements rather than replacements, we would move into them in a very studied manner.

The initial move to the discussions with Israel about an FTA really came in the wake of the failed 1982 effort at multilateral trade negotiations. Now that the Uruguay Round is launched, I think you will find an even greater reluctance on the part of the Administration to move into additional talks beyond those with Canada. Certainly, were we to answer the question in the affirmative, we would have to look at the Israeli deal and the Canadian arrangement as precedents for what we would negotiate with the ROC. We should recall what is included in the Israeli arrangement.

It provides for the elimination of duties on 85 percent of bilateral trade in the first four years of the agreement, with duties going to zero on all products at the end of ten years. It requires the Israelis to assume obligations at least as strict as, and in many instances more strict than, GATT codes on certain nontariff barriers like licensing and procurement and subsidies. In both of these areas, I would point out, we have had uphill battles in our negotiations with the ROC.

The Israeli agreement sets up a trade and services framework. With the Republic of China, the only service areas where we have achieved any progress, and it has been quite limited, are insurance and banking. It sets up a reciprocal framework for intellectual property protection; in that area we are probably already 85 percent complete with the ROC. It provides for the elimination of local content requirements and export performance requirements—I think these are partially fulfilled with the ROC—and it calls for a standstill on all restrictions that are not authorized by the GATT. It allows the U.S. to retain its multifiber arrangement right.

The Canadian agreement is drawing on the Israeli agreement, but it is going to be even broader, particularly in the area of services and investment. And we should recognize that what we would be looking for in terms of negotiating with the ROC is something close to the breadth of the Canada agreement. So we have to think, does this comprehensive approach to Free Trade Areas make sense in our situation with the ROC? Is it the best solution?

The paramount factor in evaluating these questions for the Administration and any prerequisite to detailed specific negotiations would be an assessment of the benefits and costs to the United States. To my knowledge, there has not been any hard-core economic analysis done on the costs and benefits either to the United States or to the Republic of China. Rather for two and a half years, there have been general musings about the benefits of unrestricted access to markets, musings about the certainty that exporters and investors would have if there were a Free Trade Area, musings about lower prices to U.S. consumers.

What we have to do is take these economic theories that support Free Trade Areas and apply them to the situation in the ROC. When you begin to take the broad theory and apply it to the specifics of the ROC, you very quickly run into potential legal and political problems. Domestic interests—textiles, steel, machine tools, the shoe industry are four that come right to mind—will have difficulties, should the ROC have unrestrained access to this market.

Taiwan also has to give some thought to the costs that it is going to have to pay. If there were to be a Free Trade Area, there would be structural adjustments required at the time. It would have some impact on the way that the ROC economy is organized. It would have some impact on small and medium firms with potential loss of employment. It would open up all the financial services, an area where there is great difficulty at the moment. There would be implications for the New Taiwan dollar and its relationship vis-a-vis the U.S. dollar, because under a Free Trade Area there would be no exchange controls. So I think there are a whole series of questions that imply costs as well as benefits for Taiwan in such a negotiation.

These questions have not been answered, and I think it is important to begin to articulate what they are. And those, either in Congress or the private sector, who are interested in spurring the notion of a Free Trade Area with the ROC, had better generate some economic analysis that answers these questions.

A few weeks ago, we began an exchange with the ROC of automated trade data on imports and exports and other trade barriers. We undertook this bilaterally with an understanding that this data exchange was not a precondition to negotiating a Free Trade Area, but rather a way to help us decide how to address the bilateral trade relationship problems in the longer term. Should we move away from the ad hoc product-by-product approach to a more comprehensive long-term dialogue?

That is still to be seen, but I would hope the stated exchange is a first step. If the evaluation that is going on determines that we should consider a comprehensive dialogue, then the question is how to negotiate it? On what statute does the Administration base its actions?

Congress has trade authority by virtue of the Constitution and will have to delegate some authority to the Administration before we can negotiate. The current authority for Free Trade Areas is under Section 102 of the Trade Act of 1974, amended in 1984. That will expire in January 1988. There are similar provisions to Section 102 in H.R. 103 and Senate 490, but there is no guarantee that we will have FTA negotiating authority after January of this year.

Here is what would be required: First, the ROC would have to request negotiations. Assuming that step were taken, the President would then give 60 days' notice to Congress of his intent to enter into negotiations. The Senate Finance Committee and House Ways and Means have to not disapprove of that negotiation in order for us to go forward with the talks. We are under an affirmative obligation to continue consultation with Congress, on a regular basis, throughout the negotiating process and to notify Congress 90 days in advance of our intent to sign an agreement. We then submit implementing legislation to Congress, and they have a straight up or down vote to approve or disapprove that legislation.

After we have done all of this domestically, as a contracting partner to GATT, we also have to receive GATT approval under Article XXIV. We have to establish that the Free Trade Area will eliminate duties and other restrictive measures on substantially all of the trade between the two parties within a reasonable period of time and that any import restrictions remaining are no more onerous vis-a-vis third parties than they were before the FTA.

The GATT working group, made up of other contracting parties, has to review each and every element of the bilateral Free Trade Area and has to pass on its appropriateness under Article XXIV. If the working group finds that the Free Trade Area does not meet Article XXIV requirements, then the contracting parties of the GATT must approve the Free Trade Area by a two-thirds vote.

That is what we would have to do under the current statutory situation, or one similar to it. One could argue that we already have the authority under the Taiwan Relations Act to enter into bilateral trade agreements with the ROC. The only thing that we have to do is sign them under the auspices of the American Institute in Taiwan and the Coordination Council for North American Affairs.

I do not want to imply that the Taiwan Relations Act would allow a Free Trade Agreement, because I do not think that is the case. I think that the TRA does provide the opportunity to negotiate on any issue in the trade area between the two countries that we feel would be worthwhile. And I would think that, within relatively the same time period an FTA were concluded, you also could conclude a series of negotiations with the ROC on all of the major issues in the bilateral relationship. After that, you would have a series of agreements that, when taken comprehensively, would, to all intents and purposes, serve as a free trade agreement.

If that were the case, one could ask why the Administration would want to take on the real issue—the political issue. I would take exception to blaming the State Department for being the sole repository for opposition to this issue. I think that within the Administration, not just within State, but within USTR, Commerce, and Treasury, there are real questions about the appropriateness of following this path with the ROC. Certainly, the overwhelming issue is the political issue, which has to do with the U.S. relationship with the PRC and is a foreign relations question.

The other concerns center on the trend toward Balkanization in a series of FTAs. That is a complete departure from the underlying principles of 40 years of bipartisan trade policy in the United States. That policy to date has been multilaterally oriented, GATT-oriented, and there are real questions of the value of having a whole series of FTAs scattered all around the world. Purely from an Administration point of view, there is no real feeling at the moment that there is a groundswell of support for this on the Hill.

We face a Congress that is urging that Taiwan be removed from the Generalized System of Preferences. The majority in Congress does not want Taiwan to get duty-free treatment on $2 billion worth of goods coming into this country, toys and flip-flops sold at such places as K-Mart.

Is there a real groundswell of support in the Congress to allow the ROC to have duty-free access on every product in the U.S. tariff schedule? The Administration does not have an answer on this. The questions raised here today are very good, but we have a long way to go before the decision on FTAs can be made.

Mr. Lasater: Before I open the discussion to questions from the floor, I would like to give The Heritage Foundation's specialist on FTAs and Senior Economist, Dr. Edward Hudgins, a few minutes to comment.

Dr. Edward L. Hudgins: It is important to focus on the long-term dynamics of FTAs. Just as an entrepreneur in the free market tries to profit by doing something new, by going beyond the status quo, so I believe the U.S. government can profit by becoming a free trade entrepreneur, outflanking the narrow special interests, outflanking the protectionists, and opening up markets to American goods as quickly as possible. FTAs serve these dynamics. Beyond their immediate economic benefits to the U.S. and to the Republic of China, FTAs create incentives to liberalize trade for countries that are not parties to an FTA.

For example, when the FTA was proposed between the United States and Canada, Prime Minister Nakasone visited Canada in January 1986. I visited Ottawa several days later and asked their trade officials about Nakasone's reaction to the U.S.-Canada Free Trade Area. The Canadian officials answered that publicly Nakasone said, fine, it's a bilateral consideration between the U.S. and Canada and the Japanese had no concerns. However, privately and behind the scenes, Japanese officials apparently were very concerned about what a Free Trade Area between the U.S. and Canada would do to Japanese goods going into either market. Because the Japanese goods would be subject to standard Canadian tariffs, for example, and U.S. goods would not, the Japanese would clearly be at a disadvantage competing in that market.

Would this prove an incentive for Japan to erect trade barriers to the U.S. and Canada? Clearly not. But it would be an incentive for Japan to say, "Well, we'd like more liberal access to the U.S.-Canada market as well." And then of course the U.S. would say, "Well, fine. But the price will be you have to bring your trade barriers down."

This is an important incentive that in the long run could be exploited with any given country. If we started to set up FTAs with the Republic of China or with Thailand, perhaps Singapore or even ASEAN, this would put countries not in the FTA at a trade disadvantage. This would not be an incentive for them to erect new trade barriers. It would be an incentive for them to liberalize as well, to come to the FTA partners and say, "We'd like a similar arrangement."

Obviously, FTAs set up counterdynamics to protectionism. That is something that has not been focused on. It is a new concept, but the dynamic is there and potentially can be exploited. And again, FTAs provide a positive alternative. Instead of erecting barriers to Japan or to other countries, we bring down barriers and, in that way, create incentives to bring down more barriers. That is the one insight that has emerged from the dialogue today.

Mr. Lasater: At this time I would like to invite comments and questions from the floor.

Guest: Miss Kristoff, you analyzed and explained in great detail and persuasively the difficulties and the lack of any real sentiment in support of an FTA with the ROC. I would like to know what you are recommending, as the trade representative.

Miss Kristoff: Ambassador Yeutter has said publicly and told the Taiwanese that he is not turning down the FTA solution. He believes that it is a touch premature, though, because of the commitment of time and energy we are making to the Uruguay Round and to the enormously complex Canadian discussions. There also happen to be other countries ahead of the ROC. ASEAN, Australia, and New Zealand have raised the possibility, and from Ambassador Yeutter's point of view, we have to deal with those, not necessarily before Taiwan, but at least in concert with an FTA with Taiwan.

These constraints are not insurmountable obstacles, but they are factors that have to be considered by whoever wants to address these questions. I do not know if any one of them is a insurmountable hurdle. I do not know if cumulatively they create too large an obstacle. But I think it is an overreaction to the deficit problem to say that the answer is a Free Trade Area. It is wrong to try to effect a bilateral trade balance with Taiwan. I think that, as a free trade Administration, we are much better off talking market access with the ROC, forgetting about the question of the deficit. Open the market, keep our markets open, inasmuch as possible, and then let the dollar surplus or deficit fall where it may. Let the market forces work.

Senator Kasten: The issue appears to be whether we should proceed with bilateral or multilateral trade talks. The theory that Ed Hudgins has developed is that more and more bilateral agreements would have the effect of more countries opening their markets. It seems that the USTR is saying, "The more of these special arrangements, the more time it takes us, and we would rather just work on GATT and the Uruguay Round. We want to just do that and do it well." I have always thought that the more free trade areas we developed, the better off we would be.

Miss Kristoff: I do not think that the multilateral approach and the bilateral approach are mutually exclusive. I think, though, that you must start with the fundamental principle in the Administration's trade policy. It has been around for a long time, and it is that a multilateral approach is preferred. To the extent that bilateral negotiations end up complementing the multilateral approach, creating freer trade, stimulating greater international trade, you will find the USTR exploring that opportunity. That is why we have an FTA with Israel and why we are negotiating with Canada and discussing FTAs with ASEAN. But FTAs are viewed as a departure from the fundamental most favored nation principle and therefore will be entered into very cautiously because they will overthrow 40 years of what has been effective.

Granted the GATT has certain problems, which is why we are into the

Uruguay Round. But I do not think that there is a feeling in the trade policy community that the United States should throw out the multilateral approach, and this means being cautious with the introduction of bilateral agreements.

Mr. Allen: I would like to introduce the possibility that the USTR and the Administration are wrong in their analysis of the situation. I would like to return, at the risk of repetition, to the notion that we have an overriding interest in the special case of the ROC and that it deserves a higher rank at the turnstile of nations wishing to negotiate a Free Trade Area agreement.

There will be a multiplier effect when we begin to negotiate with the ROC that will have a very favorable impact that is not injurious to our commitment to the multilateral approach to trade. I would also like to refer again to the special relationship embedded in law in the Taiwan Relations Act. The future security of the ROC, to which the U.S. is irrevocably committed by practice and by legislation, is directly linked to the economic future of the country and to the prospect of attracting foreign investment.

In preparation for this discussion, I have been paging through a 320-page legislative history of the Taiwan Relations Act. It was extremely valuable to go back through the arguments mustered in Congress as the TRA wound its way through the legislative process. The statements on the floor were very enlightening. There is no doubt that there has been some slippage from those original, fairly clear considerations of U.S. policy.

Given the very articulate presentation of the USTR case and the enumeration of the very obstacles that we face, I would like to place into the record that there is an opposing point of view supported by a separate set of facts, and that debate needs to be joined.

We do not yet have a suitable forum for it. Seminars like this, the third in a series, contribute to the dialogue. I would like to get it into the more accountable forum of Congress itself. That is where the FTA concept deserves to be carried forward, there to be joined by whatever Administration arguments can be mustered. We must decide the issue.

Dr. Feulner: Right here a couple of points should be emphasized. The first is that no one wants to overthrow the multilateral approach. And, in fact, FTAs are a way to reinvigorate it. What we are seeing is the fulfillment of the old adage that Congress does two things well: nothing and overreact. At the moment, they are in the overreact mode, and we must try to move the momentum back in our direction. For to say that Indonesia or the Philippines are in any way, shape, or form ready to start talking seriously about an FTA with the U.S. is not to look at the realistic situation. But here is a question. Under the TRA, can the U.S. negotiate on a bilateral basis with the ROC in such a way that it does not end up with the Japanese coming in and walking off with everything?

Miss Kristoff: Under the TRA that which we negotiate should be applied on a most favored nation basis. Under an FTA what we negotiated would be applied preferentially. The real problem there would come in the tariff area as opposed to services or investments where it is more clearly in the ROC's interest to have that segment of the economy opened up wide anyway. So I think the preferential issue would be addressed primarily in the tariff area. We do not have a negotiating authority in tariffs right now anyway, so it would not be possible under the TRA.

Senator Kasten: I think it is a political question, not necessarily a trade question. And it is a broadbased question, and we must do a better job in pushing forward that basic, underlying question.

Miss Kristoff: From a trade policy point of view, our answer to "Should there be an FTA?" is going to be driven from an economic analysis, not a political imperative—unless, of course, so instructed.

Dr. Hudgins: FTAs do preserve the multilateral process. They are not contradictory to the GATT, which recognizes them. But it is important to keep it in perspective. First, free trade is to the benefit of the United States. I am in favor of free trade because it strengthens the U.S. It also strengthens the Republic of China and every other country that trades with us.

The GATT is a means to freer trade, and in the end, to U.S. economic strength. But the goal is U.S. economic strength. And if we can do it quicker, and if we can enhance the GATT process through FTAs or any other means, we should put the U.S. interest first. The fact that the rest of the countries of the world are slow to catch on to the virtues of the free market is truly unfortunate for them. And it is unfortunate for us, because growing, prosperous economies in the Third World, for example, would be to our benefit. But the fact that they are slow does not mean that we should sit back and say, "Well, we're going to wait for you guys to catch up." We should act aggressively as entrepreneurs in the government and say, "Okay, fine. You want a Free Trade Area? We'll cut a deal and strengthen both of us. We'll let these other guys lag behind; maybe they'll catch up through our example."

The fact that there is a line of countries interested in FTAs—Singapore, Thailand, and others—provides the kind of dynamics that we should exploit to promote free trade. I think that it is for the good of the United States and its economic strength to develop FTAs as quickly as possible.

Guest: Is the first step for the Republic of China to request an FTA? Second, does Congress need to pass another law to strengthen the Taiwan Relations Act so it is more plausible? And third, when will the study on FTAs be done? If we wait six months to a year before the complete study is out, then the ROC requests an FTA, there might be twenty nations that would be ahead of the ROC. What is the next practical step?

Miss Kristoff: There is not a line up for FTAs. But a legitimate point for the USTR to make is that we have competing demands on our resources in both dollars and time. There is an enormous commitment now to the Canada talks and the Uruguay GATT Round talks, and there is only so much that we can handle at once.

Mr. Lasater: Could I ask how many people the USTR has on East Asia?

Miss Kristoff: On East Asia, four.

Dr. Hudgins: The USTR needs more staff. We do not want it to become a bureaucracy like the Department of Commerce, but a few more people could be of help.

Guest: The representative of the ROC seems to have said, "We are ready for it." Unfortunately, it sounds as though what the U.S. side is saying is, "We're not ready for it," in the sense that there are political problems on the Hill, or there are bureaucratic problems with a multilateral versus bilateral approach.

Miss Kristoff: The Administration is, in fact, pursuing a very aggressive bilateral trade policy with the ROC. And we are not going to abandon that approach. If the Uruguay Round were to seem in place, I would be in Taipei next week on some of these issues. The fact that there is a multilateral effort to which we are committed does not mean that the bilateral track will disappear. You will find the USTR continuing to be aggressive with the ROC.

Issues with the ROC have been resolved through negotiation on an issue-by-issue basis over the past two years. I am not convinced, on the basis of what little analytical work has been done, that we ought to depart from that path and take up the issue of Free Trade Areas.

Guest: I have a question for Senator Kasten. If there were a Free Trade Agreement between the ROC and the United States and no barriers whatsoever on Taiwanese goods such as textiles, apparel, and shoes coming into this country, what would be the response of the states and Congressmen affected by it?

Senator Kasten: That can be partly answered by a look at the newspapers, or visiting either the House or the Senate. The sentiment will be almost all on the protectionist side, and there will be a fair amount of Korea-bashing, Japan-bashing, and Taiwan-bashing. That is the atmosphere, and that is why I raised the possibility that this issue could possibly be dealt with as part of the trade debate, or perhaps it could be more successfully dealt with outside of that debate, depending upon the way the trade debate starts to develop.

We have heard today that the ROC would be willing to recognize certain particularly sensitive areas and work around them. That does not mean just national security sensitivities but also political sensitivities. It means particular industries in particular parts of our country which would be opposed to this policy if there were not some way to work around this specific problem. We simply have to be practical in such trade issues.

It is hard to answer your question specifically, but I think it is fair to say that, without at least some modifications in certain areas, Republicans and Democrats in the Senate and House would be unlikely to advocate a total free trade agreement with no holds barred. Much work lies ahead to build this agreement. But the calendar is working against us. There is a presidential election that is going to take place. There is a trade bill, there are the Canadian discussions, and there is the Uruguay Round—all of them in the same period of a year and a half.

I would hope that one of the results of this meeting might be for a smaller group of people to start working specifically on what should be done and what the goal should be between, say, now and the Fourth of July. We have heard a most descriptive and complete statement on this subject from the representative of the ROC, and that should be a good start.

Dr. Feulner: As I reflect on my ten years as President of Heritage, I probably have chaired or participated in more than a thousand meetings of one sort or another. I do not ever recall another where there was as much stimulating discussion or as much substance compressed into such a short period of time as we have had today on this very detailed subject. FTAs obviously could change the whole framework of the debate over what our economic bilateral relationship with the ROC is going to be.

I would now like to ask Dr. Phillip Chen, my friend and colleague, if he would share with us some of his thoughts in terms of the present and the future course of U.S.-ROC trade issues.

Dr. Chen: Well, I will try to make it very short. Senator Phil Gramm and Congressman Jack Kemp have recently proposed a bill entitled the American Trade, Growth and Employment Promotion Act of 1987. This bill demonstrates an unusual combination of sound economics and political sensitivity. It seeks to expand the U.S. access to foreign markets through the establishment of a North American Free Trade Area.

The U.S.-Israel FTA agreement, the first such bilateral agreement signed by the U.S., may very well serve as a precedent for other FTA agreements. The ongoing U.S.-Canada negotiations constitute a crucible in which the FTA agreement will next be tested.

Not all potentially affected parties in the U.S. favor the Free Trade Area proposal. Among its opponents, other than the USTR, is organized labor, which fears the proposal would set a precedent for future FTA agreements and result in future competitive pressures on the domestic labor market. Industry has been split on the issue with the negative view expressed by the textile, apparel, leather, agriculture, agricultural processing, and bromine industries; in support are a number of industries, including electronics and other high-tech products.

Nevertheless, as an instrument of U.S. policy, a Free Trade Area agreement raises several legal and political concerns. For example, its consistency with other U.S. treaty commitments is questionable. The susceptibility of the agreement negotiations process to political pressures is very clear. But no country has a greater commitment to free and fair trade than does the United States. It has been one of its principal sources of national prosperity over the past decades. No region has benefited more than East Asia from this consistent U.S. support for an open world trading system. Also, however, no single nation has demonstrated a stronger commitment to maintaining and improving its trade relationship with the U.S. than has the ROC. Never in the history of international trade has a country been more dedicated to the improvement of the trade balance with a trading partner than has the ROC in its relations with the U.S.

The ROC's own proposal, which Mr. Benjamin Lu has so clearly described, for an FTA symbolizes the ROC's desire to be both responsive and responsible in the current state of the imbalance of trade. The ROC's FTA proposal would strengthen the friendship and good will that has existed between the two countries. The U.S. acceptance of the FTA would indicate to other countries of the Pacific Basin the U.S. willingness to pursue the best interests of free trade.

Senator Bill Bradley in a *New York Times* article entitled "Free Trade Talks with Canada" lists the various reasons why the U.S. should continue negotiations on an FTA agreement with Canada. One of the reasons is that such a move would avoid alienating a U.S. ally. I think this is very, very important.

To avoid the protectionist cycle now in the making, the United States should take the opportunity to establish a new, stronger trade relationship with East Asian countries. As the Council of Economic Advisors recommended, if Washington could not achieve the grander goal of comprehensive trade liberalization, they should move to establish Free Trade Areas.

A new international political order is emerging. Egalitarianism among nations, rather than liberalism; pragmatism, rather than idealism. Under this new system, progressive economics, trade, and competition for resources will cause more international conflicts than political and ideological ones.

It is a critical time for the international trading system. Any international retreat from open markets will reduce the standard of living for all countries and choke off economic expansion in developing countries. Many of the world problems, economic and political, could be solved by the growth that free trade would stimulate. The President of the Republic of China, Chiang Ching-kuo, has stated that the ROC's national trade policy is based on the principle of cooperation, reciprocity, and a free economy as ROC trade moves towards the goal of liberalization, internationalization, and diversification. And the President of the United States, Ronald Reagan, recognizes that history has taught us that: "The freer the flow of world trade, the stronger the tides for human progress and peace among nations."

So we must not lose our patience as we confront this complex international issue. However, we must also take actions. Whenever The Heritage Foundation is ready to act, my own Asia and World Institute will be willing to cooperate.

Selected Heritage Foundation Policy Studies

Mandate for Leadership II
edited by Stuart M. Butler, Michael Sanera, and W. Bruce Weinrod (1984, $24.95, hardcover; $14.95 paperback)
The Annual Guide to Public Policy Experts 1988
edited by Robert Huberty and Kevin D. Teasley (1988, $5.95)
A World Without A U.N.
edited by Burton Yale Pines (1984, $8.00)
Back to Basics
by Burton Yale Pines (1982, $13.50, hardcover)
Mandate for Leadership
edited by Charles L. Heatherly (1981, $21.95, hardcover; $12.95, paperback)

Asian Studies

Taiwan: Facing Mounting Threats
by Martin L. Lasater (revised edition 1987, $7.00)
The U.S. and the Philippines: A Challenge to a Special Relationship
edited by A. James Gregor (1983, $3.00)

U.N. Studies

The World Health Organization: Resisting Third World Ideological Pressures
by John M. Starrels (1985, $5.00)
The United Nations Development Program: Failing the World's Poor
by Richard E. Bissell (1985, $5.00)
The Food and Agriculture Organization: A Flawed Strategy in the War Against Hunger
by Georges Fauriol (1984, $4.00)
The General Assembly: Can It Be Salvaged?
by Arieh Eilan (1984, $5.95)
The U.S.—Third World Conflict: A Glossary
by John M. Starrels (1983, $3.00)
UNCTAD: An Organization Betraying Its Mission
by Stanley J. Michalak (1983, $3.00)

Critical Issues

A Conservative Agenda for Black Americans
edited by Joseph Perkins (1987, $7.00)
Protecting the Environment: A Free Market Strategy
edited by Doug Bandow (1986, $7.00)
Entrepreneurship: The Key to Economic Growth
edited by Stuart M. Butler and William J. Dennis, Jr. (1986, $8.00)
U.S. Aid to the Developing World: A Free Market Agenda
edited by Doug Bandow (1985, $8.00)
Banking and Monetary Reform: A Conservative Agenda
by Catherine England (1985, $6.95)
Confronting Moscow: An Agenda for the Post-Détente Era
edited by W. Bruce Weinrod (1985, $5.95)
The World Bank: How It Can Serve U.S. Interests
by E. Dwight Phaup (1984, $4.00)

For a publications catalog—or to order any of the above—write:
The Publications Department, The Heritage Foundation,
214 Massachusetts Ave., N.E., Washington, D.C. 20002

The Heritage Lectures

Lawmakers are searching for ways to lower the massive U.S. trade deficit. Their solutions, however, seem more likely to add to the problem. Erecting a wall of protectionist legislation—especially against America's Asian trading partners—is not the answer. Opening up markets, using tools such as a Free Trade Area, is a much more promising strategy.

Under a Free Trade Area, trading partners agree to eliminate over time those restrictions, such as tariffs and certification requirements, that stand in the way of completely free trade. The U.S. is phasing in an FTA with Israel and has recently signed a similar agreement with Canada.

This volume discusses the concept of a Free Trade Area with another staunch U.S. ally and trading partner, the Republic of China on Taiwan. A distinguished group of experts assembled by The Heritage Foundation and The Asia and the World Institute of Taipei explores the many aspects of the U.S.–ROC economic partnership, with special emphasis on FTAs. Their conclusion: With the enormous benefits to be gained by both partners, an FTA with Taipei should be a top priority for Washington.

The Heritage Foundation