

THE HERITAGE LECTURES

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The U.S.–Republic
of China Trade
Relationship: Time
for a New Strategy

Edited by Roger A. Brooks



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**The U.S.-Republic
of China
Trade Relationship
Time for a New Strategy**

Edited by Roger A. Brooks

**The Lehrman Auditorium
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Preface

This volume contains a collection of valuable observations and cogent analyses of the current state of the United States-Republic of China trade relationship and ways to improve that relationship through the establishment of a Free Trade Area between the two countries.

The government executives, legislators, scholars, and public policy experts who participated in the April 18 conference on "The U.S.-Republic of China Trade Relationship: Time for a New Strategy," each have made a unique contribution to improved trade ties between the U.S. and the ROC. This conference was the first on this subject co-sponsored by The Heritage Foundation and the Institute of International Relations in Taipei. Previously, The Heritage Foundation co-sponsored three similar conferences with Taipei's The Asia and the World Institute. The first was held in Washington in January 1986, the second in Taipei in July of that year, and the third in June 1987 in Washington.

Clearly, there have been problems in the U.S.-ROC trade relationship. For the most part, however, they have been confined to specific industry sectors. While both Washington and Taipei have taken several incremental steps to improve that relationship, neither has yet attempted to pose a comprehensive solution to current problems. One clear way to address the challenges of the current U.S.-ROC trade relationship is to enlarge, define, and institutionalize that relationship in the format of a Free Trade Agreement.

In a bilateral Free Trade Agreement, trading partners agree to eliminate over time those restrictions, such as tariffs and certification requirements, that impede bilateral free trade. The U.S. has instituted such an FTA with Israel, and has signed a similar agreement with Canada. With President Reagan's veto of the current trade bill, and with Congress potentially prepared to enact a similar bill for the President's consideration, decision makers in both the legislative and executive branches would do well to heed the excellent advice in this volume concerning the dangers of protectionism and value of an FTA.

Richard V. Allen
Chairman, Advisory Council
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Edwin J. Feulner, Jr.
President
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June 1988

Dr. Edwin J. Feulner, Jr.: Good morning, ladies and gentlemen. My name is Ed Feulner. I am President of The Heritage Foundation. On behalf of all of my colleagues here at Heritage, especially our Asian Studies Center, its Director Roger Brooks, and the Chairman of its Advisory Council Richard Allen, it is my very great pleasure to welcome you to the Lehrman Auditorium for this conference.

This is the fourth conference that The Heritage Foundation has cosponsored with institutions from the Republic of China. These four conferences have explored various ways of dealing with the economic relationship of the United States and the Republic of China, and particularly with the concept of developing a free trade area between the two countries.

The first three conferences were held in 1986 and 1987 and were cosponsored by Heritage and the Asia and the World Institute. Its esteemed Director, Dr. Philip Chen, was to participate in this conference today. But because of a personal emergency, he had to return to Taipei from the United States early. We deeply regret that Philip is not with us this morning.

We are indeed pleased that today's conference is cosponsored by the extraordinarily distinguished Institute for International Relations of Taipei. The IIR is now more than 30 years old. It was established in the early 1950s as a research organization to provide analysis of current issues for public policy leaders in the Republic of China. IIR has expanded from a small group of scholars to a think tank with more than 200 key personnel. Its main area of emphasis has been research in the areas of Sino-American relations, international relations regarding China directly, and a very intensive mainland China research unit.

Besides the special publications from its Research Department, the IIR publishes regular journals, such as *Issues and Studies* and *American Studies Monthly*. It also sponsors and cosponsors seminars on various subjects with counterpart organizations, not only in the United States, but in Japan and other countries the world round. And indeed, as I said, we are very pleased to be able to cosponsor this conference today with our friends from IIR.

Since our earlier conferences on the subject of an FTA (free trade area), few things have changed on the political landscape with regard to trade. The most protectionist of the presidential candidates, Congressman Richard Gephardt of Missouri, has withdrawn from the presidential race after defeats in various primaries. In addition, Mr.

Gephardt has been forced to compromise on his protectionist amendment to the pending Trade Bill.

While that piece of legislation is still working its way through Congress, we have seen the continually improving economic picture within the United States substantially reduce protectionist sentiment throughout the country. Our exports are up, and until last week's release of the February trade figures, the trade deficit was showing substantial improvement, as well. Many of us believe that these trade deficit figures were merely a statistical blip and that the positive numbers of the prior three months will continue.

Last week's issue of *U.S. News and World Report* said that President Reagan's hand with Congress is ". . . being strengthened by the eclipse of trade as a political issue." As usual, it has taken Congress a long time to come together to solve a so-called problem, and in the meantime, the problem seems to be correcting itself. Undoubtedly, if we were to go ahead with the so-called congressional solution as contained in that Trade Bill, we would be left with a whole new set of problems that we could then try to have Congress solve in subsequent years, or as one of my friends downtown, a Washington lobbyist, has said on several occasions, Congress does two things well, nothing and overreact. Economist Paul Craig Roberts from the Center for Strategic and International Studies has called the Trade Bill ". . . an example of how Congress is so far behind the issue to be useless and even dangerous."

Since our first meeting in 1986, we have seen the economy improve and our exports increase, but we are still faced with the prospect of a Trade Bill, which is not productive from the perspective of moving toward open and free world trade. We, at Heritage, have decided not to wait for Congress to take the lead on this important issue; we have proceeded to study methods that would lower trade barriers and expand trade with our trading partners, methods like free trade area agreements.

Since that first gathering in 1986, the idea of FTAs has begun to attract more interest. The United States has successfully negotiated a second FTA with Canada after the earlier one with Israel, and hearings have begun in Congress on this agreement. It has been mentioned in journals and newspapers around the world that there is a growing

movement toward bilateral expanded free trade. Ambassador Mike Mansfield, in Tokyo, has discussed the possibility of a U.S.-Japan free trade area. And just last month, the Japanese press noted that both the Ministry of International Trade and Industry (MITI) and the Ministry of Foreign Affairs are beginning to study a Japan-U.S. free trade area.

Heritage believes that a free trade area agreement with the Republic of China is also worthy of very special study. In our earlier conferences, we have discussed the special political case for an FTA with the ROC. Today, we will hear some discussion of this, with an emphasis on the economic reasons for a U.S.-ROC free trade area.

Since our first conference in 1986, the United States has been negotiating a number of bilateral trade liberalizing agreements with the Republic of China. There has been great progress made from the U.S. perspective in terms of opening up the ROC internal economy, as several individuals noted last year in the proceedings of our conference. But we believe that, for the long term, a free trade area between the United States and the ROC could be the best solution for bilateral trade. Thus, the topic of our conference today is "The U.S.-ROC Trade Relationship: Time for a New Strategy."

It is now my great pleasure to introduce my colleague and co-host for today's conference, Dr. King-yuh Chang, Director of the IIR in Taipei. Dr. Chang is one of the Republic of China's most widely known and respected scholars. He is the former Director-General of the Government Information Office. He was, of course, an active participant in our conference on this subject last year.

Those of you who are familiar with ROC affairs are, I am sure, already well acquainted with Dr. Chang and the work of his colleagues at the IIR. Dr. Chang, it is a great pleasure indeed to welcome you here this morning.

Dr. King-yuh Chang: It is my great pleasure to be here to jointly sponsor this important occasion with The Heritage Foundation. For the past several months, Dr. Feulner and his staff have been working very hard in preparation for this conference. Let me, first of all, express my sincere thanks to them all for everything they have done.

To the distinguished participants, I would like to say that you are making a great contribution to the formation of a very important consensus: that is, in order to solve the trade problems between our two countries, a new strategy, a free trade area agreement between the United States and the Republic of China must be formed. With the help of The Heritage Foundation and all here today, I am confident that some day we will be able to reap the rewards of this new strategy.

It goes without saying that the economy, particularly the trade balance, will be an issue for the candidates in this year's U.S. presidential election. Nevertheless, I believe that my country no longer should be a primary target for blame as, since last November, our trade imbalance with the United States has been on the decline. For instance, in October 1987, the trade imbalance between the two countries was \$1.3 billion. By November, this figure began to fall from \$1.25 billion in that month to \$974 million in December, \$842 million, \$826 million, and \$298 million in January, February, and March, respectively, of 1988.

At the same time, the difference between growth rates of imports and exports compared with the same period last year has also increased from 26.1 percent in January to 31.5 percent in February and 162.2 percent in March. That is to say that, by the first quarter of this year, the growth rate of ROC imports from the U.S. has outweighed the growth rate of ROC exports to the U.S. by a 20 to 1 margin with a registered record of 135.6 percent and 7 percent, respectively.

If these figures I just mentioned indicate a tendency toward change, such as the U.S. replacing Japan as the ROC's number one source of imports, I can assure you that, by the end of this year, the annual bilateral trade deficits that the U.S. has suffered since 1968 will be kept within the range of \$8 billion to \$10 billion, a sharp decline from \$13.6 billion in 1986 and \$16 billion in 1987.

In fact, my country is probably one of the few, if not the only one, that sincerely hopes to remedy this trade imbalance, the more than 40 percent appreciation of the New Taiwan Dollar since September of 1985 being just one of the many measures adopted. Furthermore, as the ROC moves closer toward the status of a developed country, we

view it as a responsibility to join with the other developed nations of the world, especially the U.S., in assisting the less developed countries.

Recently, the idea of establishing a foundation for overseas economic cooperation and development has attracted a great deal of interest from other Asian countries. This is one more expression of our sincere desire to become the first-rank trading power with a more liberalized and internationalized economy. Although we have done many things to please the U.S., there has been, in return, persistent pressure, if not threats, from the related government agencies that we will be challenged with Section 301, for instance, should we dare to suspend any imports from the U.S., including those very sensitive agricultural products such as turkey meat and fruit.

Many people in the ROC, both within the government and without, believe that we have already conceded as much as can reasonably be expected. U.S. action has prompted the questions, "Why does the U.S. keep on sending the ROC so many messages of dissatisfaction? What is the bottom line for the U.S.? Will the U.S. benefit if the ROC's economy cannot take the pressures and collapses?" Answers to these questions will have a tremendous impact not only on the whole trade picture with the U.S., but also on the immediate and longer-term future of the Republic of China.

According to the economic report of the President of the U.S. transmitted to Congress in 1987, a free trade area is an agreement between two or more countries to remove trade barriers among themselves, but to maintain separate barriers with respect to nonmember countries. In other words, FTAs are bilaterally negotiated agreements to reduce, over a relatively short period of time, all tariff and nontariff barriers and goods shipped between two trade partners. Furthermore, FTAs are permitted, under Article 24 of the General Agreement on Tariffs and Trade. At present, the U.S. has two FTAs, one with Israel and one with Canada. As far as a higher caliber bilateral FTA between the U.S. and the ROC is concerned, I will have more to say in this afternoon's closing session.

In addition to the positive signs that we have been demonstrating in recent months, there are two fundamental remedies for the improvement of the overall environment of U.S.-ROC trade. First of all, the

U.S. should perhaps become more export-oriented. Because of the huge domestic market, U.S. manufacturers and businessmen are generally not very serious about foreign markets. A basic attitude marks a big difference between American and Japanese businessmen, for instance. While most Americans come to Taiwan as buyers, most Japanese come to Taiwan as sellers. Manufacturers and exporters in the U.S. must keep a closer eye on the ROC market. As long as American products are competitive in price and quality, the products made in the U.S. have a vast potential market in the ROC.

Second, the U.S. should ease up on export licenses and resultant red tape. High-tech industries in the U.S. have been growing rapidly in recent years and these industries are a major focus of development in the ROC. Consequently, the ROC needs to import American high tech to combine with its own human talent and basic technology. But when it comes to obtaining export licenses, unbelievable red tape and long waiting periods scare off many agents and companies. The U.S. has limited ROC applications for imports, directly and indirectly, for both national security and political reasons.

The Japanese government does exactly the opposite. There, orders are processed quickly and efficiently. As a result, Japanese bidders receive more orders from the ROC, and Americans lose sales to their close competitors. If the trade picture is to be improved, unnecessary restrictions that actually block exports should be lifted immediately.

While it is true that ROC imports disturb certain specific entities of the U.S. market, it is also clear that low-cost, high-quality products from the ROC have provided American consumers with greater opportunity and choice in the marketplace. Millions of individuals are shopping for bargains and saving money by doing so. They can either spend or invest the money saved, which in turn will create or preserve jobs.

By the same token, a global, instead of a local, view of the world trade problem, far-sighted, long-term capital returns for the shareholders, along with a policy oriented toward exports, should all contribute to lower costs and higher productivity for U.S. business.

As a friend of the U.S. people and a U.S.-educated scholar from the Republic of China, I have every reason to believe that vitality and

flexibility have been, and still are, unvarying assets deeply rooted in the U.S. economy. And as long as the Americans preserve their heritage, their optimism and strength, there is nothing for them to fear.

In conclusion, let me simply say that the ROC shares the concerns of the U.S. and agrees completely that retaliatory legislation may trigger a general trade war that will close markets on both sides of the Pacific. But it is evident that not all of the U.S. trade deficit is caused by ill-fated trading practices. Part of it is caused by rapid growth in the U.S. economy compared with most other countries, which means the U.S. imports more from its trading partners and thereby worsens its trading record.

As the fifth largest trading partner of the U.S., the ROC desires sincerely to solve trading problems with the U.S. What we need today is more candid consultation and negotiation, carried out in the spirit of good faith, rationality, patience, and compromise.

With these notions in mind, I think an FTA between the U.S. and the ROC is probably the best solution.

Dr. Feulner: Thank you, Dr. Chang, for a provocative and stimulating beginning to our proceedings.

At this time, I would like to introduce the chairman of this morning's first panel, Roger Brooks, the Director of the Heritage Asian Studies Center. As those of you who participated in the last conference are aware, the Director of the Asian Studies Center, at that time, was Martin Lasater, who has since left The Heritage Foundation to form his own organization, which is involved in various Pacific Rim activities. Heritage maintains a close collaborative relationship with him.

Martin's successor is a Heritage alumnus, Roger Brooks, who in an earlier incarnation served as the Thomas and Shirley Roe Fellow in United Nations Studies at The Heritage Foundation, after which for a period of several years he served the Reagan Administration in the Department of State as a Deputy Assistant Secretary. We are very pleased to welcome you back, Roger, and we are also pleased to welcome you back from Taipei where you were just ten days or so ago.

Panel I

The Economics of an FTA

Roger A. Brooks: I would like to reiterate Ed Feulner's welcome to everyone who has come this morning this conference. We will hear some capable, interesting speakers on the subject of the U.S.-ROC trade relationship and the viability of a free trade area between the two countries as a possible solution to some of the current trade problems.

Two weeks ago, I attended a conference in Taipei on U.S.-ROC relations under the Taiwan Relations Act as a guest of Dr. Chang's Institute of International Relations. It was a first-rate conference that provided an important forum for discussion of several aspects of the U.S.-ROC relationship, including the proposal for a U.S.-ROC free trade area. This concept, which had seemed to gain favor among some of our Chinese hosts, was broadly criticized by many of my American colleagues. I did not consider these criticisms viable reasons to oppose the free trade area. One American scholar presented a paper in which he declared that he had some "hesitation" concerning the U.S.-ROC FTA. He claimed he remained to be persuaded that an FTA would accomplish any more than another proposal for what he termed a memorandum of understanding on the need for trade investment liberalization between the two countries. Later that morning, one of the panel commentators misread the scholar's remarks and ridiculed him for his alleged support for the concept of a U.S.-ROC FTA. The American scholar later expressed some indignation at being labeled a supporter of the FTA concept, and the commentator had to back off from his original charge in heavy embarrassment.

While we are, by no means, holding people to support the U.S.-ROC FTA as a condition of participation in this conference, I do not think that anyone who expresses enthusiasm for the idea of an FTA should

feel either indignation at being identified as a supporter of the concept or embarrassment for actually articulating such support. Clearly, my colleagues and I support this idea and believe it is workable. We all look forward to an interesting and frank dialogue on the U.S.- ROC trade relationship and the consideration of an FTA as a means of improving that relationship.

To begin our panel discussion this morning, three capable professionals will comment on the economics of an FTA from their individual perspectives. Mr. Herb Shelley, a partner in the law firm of Howrey and Simon, will begin. Then Dr. Charles C.L. Wu, Associate Research Fellow, Institute of Economics in Taipei, will add his comments to the discussion, and, finally, we will have Mr. Jerry Liang, President of Goodyear Taiwan Limited. Mr. Shelley.

Herbert Shelley, Esq.: My purpose on this panel is not to discuss the political considerations, pro or con, of a free trade agreement between the United States and the Republic of China, even though, to a large degree, the political considerations are the paramount issue on this particular subject.

I was talking last week with Peter Allgeier, the Assistant U.S. Trade Representative for Asia and the Pacific. In the conversation, it became clear that the USTR position avoids the issue of an FTA to some degree because he kept stating that, before the U.S. can consider whether there should be an FTA, it first must assess the benefits and costs of an FTA between the Republic of China and the U.S. This is a somewhat circular argument designed to delay action, in my opinion.

Of course, such economic analysis must be done. The details necessary to insure that each participant receives the maximum benefits possible with the fewest possible detriments cannot be negotiated without such analysis. But from practical experience — I was with the USTR at the Tokyo Round of the GATT negotiations — I know that you do not begin that kind of concrete analysis until the political decision is made that you should initiate such analysis.

In this context, I am here today to comment on the usefulness and viability of the FTA from the perspective of the private sector. For better or worse, my private sector experience comes from advising and

representing clients involved in trade issues. From this vantage of the private perspective, all too often, the issue requiring advice is far down the ladder from the broad policy considerations of whether the U.S.-ROC free trade agreement is in the best interest of the two countries.

In a large part of my practice, the private perspective with which I deal involves the reaction to specific situations that have already occurred in an attempt to restrict trade. Such actions come in different ways — in the context of an antidumping petition filed against imports of bicycles from the ROC, or in a Section 201 petition affecting footwear imports, or in the form of a 301 petition filed against the ROC, or restrictions against beer and wine imports. They come against ROC companies alleged to have infringed a U.S. patent or counterfeited a U.S. trademark and attempted to export those products to the U.S.

These are the nuts and bolts of trade issues. They are the thorns that encourage broader protectionist reactions. When such problems are coupled with large trade surpluses, these day-to-day issues, these industry specific issues lead to wholesale retaliation attempts, such as the Gephardt Amendment.

From the private sector point of view, these industry specific problems create the building blocks of trade policy. How each building block is handled, though, has substantial repercussions.

As a lawyer and advisor to companies involved in international trade, I try to work with clients on many levels. The first level is to deal with the specific problem at hand. In an antidumping investigation, for instance, a foreign industry so charged must consider all the ramifications of an action. As weighted against the foreign producer as the U.S. antidumping law is, companies sometimes are just not guilty. Unfortunately, foreign businessmen often have trouble accepting the U.S. legal system as a cost of doing business in the U.S. And quite frankly, among the many practitioners in Washington, there is a general perception that, if a trade petition is filed against a company in the ROC, relief will be obtained, not because it is deserved, but because the costs of fighting the perceived action in the ROC are too high. While the perception may be there, the results will not.

A perfect example of this, while it may not necessarily be a negative result, is the bicycle antidumping investigation. In the U.S.-ROC

Economic Issues Program sponsored by The Heritage Foundation last June, Dr. Joseph Kyle, the corporate secretary of the American Institute in Taiwan (AIT), alluded to how the ROC bicycle industry had policed itself, eliminated inefficient competition, and created a better product. Solving the technical problems of the bicycle industry resulted in real competition in the United States. This, in turn, resulted in charges that ROC bicycles were being dumped in the U.S.

The Taiwan Transportation Vehicle Manufacturers Association, which represents all the bicycle manufacturers, continued its policing policy and made the decision, which is not always true in ROC cases, to vigorously fight the dumping charges. I was their counsel in that investigation, and I know about the disruption to the companies involved in the course of the investigation. But in the end, the industry was completely vindicated of all dumping charges. And without a dumping order hindering exports to the U.S., imports of finished bicycles from Taiwan have increased from slightly over \$100 million in 1983, when the case ended, to nearly \$425 million last year.

To a private practitioner, an antidumping investigation represents the level of the reaction of trade building blocks. Beyond the results of a particular investigation, however, that dumping action can affect other levels of trade policy.

These next levels include legislation and international negotiations. After the U.S. International Trade Commission found that imports of foreign footwear were not injuring the U.S. footwear industry in 1984, the U.S. footwear industry successfully obtained amendments to the Section 201 law in the U.S. This, of course, resulted in an injury finding of footwear imports the following year. When President Reagan rejected giving relief, despite the injury finding, further legislation was introduced this time to directly limit the quantity of shoes that could be imported. So far, such legislative barriers on this particular issue have not been enacted, but not because of the lack of substantial support in the U.S. Congress.

Finally, there's the international level of trade building blocks. No matter what the degree of private sector participation in developing issues through international negotiations, a country's particular situation

defines how it participates in those international agreements that create the broad policies from which all of these U.S. laws derive.

At the present time, the Republic of China is not a part of such negotiations. It is not a part of the GATT. It is not a part of the Uruguay Round. And although the U.S. and the ROC have agreed bilaterally to apply the obligations of nontariff measure agreements negotiated in the Tokyo Round and many other similar types of international obligations to which the U.S. is a party, the ROC has not had the opportunity to participate in the objectives in developing these international agreements. The ROC, therefore, is benefiting from the results of most lateral agreements, but has had no opportunity to present its problems and seek solutions to its specific concerns. Accordingly then, when all the levels of trade building blocks that are reacting to a case, the legislation that may flow from it, and the international agreements that can be negotiated are considered in the context of a U.S.- ROC free trade agreement, the benefits of such an agreement to both sides can be clearly seen.

On the ROC side, the expense, the uncertainty, the length of time needed to resolve specific trade issues, such as dumping cases, can be minimized. Under the current U.S. trade law, it is very difficult to proceed in these cases, and this was recognized in the U.S.-Canadian free trade agreement, which addresses some of these specific issues. The Canadian free trade agreement does not eliminate antidumping actions or the imposition of quotas on Canadian imports. It does, however, substantially restrict the ability of the U.S. to apply quotas to Canadian products that are going to be subject to Section 201 petitions.

It also provides that the U.S. and Canada will be negotiating over the next six years an antidumping and countervailing duty law that will be applicable only to those two countries. It also provides that, even under the current antidumping law, the Canadian cases involved in such investigations will be reviewed by a bilateral panel with the authority to remedy any concerns that either government feels might have happened in an investigation. Other similar provisions are also included in the Canadian agreement regarding technical barriers to trade, government procurement, and other problems involving specific industries.

From the private perspective, therefore, a free trade agreement between the United States and the Republic of China would establish means for more efficiently handling some of the bilateral trade problems that currently exist. And while these problems can be successfully, albeit expensively, handled under current laws and agreements, the special nature of a free trade agreement, as we see in the Canadian and Israeli agreements raises the ability to deal with such issues to a higher level and more productive level.

Mr. Brooks: Dr. Wu.

Dr. Charles C.L. Wu: My division of labor with Mr. Liang is that I will discuss FTA on a conceptual basis, and Mr. Liang is going to say something based on his business experience in Taiwan dealing with American firms and even local people and he will give you some actual examples.

It is indeed an honor and a privilege for me to discuss with you this crucial matter between our two countries, that is, U.S.-ROC trade. The importance of our gathering today is not only to talk about this matter, but to suggest to the people and the government of the United States that there do exist some measures to resolve the issues of trade imbalance that have troubled us ever since the late 1970s. These would include negotiating and signing a free trade area agreement between the U.S. and the ROC on Taiwan.

Though a bilateral FTA represents a departure from the multilateral approach, taken traditionally by the U.S. in the solution of trade problems, I would suggest that the real choice that Americans face is not between multilateral and bilateral solutions, but whether or not the U.S. is going to take unilateral action and impose unilateral solutions of its own in order to resolve what it perceives as unfairness on the part of its trading partners.

I strongly believe that a bilateral or a multilateral FTA is not something that the U.S. cannot do; it is something that the U.S. does not want to do. Therefore, the task or the challenge that we are facing today is how are we going to make things happen, how we are going to do everything possible to persuade and convince our friends in the

Congress and the Administration that the key to a better solution is to have an FTA, as soon as possible, with a country that reveals strong interest, such as the Republic of China on Taiwan.

As long as we can convey our message and rationale through a clear and logically sound manner, I think we can hope to accomplish something. And the group here today will long be remembered by the people of the two nations for being participants in this crucial conference.

We still lack, as my predecessor has just mentioned, concrete and solid evidence showing that an FTA between the U.S. and ROC is the only, the best, and the most efficient way of solving our bilateral trade problems. But we are very confident and have every reason to believe that, judging by the Israeli case, the trade volume between our two countries and the market share of the U.S.-made products in my country will undoubtedly increase under an FTA. As a result, the U.S. will have another very strong economic ally in Asia in addition to Japan.

Regional stability and America's interests, in general, will definitely be preserved, given the cooperation of the ROC. If possible, the ROC on Taiwan could even serve as a vital distribution center for transshipment of American exports, as well as a service center providing after-sales services to other Asian countries. That is to say, the ROC has the dedication to share some of the responsibilities in the region currently shouldered by the U.S. alone, and the problem is whether the U.S. will give us the opportunity.

As a U.S.-trained economist, I should strongly urge Congress and the Administration to reexamine and carefully evaluate the feasibility of negotiating and signing an FTA with the ROC because, in the long run, nothing is more important than increasing economic benefits and the people's well-being.

The major benefits of an FTA from an economic perspective are the following. First of all, an FTA will bring us an even better division of labor or specialization. Second, an FTA will take advantage of economies of scale. Let me elaborate a bit on that.

Specialization allows for more efficient use of scarce resources and permits improved productivity. The extent of specialization in international trade is related to the forces of international competition. As

barriers between markets are lowered, some domestic producers will face increased competition abroad. Other producers will have more export opportunities as accessible markets expand. Hence, production will tend to contract in industries where foreign goods are superior relative to domestic goods on a price and/or quality basis.

In those industries where domestic goods are relatively superior to foreign, local output will expand. These industries are said to have a comparative advantage. A country will tend to concentrate production in those industries in which it has the greatest comparative advantage. Standards of living rise as resources are put to their most productive uses. Furthermore, expansion of markets because of freer trade may allow a firm to realize economies of scale from an output level higher than could be expected in the absence of free trade. These economies can then be passed on to the consumer as lower prices. Expansion of markets through free trade also leads to an erosion of the monopoly power enjoyed by those industries where significant barriers to domestic entry and foreign competitors exist.

According to a study done by the forum of Foreign Trade of the Ministry of Common Affairs of the Republic of China, under the proposed bilateral FTA, there would be two immediate impacts upon our two nations' economies. First, out of the top 50 import items of the ROC from the U.S. and Japan, the competitiveness of 30 trade items, which include automobiles, medical equipment, transportation equipment, and computers, would be greatly enhanced should there be an FTA between the U.S. and the ROC because the same Japanese products would not enjoy the benefits of an FTA.

Second, though in the short run the ROC's tariff revenue would be reduced by some \$370 million, in the long run, duty-free treatment under an FTA could attract new foreign investment and ROC exports could expand. This gradually would enlarge the tax base, which in turn could bring even more tariff revenue, as we have learned from the supply-side economics author, Arthur Laffer.

In other words, an FTA would not only permit U.S. exports to compete more efficiently in the ROC market with those from Japan or the European community. An FTA would also provide virtually free ac-

cess for U.S. exporters to a more than \$20 billion market in the immediate future with a great potential for expansion.

Every one of us knows clearly that, because of such factors as climate, natural resources dominance, or technology, different economic regions possess different abilities to produce certain goods, the aspect we mentioned earlier as a comparative advantage, and trade between any two countries may never be in balance, at least in the short run. Nevertheless, the U.S. balance of trade or interest in bilateral trade balances at any point in time remains great. Therefore, an FTA turns out to be a better deal.

As stated in the economic report of the President submitted to Congress in January 1987, "Opening markets on a piecemeal basis is difficult and inefficient. A more fruitful approach is to enter into discussions with foreign governments to open all markets reciprocally. Thus, discussion can occur on a bilateral or multilateral basis."

Hence, one can conclude that it is this Administration's trade policy that bilateral negotiations are no substitute for multilateral negotiations, but that such agreements could complement those multilateral efforts and facilitate a higher degree of liberalization mutually beneficial to both parties. That would be possible within a multilateral context. The recent initiative made by Treasury Secretary James Baker further clarifies this Administration's stance on this issue. I refer you to *Backgrounder Update* No.61, "Three Cheers for a New Baker Initiative," by Dr. Edward Hudgins from The Heritage Foundation.

It may be true, as Michael Oh stated in *The Wall Street Journal* on March 18th, that bilateral agreements are justified only in special cases. Canada and Israel are special cases for the U.S. And, therefore, it is hard to see Congress and the U.S. private sector going along with any other bilateral free trade agreements. It is also true, however, that a successful bilateral agreement could provide tangible evidence that liberalization of trade is still possible and will provide a model for the Uruguay Round.

Many of the worst problems, such as subsidies, restrictions on trade services, investment restraints, and protection of intellectual property rights, are not covered under existing international agreements.

Bilateral talk would allow this by striking the primary agreements in these cases.

Now the question is why are we proposing such an agreement with the U.S. or what would the U.S. gain under the U.S.-ROC FTA agreement. In *Backgrounder* No. 587 of June 17, 1987, Dr. Hudgins again had the following statements, "The U.S. would realize many economic benefits from an expanded use of FTAs...1) unrestricted access of U.S. business to foreign markets [in this case, ROC markets]; 2) future trade certainty for American entrepreneurs; 3) lower prices for American consumers; and 4) more competitive American industries." I think these above mentioned economic benefits can all be applied to the FTA between the U.S. and ROC.

And there is even more because 95 percent of the U.S. exports to Taiwan are taxable, and only 75 percent of the products that the ROC exports to the U.S. are taxable. Therefore, if an FTA exists between the U.S. and the ROC, and the tariff barriers and nontariff barriers start to decline, then everything will become duty-free in a short period of time. In the short run, at least, I think the U.S. will benefit more than the ROC.

As far as timing is concerned, you may ask why now and not later. My answer to that is, first, because we are going to graduate from the Generalized System of Preferences by January of next year. Second, we have pushed very hard for a larger market share for the U.S. imports. Recent data have shown some very optimistic signs, as Dr. Chang mentioned in his opening remarks, and we would like to further enhance this good result. Third, after many years trying, we have found that only bilateral agreement can solve the bias in a bilateral trade relationship.

Let me conclude my remarks by quoting the Prime Minister of Canada's statement where he is calling for negotiations between the United States and Canada, ". . . to achieve what I call the broadest possible package of mutually beneficial reduction in barriers to trade of goods and services." This statement, I think, is nothing more than we wholeheartedly expect. Therefore, I sincerely hope that, in return for the good faith of the ROC and its willingness to open up its

marketplace, the U.S. would give something to reward a longtime model trading partner.

Jerry Liang: As Dr. Wu said during his opening remarks, I am going to share with you my experience and my observations from the private sector, a layman's point of view.

The U.S. started having its trade deficit problem along with the budget deficit problem in 1982. I do not know why Taiwan became the target, but I can tell you this. The people in the ROC on Taiwan are grateful Chinese people. We still remember, during the 1950s and 1960s, during the difficult time for Taiwan, the only friend who gave us a lot of aid and assistance then was the U.S. It was not Japan. We remember that. So when the U.S. is having this economic problem, the people in Taiwan are very sympathetic and want to help, but everybody has to know that the Taiwan economy is very small compared to that of the U.S. and the area is only one-third of Ohio. The people are only 19 million. So there is not much we can do. It also must be remembered that, through hard work over the years, the ROC accumulated something like 75 billion U.S. dollars in foreign reserve, but to a large extent at the expense of people's living standards. As anybody who has come to Taiwan knows, our air is polluted, our water is polluted, and we have only one expressway from north to south. And yet, people are very proud and talk about our superexpressway all the time. I think the people on Taiwan should be ashamed to have that kind of foreign reserve when our living standard is so low, compared to even South Korea, let alone Japan.

So today, I am going to talk not only about the two sides of the trade issue but also about what some of our people in Taiwan are thinking. And the people in the ROC are very, very impatient with the government because they feel we do have the money, we are quite well-to-do. Why should we not invest more in the public sector? We need more roads. We need cleaner air. We need cleaner water. If we could use that 75 billion U.S. dollars and invite U.S. construction companies to help us build the necessary public works, we could solve some of the trade deficit problems between the ROC and U.S. Over the past five

to ten years, the ROC government has always had a balanced budget, would it not be nice if the White House did?

I would like to talk a little bit about the U.S. and Japanese firms. When we talk about the trade problems between Taiwan and the U.S., we have to involve Japan, because Taiwan is a market for both countries. We trade mainly with the U.S. and with Japan. If we do not buy from Japan, we will buy from the U.S. So though the U.S. is a real competitor, its competitor is not Taiwan; it is Japan. We sell a lot of products to the U.S., because there are orders from the U.S. I do not have to go through that in detail, I only want to give you a strategic point of view on why U.S. companies are not exporting as well to Taiwan as are Japanese companies.

First of all, we have to go really deeply into the capital structure. Most of the U.S. companies are a real public company. In other words, the shareholders are true shareholders and they demand a quarterly maximum profit from each U.S. firm. For the management of any U.S. company, with this kind of pressure to produce a quarterly profit, the strategy becomes very short term. So the short-term profit must be maximized at the expense of long-term investments and sometimes of marketing strategy. So most of the time, when a U.S. company moves to a country or exports to a country, it must make sure there is enough market markup to satisfy the shareholders back home.

The Japanese companies are different. They do not have this kind of pressure. They have a group of banks who become their resources. They can draw at any time from the banks. Although they have shareholders, the pressure is not nearly as great as that of the U.S. shareholders, so they can make a much longer term plan, not only in the capital investment, but also in the short-term marketing strategy and tactics. So what they do is, usually, when they go to the market, they will sell at a very, very low price, even at a loss, in order to increase their share of market. Once they get their share of market, a dominant share of the market, then they will start working on the reduction of production costs. And their costs will start dropping. They hope to wipe out a couple of competitors in the process. Then they will start slowly increasing the price. So they will then recoup their losses later on. They use this kind of strategy again and again, not only in Asia, in

Taiwan, but everywhere. They are successful, and they are still doing it.

I do not believe that the Japanese are smarter than the Americans. On the contrary, in terms of innovations, in marketing and service, in advertising, I think the U.S. is doing a much better job than Japan. But when they go to a market, U.S. firms always become the loser. That is because of the necessity to satisfy short-term profit.

I do not know whether there is a way to correct this situation. I have talked to a lot of American friends, who say, "Well, we cannot do it. We've got to make sure our share value in the stock exchange is high. If we don't do that, people like Goldsmith, the hostile takeover guys, will destroy us." And that makes me wonder why the American people are so generous and, I hate to use the word, naive, probably more honest and straightforward.

If the U.S. company can go to Japan and do the same thing, that is fine, or go to France or England. And Goldsmith almost bought Goodyear. That is why I experienced this, because of Goodyear Taiwan, which is a subsidiary of Goodyear U.S.A., and we had to cut down a lot of long-term investment plans because we had to start working on the cash flow, and the short-term profits, so we could send enough cash back into the parent company to pay for the debt that was caused by Goldsmith.

I would say to the people here, politicians and academia, why not work out some kind of system to stop that, and think globally, instead of the U.S. only.

Next, I want to talk about antitrust laws. Does the antitrust law apply to Japanese companies? I do not think so because just recently, Bridgestone Japan bought Firestone, which will make Bridgestone very big in the global sense. But by law, can Goodyear buy Firestone? I do not think so. So the antitrust law only applies to your own companies, but not to your number one competitor, Japanese companies. So that leads to the second viewpoint.

U.S. companies always look at the domestic market as the center market of the world. It is the biggest market in the world. But competition for that market is not only from within; it is from outside, too, mainly from Japan.

A Japanese tire company came to Taiwan six years ago. At that time, their share of market was zero, and today they have a market share somewhere around 30 percent. But during that time, they lost \$40 million with a capital investment somewhere around \$28 million, but they got what they wanted — a share of the market.

The Japanese are working on that strategy day in and day out, so they reach their goal; that is what they want. Then they recuperate their losses. Eventually, they get their share and they recoup their loss. And in 1987, the tire company made something like \$1 million in Taiwan; they are starting to get their investment back. That is a very smart way to deal with a U.S. company. I think the U.S. people should really design some way to fight this.

In the remaining time, I would like to touch on the main issue concerning a free trade agreement. Dr. Wu, Mr. Shelley, and Dr. Chang already have mentioned a lot about free trade. I think people in Taiwan from the private sector really welcome this kind of thing because we are always being pressured by the U.S. government saying there is an unfair treatment to the U.S. because we have a lot of trade barriers. But since February 8th, this year, we have dropped 3,570 items. Tires are included which hurt my company a lot. We dropped the protection from 45 percent to 25 percent. We were hit on both ends, because the automobile tariff also dropped from 55 percent to 40 percent.

So we propose that we go all the way and make it free trade, no duty at all on anything, on any item between the two countries, because we really feel we owe a lot to the U.S. We would not mind suffering for the U.S. firms, for the U.S. economy. But we certainly hate to do it for Japanese and Koreans. But during this time, because of the 3,570 items, we are suffering a lot. And who benefits the most? It is the Korean products and Japanese products that have started pouring in.

We already have a \$5 billion trade deficit with Japan and we are going to suffer more. As I said in the beginning, we are a very small country. We have a lot to do at home and the bilateral free trade area agreement can really do the job, especially from the cultural point of view, because we believe the American people are great industrialists. Everything is straightforward, straight, ethical. We like that. But you also need entrepreneurship, which many U.S. companies lack, to be

very honest with you. In the Asian countries, the Oriental world, you must sell yourself, first. You do not deal immediately with your products. You maintain long-term relationships as the Japanese do. They go in there. They establish personal relationships, first. Then they start to talk about their product.

So I feel that the free trade area bill can do a lot for both of our countries. It will combine the industrial expertise from the U.S. with the entrepreneurship and the born merchants of the Chinese, and it will work together for the benefit of both countries.

Mr. Brooks: We would like to open the floor for questions. Please identify yourself and your organization and direct your question to a specific member of the panel.

Guest: I am Tom Reckford with the Center for Strategic and International Studies, and I was particularly interested in Mr. Liang's comments about the relatively low standard of living in Taiwan and, also, the very high \$75 billion worth of dollar reserves, which do not seem to be used very intelligently. There obviously has been a lot of political change and movement in the last couple of months and certain changes of personnel in the Kuomintang and the Legislative Yuan. Do you see public movements growing politically that could influence the government to spend a lot more on the kind of public works projects that you would like to see?

Mr. Liang: Definitely. Actually, the legislature is very dynamic now, especially the senate. And they are trying to put a lot of pressure on the government, saying that we want more public investment, more spending on education, on roads, and to clean up the air and water. Most of the government in power is still from the old days. They still have the mentality of the refugee. They want to save some money for the rainy days. So in time of crisis there is some money to buy bullets.

But the people in general do not feel that way. They do not feel that will ever happen. You know, of course, if the PRC were to announce some kind of a declaration that there would be no hostile actions against Taiwan, I think it would help the situation. But so far, we have not been getting that kind of signal. So I think our defense spending is

somewhere around 33 percent of the government budget. That is pretty high for a small economy like ours.

Dr. Wu: In addition to the things that Mr. Liang just mentioned, I think that same mentality is one of the reasons we maintain such a large amount of foreign reserve. And there are another two reasons for that.

Number one is, if you look at the safety of Taiwan, say from Pennsylvania Avenue, it is different than if you look at safety from Taipei. So I think, for safety reasons, people always tend to think, as long as we have some money in a bank in the U.S. or anywhere you can deposit money, we feel safer. That is why the public at large does not blame too much on the government, at least for the past several decades.

The other reason is, we are not a member of any international organization, except the one Asian Development Bank, since April 1980, when we were forced to withdraw from the World Bank and the International Monetary Fund, as we do not have so-called drawing rights status. In case we have a balance of payments problem, we have to stand on our own feet. Nobody will help us because we do not have a special drawing right to get some money out of the World Bank. What are we going to do? We must have some money.

Recently, there has been some thought of using some of this foreign reserve, but people think we should at least maintain some minimum level, an economic assistance level. That means maybe \$20 billion or \$30 billion. Above that, we can probably make good use of the money, but at least we have to have something for subsistence.

Guest: Bob Holden from the U.S. Information Agency. I have a question for Mr. Shelley. I interviewed the Assistant USTR for East Asia about two weeks ago and he told me, flat out, that the Reagan Administration was not going to consider any more free trade areas during its term. They have done quite enough and were not going to do more. What do you think your chances are in the next administration?

Mr. Shelley: I am not here to comment on the politics of it. I was talking from a private perspective. I really do not know who the next administration is going to be, for the next thing, and I know, consistently, the U.S. government has approached trade issues on a multilateral

basis. That has been their preferred way of doing it. The U.S.-Canadian agreement and the Israeli agreement were based on special political considerations. Whether or not the ROC has that kind of particular interest with a broadspread basis for creating the political impetus, I am not sure.

Guest: William Dabaghi, attorney, Arter and Hadden. I think that the pressure on the ROC by our government, in a general sense, is unconscionable. I have my own views, but I really want to ask the panelists why, apparently from each one of your comments, the pressure is not based on either the reality of the problem or understanding the problem. What the U.S. government is proposing will not bring about a solution, and that is why you apparently are for the FTA. Could you comment on what I just said? Why is the U.S. pressure unknowing in what it is doing?

Mr. Liang: I think I answered your question during my talk. First of all, remember, 80 percent of the Taiwan firms are very small scale. To give you an example, Goodyear Taiwan is only a \$26 million company in net sales, but we already rank 230 from the top. So they mostly are very small. They cannot resist the pressure from both your currency appreciation and the duty drop at the same time; nobody can. So what we are proposing is to work slowly because we owe a lot of favor to the U.S.; people accept that. We want to sacrifice to help.

Mr. Dabaghi: Maybe the U.S. owes some favors to you, though. I want to take this into account here.

Mr. Liang: What I am saying is because people here remember the good relationship in the old days. But if you want us to do the same thing for the Japanese products, where we already have a \$5 billion or more deficit, and we will exaggerate that kind of situation with the other countries because now the U.S. is asking Taiwan, "Okay, lower your tariff rate for all countries." So that is what we do not want to do, at least from my point of view.

Mr. Dabaghi: Total liberalization would wipe out your industry.

Mr. Liang: That is right.

Guest: Penelope Hartland-Thunberg from CSIS. It takes a certain amount of courage, I submit, to raise a question to the received wisdom, but I am going to be so bold as to do that because I feel that only part of the wisdom has been received.

I am addressing my comments especially to Mr. Wu, but perhaps to the whole panel. The benefits of a free trade system that Mr. Wu outlined exist only if the trading partners have open markets within their own sphere in order that price in each country may be determined by the forces of demand and supply. In international comparisons, as well as international trade, the crucially important price is the exchange rate, the exchange rate being determined by the financial markets in the two countries. I think no one in this room today would claim that the ROC has opened financial markets or that the exchange rate between the NT dollar and the U.S. dollar is determined in a free market.

It therefore seems to me to be a little premature to suggest a free trade area between the U.S. and the ROC until such time as the financial sector of the Taiwanese economy has been open. Could you comment?

Dr. Wu: Thank you very much. I think you are perfectly right in the sense that our financial market, the financial market in our country, is a very backward industry, as I think you probably have heard in comments by Professor Chang from Cornell University. He currently is the president of the Chung Wa Institute for Economic Research, and he has pointed out many times in the past that, unless we have a modernized financial system, we will not be able to be developed. Because of our backward sort of financial system, the economy will be hindered in the years to come. So I totally agree with you that the financial market is still our problem, but I can assure you from, say, last year or even the year before, there is a lot of reform going on to see what we can do on the financial market.

One thing is that, since September 1985, the NT dollar has appreciated over 40 percent. The most recent figure shows 41 percent, September 1985. Of course, this 41 percent has run into interference

with the government. Without government interference, without the central government interfering with the market, of course, the appreciation rate of the NT dollar would be much higher than 41 percent.

But, as Dr. Liang mentioned before, that is because the industrial structure of this country, my country, is quite different from that in Japan or in the U.S. Dr. Liang mentioned about 80 percent. Actually, over 95 percent of industry is composed of those small and medium-sized industries. So in that sense, with a completely market, I do not know what would happen to the industries. Although I totally agree with you.

I am a trained economist. I have been trained in the free market system. In other words, if the government does not intervene with the market operation, the price mechanism will work eventually toward its optimum. But because the system has been traditionally built up, a tradition that has been working for the past 30-something years, it cannot change overnight. And I do assure you that over the years people from the academic circle have been pushing very hard on the government to try to make our financial system as modernized as possible because we all know the limitation of our development if we do not have a modern financial system.

And one more thing I can tell you is that, if you talk about the foreign exchange rate of the New Taiwan Dollar, the figure shows that from January of this year to March of this year the average effective foreign exchange rate, the index, has been approaching the historical average level. In other words, it is probably \$28.65 to the NT dollar right now. \$25 U.S. is probably the proper sort of level for the NT dollar, but I do not think at this point it is very rational to talk about \$25, instead of \$28.65.

Dr. Brooks: Let us recess for about ten minutes.

Panel II

Other Perspectives

Dr. Chang: Ladies and gentlemen, welcome to this second panel. It is my pleasure and honor to introduce three very distinguished speakers. The first speaker on our agenda is Congressman Bill Frenzel and I would like to briefly introduce his very illustrious career.

He received his degrees from Dartmouth College, including a master of business administration. He was on active duty in Korea from 1951 to 1954. He is a lieutenant of the Naval Reserves, now retired. He was the Past President of the Minneapolis Terminal Warehouse Company, also a past member of the Executive Board of American Warehousemen Association, a former director of the Camden Northwestern State Bank in Minneapolis. He was also a board member of the United States Capitol Historical Society.

He served as a member of the Minnesota House of Representatives from 1963 to 1969. Since 1971, he has been a member of the U.S. House of Representatives. He is a member of many important committees, including Ways and Means and Budget. And he is a ranking minority member of the House Administration Committee. His legislative specialties include tax, trade, budget, and election law. So I think he is eminently qualified to talk about the subject that we are dealing with today. Congressman Bill Frenzel.

Congressman Bill Frenzel: Thank you very much, Chairman Chang, a pleasure to be with you today. It is a special pleasure to confront my distinguished predecessor, Walter Judd. His career was the kind of thing that inspired lesser mortals like myself to think that politics was not all bad and that there was a place in it for honorable people.

Part of my presentation this morning gets right to the question of free trade agreements, why we enter into them and how we do it, and

what might be the prospects of such an agreement with the Republic of China.

I think that any group that associated with The Heritage Foundation understands the benefits of free trade. Conservatives have always stood for free will and free people and free trade and less government manipulation. Not only that, but scholars have understood that, historically, periods of less restrained trade or freer trade have always been accompanied by increased economic activity and an improvement in the human condition wherever that trade touched.

The only problem is that we have not had a long-term model of a relatively free trading system or agreement. There have been periods of greater or lesser trade. Certainly the postwar period from the founding of the General Agreement on Tariff and Trade (GATT), on to the Bretton Woods Agreement until quite recently was a one of vastly expanded opening trade and probably one of the great periods of prosperity in the world, at least partially as a result of the opening of that system.

We are facing a time when there is the possibility that we may see trade contractions, but we hope that will not happen. Most of the free trade agreements of this country are of extremely short duration and limited number. But I would like to talk about a couple of them because they may be interesting to look at as a means of comparison.

We have lived next door to our great neighbor to the north for a couple of hundred years, and over that period, there have been many attempts to put the two countries on a free trade relationship with one another. The one that we are involved in now is the third of this century. The Canadians would kill me if I said we had similar cultures, but I think we do. And we have similar values. We have an accident of geography that pulls us close together. Every war we have fought in recently we have fought together. I can remember our representatives to the U.N. used to say that their only mission in the darkest days of the U.N. was to try to stay together with Canada because there were only two of us left. We have a 4,000-mile unguarded border, and despite the closeness of relations in which Americans on both sides of the border think of themselves as North Americans with a great community of interest, we have never been able to put that free trade agree-

ment together. And I think some of the reasons for such failure are instructive as we seek to expand free trade agreements, particularly to the Republic of China. So we must think about that.

Now we have an FTA with the State of Israel, which is unique as well. Remember, that well over 90 percent of the two-way trade was entering each of our countries on a duty-free basis anyway. So it was not very hard to reach out to that close ally and make a free trade agreement. It was especially not difficult because of another compelling factor in the equation, the competitive pull created because the European Community had recently made a free trade agreement with Israel, and we stood to lose some market position if we did not do the same.

But the interesting thing about the Israel experience is that, as close as our countries are and as small as our trade is and as little as both countries had to do to adjust to a free trade agreement, we have had some difficulties. I do not think the agreement was in force for more than 60 days before we began to call quotas on certain textile items. And that is sort of our ongoing game, but it is one that was a little scary to the Israelis, who thought they had really negotiated a free trade agreement. We still have some difficulties in that regard.

Now we have had a number of other agreements. We have the Caribbean Basin Initiative (CBI), in which the President at least intended that we would open our markets to our neighbors for a variety of reasons, humanitarian, development of export market, selfish reasons, and the even more selfish reasons of national security. Yet, when we were done with the CBI agreement, we had taken all the major industries that the Caribbean Basin countries offered and not given them free access to our markets, because industries such as sugar, rum, leather, textiles, and tuna. And so we offered the Caribbean free access to our market

for all the things they could not possibly make.

If you look at the history of free trade agreements, particularly the recent history of free trade agreements in the United States, you get a little pessimistic. Yet the fact that we have some is cause for optimism.

So what is the easy way to make an FTA work? Well, in all of our agreements, we have had very close allies. Some of them have been close, geographically; the Republic of China is not very close,

geographically. But it surely has been a close ally, and there are very strong friendships that have been formed between our country and the ROC, so I think that is a good position from which to start.

The next, of course, as in the case of Israel, would be if there were some competitive economic pressures pushing us toward some kind of an agreement. I am not sure that I see any that are peculiar to the ROC.

Next, there ought to be some significant volume of trade, there ought to be significant levels of tariff or of other barriers, so that it is worthwhile to write the agreement, and both sides can prosper under it. This is, of course, the most important factor. It is fair to say that there is an enormous benefit for consumers when you begin to move tariffs out of the game and begin to knock down barriers.

The Canada free trade agreement has been subjected to much analysis. A lot of it is pretty ridiculous, but certainly there has not been one analysis that has not shown significant gains to the GNP on both sides of the border, significant reductions in consumer costs, and significant job growth.

You have only to look at the reports on the European integration that are beginning to emerge in the wake of Europe 92, and you will see that they anticipate, as a result of tearing down barriers in Europe, reducing consumer costs by as much as 60 percent and increasing jobs by two million. And, remember, this is an area where there has not been a single job increase in ten years. The expected increases in economic activity by various estimates are mostly too good to be true, but certainly all of them will be true, in that economic activity will increase.

Another thing that helps is if there is some similarity of systems. It is very hard to work out agreements and settlement procedures unless you have some kind of basis for that. It is more difficult under a free trade agreement than under some kind of general international agreement. We have to begin with a level playing field. We cannot even deal in our multinational agreements with, for instance, nonmarket economies because we cannot determine what the cost of production is or, therefore, what a subsidy is. We cannot determine what a dumped price is. And so it helps if the systems are similar.

Now if we look at the Republic of China, we see a very close ally, people we know and trust, but we see a system that has a bit of opacity in it that makes the prospects for a trade agreement perhaps less interesting than they might be.

We also see some labor cost disparities that cause us trouble, particularly in light of some recent developments in our law here, which I am going to talk about later. But we also see a huge volume of trade, which indicates that there are rich rewards to be reaped on both sides of the Pacific by virtue of a free trade agreement.

We also see a special item that has only been visible in the last year, and that is a rising affection in Congress for going bilateral, rather than multilateral, in trade agreements. We like the Israel experience, despite difficulties. The Canadian experience has also moved, despite a situation where we have a number of aggrieved industries, or at least industries that think they are aggrieved, and it still has a good head of steam. You hear people in Congress saying, "Well, maybe that is the way we ought to do it. It is too tough to deal with GATT, too many people to make arrangements with. You have a situation of 93 contracting parties who operate by unanimous consent. Theoretically, anyone can derail any position. Let us go out and execute bilaterals."

You also have a feeling in Congress, which I think is particularly interesting and very recent, and that is, if you execute enough bilateral agreements, you will then force the multilaterals to be more reasonable and to be more liberal, if such a word can be used in this hall with any kind of approbation. I guess it can with respect to trade policies.

That is the one factor that we have not thought a lot about in the past, but is getting to be more interesting. At least from my standpoint, it is becoming easier for me to talk about bilateral as well as multilateral reductions in trade barriers.

So if we review the ROC's prospects, you say, A, it is a friend; B, it has a system that we understand, even though there are elements of it with which we have some difficulties. And part of the system is that the ROC has responded rather well to the U.S. requests. One of them would be in the large number of tariff reductions over the last couple of years to make our tariffs more comparable. And another, the buying missions of the ROC, which started slowly, but now have developed a

fair amount of momentum. As a matter of fact, they are some of the only serious buying missions that our foreign trading partners send to this country.

We see a response from the Republic of China with respect to its currency valuation reported to be up 41 percent against the dollar, largely at our request. We see a lowering in what was beginning to be an alarming trade deficit, which had increased in the four years between 1983 and 1987, nearly doubled up to \$19 billion. Now, if the first quarter figures are any indication, and we hope that they are, it looks as though that will be down significantly this year.

We see the ROC trying to improve its intellectual property rights laws with laws on the books, to provide adequate enforcement. We saw the ROC faced with a 301 challenge when the Reagan Administration decided to self-initiate a 301 in the tobacco-beer case, responding as quickly or more quickly than any of the U.S. trading partners to that particular problem and responding affirmatively.

We also find in the ROC, even though there is plenty of room in the tariff system for reductions, that the overall average tariffs into the ROC are not too much out of line with ours. I believe they average under 4 percent, and ours are under 3 percent. And that makes it a little easier in working out a free trade agreement.

The last item that I see as a plus is similar to the new development whereby Congress is thinking bilaterals are better, and that is that liberal economists now are talking more about free trade agreements. You have to be a little careful about this one and use it the best way you can because it looks to me as though the reason that they are looking to free trade agreements is simply as a way to manage trade. I think that we have to be very careful about that. If we enter into a free trade agreement, it is a free trade agreement for our advantage and that of our trading partners, and it is not a way to work into a backhanded industrial policy.

Those are some of the positive elements. There are some negatives, too, but I think you can imagine what those are.

In this country, we have the traditional multilateralism. We have been wedded to the GATT. But the recent developments have clear-

ly given us other options, and I do not think anybody wants to write off those options.

There is also the problem that this Administration has spent all of its resources and assets in negotiating the Canadian agreement, trying to see it through to completion, and in the beginning negotiations of the Uruguay Round in the GATT. Obviously, it is not going to be able to do more at this time, even with one of the great departments in government, the USTR. I call it one of the great departments of government because it has had only 125 employees during each of the last ten years, and it has not grown, so we have to give it A-plus. That means it can only do so much along the way and it would be difficult for it to take on a new bilateral assignment. So we are really talking about a new administration if we are going to have a free trade agreement with the ROC.

There is also another disturbing fact that has become very bothersome for me. We have a trade bill pending. I expect it to be vetoed. I expect the veto to stick, but the veto is to be based on items external to trade, that is plant closings and the harassment of foreign investors in the U.S. But if that bill is passed, we will have added to our trade laws actionable items under 301 that are not included in our international obligations and I think are going to make bilaterals like a free trade agreement with the ROC very difficult.

The first one deals with worker rights, which are not very well defined in the language that I have seen so far. I think they raise a problem for us. The second one is industrial targeting. Our committee has been working on that for about six years, and we have never been able to come to some kind of reasonable definition. I am nervous about that. And the third one is cartelization, which also poses some definitional problems. These raise questions that I think are going to make future free trade agreements much more difficult than the ones we have already gone into. I mention them as possible additional difficulties along the way.

I would like to conclude, however, by getting back to where I started, and that is, if you have a country that you trust and you have a possible strong economic benefit on both sides of the water, then I think any

time, and the sooner the better, is an appropriate time to begin working on a free trade agreement.

Dr. Chang: Thank you, Congressman. Our second speaker is Mrs. Barbara Keating-Edh. Mrs. Keating-Edh is the President of Consumer Alert. It is a national nonprofit organization for those who are concerned about the growing regulatory climate in the national and state capitals of the U.S. Among other tasks, this organization carries out research to determine where consumer interests are being abused and surveys the public and its members to determine attitudes on various consumer issues.

Mrs. Keating-Edh was a Conservative Party candidate for the Senate from the state of New York, and she also worked as a special assistant to Senator James Buckley of New York in 1975 to 1976. She is now a member of the governing board of the Council on National Policy, and in 1980, headed the Reagan Administration transition team at the Consumer Products Safety Commission. Mrs. Keating-Edh.

Barbara Keating-Edh: Thank you. I sincerely appreciate this opportunity to participate in today's discussion regarding a free trade agreement between the U.S. and the Republic of China on Taiwan. And in particular, I hope that I can bring you the consumer's perspective.

The Trade Bill passed by the U.S. House of Representatives last year was indicative of the pressure imposed on American Congressmen facing reelection by industries seeking protection from foreign trade. Industry calls for protection, while understandable, are simply attempts to avoid dealing with the rigors of competitive enterprise in a global market. Competition is uncomfortable and unpleasant, whether it is foreign or domestically introduced, and it is certainly the nature of industries to try to avoid it. This is true of all industries around the globe. Yet, this very same competition is the consumer's best friend.

Whenever governments heed the cries of their industries and raise tariff barriers, they inevitably impose higher prices and limited choices upon their consumers. Not only are the prices of imports automatically raised, but the prices on domestic goods rise, as well, in the resulting noncompetitive market.

Consumer Alert, the organization over which I preside, is committed to the advancement of free trade agreements for the very reasons I have just described. Admittedly, Consumer Alert represents a lonely voice in the consumer field, and I am sometimes asked why so few of the traditional consumer organizations in the United States support free trade. I have concluded that most of the consumer leaders in the U.S. today remain uncommitted on the trade issue because the majority of these individuals hold a dim view of capitalism and exhibit an appalling lack of understanding of how competitive enterprise works. But perhaps most revealing is the fact that our leading consumer organizations receive funding from some of the most obvious proponents of closed markets, the labor unions.

In my travels on behalf of consumers, I often encounter the flawed reasoning of those who call for fair trade, retaliation, quotas on imports, voluntary or otherwise, and other barriers to free exchange. Proponents claim that other nations do not play fair when they raise barriers to U.S. goods. That is right. But to retaliate by taking away choices and restricting the availability of lower-priced imported goods only hurts our own consumers. Limiting imports alleviates pressures on a nation's domestic industry, but it does so at the expense of that nation's consumers.

It has been pointed out that, when riding in a leaky boat, there is nothing to be gained by shooting a hole in your adversary's vessel. One's energies are better spent improving one's own condition.

Proponents of restriction point out that jobs are being lost at a furious rate to our foreign competitors. Disagreeable as stiff overseas competition may be, domestic jobs are not lost as a result; they are merely displaced. Recent U.S. employment statistics show a steady increase in jobs, not a decrease, during our rising trade deficit. This should be noted by our ROC friends who will hear similar concerns about lost jobs from their manufacturers when imports increase in their country.

In spite of the verifiable facts, there are many who continue to confuse displacement of labor with loss of jobs. When a corporation or an industry experiences a reduction in market share because of competition, its workers may be forced to turn to other endeavors, it is true,

but this constitutes a change in the type of employment, not a net loss. Inefficient companies or those failing to satisfy discerning shoppers may go under with relieved workers seeking new employment. Some, no doubt, will even find that labor in the import field. In many cases, corporate management uses the loss of jobs threat to garner sympathy for protective measures.

Lee Iacocca, a man well known as a tough businessman, bluntly observed, "If you don't go to the lowest cost source, you're an idiot." But here he applies a double standard, for he thinks such advice is good only for business. If you follow it as a consumer, you are being unpatriotic.

The story is told of a man on a desert island who endeavors to build himself a house with the only tool he has, a hatchet. Trees have to be felled and slabs cut into boards, each requiring two weeks to complete. The man is so absorbed in this labor that he has no time or energy for anything else, such as farming or hunting to feed himself. And one day, while laboring on this project, the man spies a lone finished board washed up on the beach, a remnant of some shipwreck. His first impulse is to drop his hatchet and dash to retrieve the treasure. But, alas, he reasons, "If I use that board, I put myself out of work for two weeks," and so he ignores the free prize and turns back to his task.

Consumers, both American and Taiwanese, should take full advantage of quality imports available at lower prices and use the saved capital and energies to produce other needed goods. With the importation of competitively priced raw materials, ROC textile manufacturers have been able to utilize the advantage of their reasonably priced skilled labor and turn out competitively priced finished goods for the U.S. and other markets around the world.

When consumers engage in the purchase of imported goods, the currency they exchange is not destroyed; it is recycled, returning in the sale of exports or as invested capital. This was pointed out by one of the earlier speakers. Investment capital, whether foreign or domestic, is available then to generate new industries and jobs in the importer nation.

From the consumer's perspective, given a choice of a dress made in the U.S. priced at \$65 or a Taiwan-produced import selling for \$40, it

would be foolish not to save the \$25. Going with the import and getting the desired dress leaves \$25 to purchase something else or to add to a savings account. And the transaction also advances the welfare of the U.S. retailer who sold the Taiwan-made product. This situation is identically duplicated when a consumer in Taiwan buys a U.S. manufactured item. Wealth is never destroyed; it simply moves around. What is saved on one purchase can be spent on another.

Those who argue for so-called fair trade practices are, in a sense, saying, "We do not want American consumers to be able to choose what they want to buy until Japanese and Taiwanese consumers are able to choose what they want to buy." A free trade agreement between the U.S. and the ROC would certainly enable consumers of both countries to enjoy the freedom to choose.

In addition, industries in both nations would, after initial adjustment, benefit from increased purchasing demands by their trading partner. It is hoped that such an agreement would serve as a starting point and would soon include other Asian nations, as well.

As Senator Phil Gramm of Texas wisely observed while addressing this topic here at Heritage last year, a robust economy enhanced by free trade is the single greatest protection against communism. This factor no doubt will be a critical one as the flag of the PRC rises over Hong Kong in 1997. It will be most interesting indeed to see how the PRC will proceed with trade matters regarding Hong Kong if a free trade agreement is in effect between the United States and Taiwan at that time.

In any event, a free trade agreement is a reciprocal arrangement, a two-way street, that would initially benefit consumers of both nations and ultimately strengthen the economies of both the U.S. and the ROC. Such an agreement would place negotiations between both nations in a deregulation mode, which is clearly preferable to retaliatory trade wars.

What is obvious to most of us here in the United States (though there are some who do not want to say it out loud) is that the ROC's advantage over the U.S. is its reasonably priced labor. U.S. labor unions have been, in good part, responsible for wage levels that render us uncompetitive. And then by endorsing higher prices on imports, unions

encourage a rise in the cost of living here. Finally, unions once again increase the spiral by demanding higher wages still to meet the higher living costs that they, themselves, have encouraged.

It is obvious that the U.S. needs wage competition from the ROC and other parts of the world if our wages are to become reasonable and flexible again. And as U.S. wages once again become competitive, prices on U.S. products available to Taiwan will reflect this factor and have a positive impact on Taiwan, as well.

In closing, I wish to add my voice to those who call for a negotiated free trade area agreement between our two countries. The benefits would be substantial in such a bilateral arrangement, and certainly, consumers of both lands would be the principal beneficiaries.

Dr. Chang: Our third speaker this morning is Mrs. Josephine Wang-ho. She is a senior attorney with the law firm of Lee & Li in Taipei. She received her legal education in Taiwan and the United States and received a master's of comparative law from Columbia University and an LL.M. from New York University. She practiced law in New York and has taught at various universities in Taiwan. She is now a senior member of Lee & Li law firm. She specializes in different kinds of international and local security laws. She has been a frequent speaker at various international conferences, a regular contributor of articles on capital market trade law and intellectual properties. Mrs. Wang.

Josephine Wang: This morning, I was in Mr. Brooks's office and I saw a quotation right on top of his bookcase that says there are three kinds of people. The first kind are those who make things happen. The second kind are those who watch things happen. And the third kind are those who wonder what happened. I thought that was a very apt quotation, and I would like to add the fourth kind. We lawyers sometimes are accused of being this fourth kind, which is those who keep on telling people why things should not happen. I happen to disagree. I think the lawyer's proper role is to work with those who make things happen and to show them how things can happen.

My primary function today is to brief you on the legal issues involved in a U.S.-ROC FTA and how the issues can be resolved. If the policy

makers decide that it makes political sense and economic sense, then it is our function to fix all the legal issues to make it work.

Fortunately, not much fixing is needed. The legal issues are quite simple, in my view. There have been two, or possibly three, similar FTAs in the past, two FTAs and also the Caribbean Basin Initiative. So this is not the first time we are walking the tracks. There are examples to be followed.

The unique legal issues involved in the U.S.-ROC FTA arise mainly because of the unique nature of Taiwan's status in the international community. The first one is that Taiwan is not a member of the GATT. In fact, we are not a member of any international organization. The second one, which is related to the first, is that there is no diplomatic relationship between the U.S. and the ROC. And because of this unique international and diplomatic status, there is a series of legal issues involved.

Number one, does the U.S.-ROC FTA have to comply with the GATT rules? The second one, does the FTA conform with the Taiwan Relations Act which governs the relationship between these two countries since the derecognition? And the third one is, since we do not have diplomatic relations between these two countries, we cannot have a formal treaty as do the U.S. and Canada, so how do we implement this FTA? And these issues, at first sight, seem to be imponderable and quite serious. But, in fact, because of the unique status of the ROC, it makes the implementation and negotiation of an FTA easier than those between the U.S. and Canada or the U.S. and Israel, and this is for the following reasons.

First, let us discuss the General Agreement on Tariffs and Trade (GATT). I think the first issue that comes to everybody's mind is the multilateral versus bilateral approach. Certainly, as Congressman Frenzel put it, the U.S. is wedded to the concept of a multilateral approach. Granted, that should be the approach. And in negotiating the FTA between the U.S. and the ROC, we do not have to touch that issue because the ROC is not a GATT member. Even if we wanted, there cannot be a multilateral arrangement that is applicable to the ROC. We are either left out totally or we have a bilateral treaty, a bilateral arrangement, and this is the only alternative left as far as trade arran-

gements between these two countries are concerned. So the GATT is a nonissue here.

Second, I believe it is an advantage for Taiwan not to be a member of GATT because there are substantive and procedural rules under GATT with which the parties to an FTA agreement will have to comply. And that is what the U.S. did with Canada and Israel.

Number one, the substantive issues. If both parties are GATT members, they have to observe the GATT principles so that the free trade area agreement will cover substantially all trade relations. It cannot pick and choose isolated items to have an agreement. That would be a violation of GATT rules. In a U.S.-ROC free trade agreement, there may be more leeway in that aspect because it is unclear what kind of obligations a GATT member has toward a non-GATT member and, also, what kind of procedures are to be followed in concluding an agreement with a non-GATT member.

There are different schools of thought, of course, and we all agree, in the spirit of the multilateral approach and, also, the spirit of the GATT principles, we should follow the GATT principles. However, in concluding an agreement with Taiwan, a non-GATT member, we may not have to follow GATT rules to the last letter and that would not be a violation of the GATT rules. And procedurally, in the U.S.-Canada trade negotiation, it was required that GATT members be informed of their intention to conclude the FTA. Also, the GATT working committee can recommend against certain provisions if they deem the provisions to be in violation of GATT rules. If the provisions are in violation of GATT rules, they have to apply for a waiver under the GATT rule, which requires two-thirds of the contracting parties' approval. And these rules, again, may not apply in the U.S.-ROC situation, so that gives us more leeway and less hassle in dealing with GATT. So these are the issues under GATT.

Now, what about the Taiwan Relations Act? Again, there are some who feel that, since there are no diplomatic relations between these two countries, it would not be possible to conclude an FTA agreement. Again, I think that is wrong because it is very clear that the Taiwan Relations Act was put in place by Congress precisely to protect the trading relationship between these two countries and not to jeopard-

ize it. Let me read you the Section 3303 of the Taiwan Relations Act, which says that, "The absence of diplomatic relations or recognition shall not affect the application of the laws of the U.S.A. with respect to Taiwan, and the laws of the U.S.A. shall apply with respect to Taiwan in the manner that the laws of the U.S.A. applied prior to January 1979," which is the date of derecognition.

In other words, what the Taiwan Relations Act wanted to achieve was to treat Taiwan the same way as it was treated prior to 1979. How was Taiwan treated before 1979? Certainly, the ROC had the right to conclude agreements with the United States. And this principle, in fact, was recognized in court decisions and has not yet been overruled.

Of course, as a matter of formality, we can no longer conclude any formal treaty between the ROC and the U.S. government, but we have the Coordination Council for North American Affairs (CCNAA) and the American Institute in Taiwan (AIT) established precisely for this kind of function. In the past, we certainly have concluded many agreements, and during the past few years, the U.S. Trade Representative (USTR) has negotiated many agreements with the ROC counterpart. And there is no reason why we cannot use the same mechanism to conclude an FTA. So this takes care of the Taiwan Relations Act issues.

The third set of legal issues has to do with the domestic laws of these two countries. One is the U.S. law, and I think other speakers have already discussed that issue, a lot of which would depend on the new trade bill. And since we will need the mandate from Congress to negotiate the Uruguay Round of GATT, and in the future, we will need the mandate to conclude agreements with other countries, we have every reason to expect that the new trade bill will include such a mandate for the U.S. government to conclude further trade agreements or FTA with other countries.

The other issue would be the ROC domestic laws. Other speakers already have elaborated on the liberalization measures and policies that the ROC government has implemented in recent years. However, we still have a long way to go and there are many laws and regulations that need to be revised or need to be put in place in order to implement an FTA. The liberalization measures will have to be adopted in the future, and some of them will be inconsistent with the existing laws

and regulations. However, this is not the first time that we have faced these kinds of legal issues. We must revise the existing laws.

For an FTA, I think there is a simplified procedure. If we conclude an FTA with the U.S., we can enact a so-called special law under the ROC legal system. The special laws will have an overriding effect on the existing laws. Any provisions in the existing laws that are inconsistent with this special law will be null and void and that would take care of the implementation of an FTA. Again, that is a legal issue that can be resolved.

In conclusion, I must echo the sentiment expressed by Congressman Frenzel earlier, that if an issue, an approach, makes economic and political sense, the technical issues can certainly be ironed out, particularly when these technical issues are not as complicated as we might think.

If I could just spend two minutes stepping out of my role as a lawyer and share with you some of my personal feelings as a retransplanted Chinese. I was in the U.S. for 18 years before I returned to Taiwan to work, and I have been there for five and a half years. I have a strong sympathy with the Chinese in Taiwan, and this is the sentiment that was mentioned earlier today as the so-called refugee psychology.

To outsiders, they may seem paranoid and insecure, and they are. But if you live there, you can understand, if not sympathize with the feelings. The local people have a special term for this kind of psychology. They call these people, "people who bring a toothbrush with them, *Yashachue* ." What it means is that the person is always ready to take off, so he brings a toothbrush with him and, any time, he can pack up and go.

This psychology really stems from a deep-rooted insecurity, not because they do not have confidence in themselves, but because they do not have control over external elements. Their destiny is controlled by others. For instance, the U.S. market is half of their export market. What if, some day, the market goes? And, also, our lifeline hangs on the Taiwan Relations Act, which is a piece of legislation. What if the Congressmen or the politicians in this country change? And our economy depends on the U.S. market and the U.S. prosperity. What if economic development in the U.S., one day, goes down? These are

elements that are really not in their control and, yet, are vitally important to them.

And this is the reason why we have such a high savings rate, 40 percent, and such a low investment rate, 20 percent. And this is why the government wants to stash up their foreign exchange reserve, \$75 billion, and not use the money on public projects that will increase the living standard of the people. And this is why we have such a big defense budget, 33 percent. All these are imponderable issues.

But I think if we had an FTA treaty with the United States, perhaps we would not cure all these symptoms, but it would go a long, long way to provide certain permanence and a certain sense of security so that people in Taiwan could see the light at the end of the tunnel which would, in turn, prompt them to be more willing and to speed up the process of liberalization.

I hope that this seminar will not be just another seminar and that we will just keep on talking forever. I think it is time that we all roll up our sleeves and get to work doing something to forward the issue.

Dr. Chang: We have had very stimulating remarks from the legal, consumer, and congressional perspectives. Now we welcome your questions.

Guest: Bob Holden from USIA. Mrs. Wang, you mentioned the advantages of the ROC not belonging to GATT. Provided that the name problem can be worked out, do you think that the ROC may try to accede to GATT anyway before the PRC establishes its presence there?

Mrs. Wang: I am glad you asked that question. I think, right now, that is a very big issue in Taiwan. It has been enthusiastically discussed in the press and in the public and, also, in the Legislative Yuan.

As you mentioned, the name is an issue. However, I think the ROC has become more accommodating on the name issue and realizes that the substantive benefits are more important than formalities. This sentiment has been expressed by the new president in his first press conference. So, yes, definitely, Taiwan will be interested.

But again, this is the same phenomenon; we do not control our destiny. Even if we are willing to sacrifice on the name issue, whether or not we will be admitted to GATT, again, is an issue decided by others.

Guest: I am Richard Sewell with the Friends of Free China and I was here during that last seminar on this subject. I appreciate the emotional part, if you want to call it that, of your topic because you are speaking really from your heart, and it gives me a better understanding. You said it is time to do something and maybe the rest of the panel might want to discuss it. Does somebody have an idea of what is the next step that we should take? I agree. You go and you listen to people and they talk, and talk, and talk. But what is the next step? What should be done? If any of you have any suggestions to that, I would be very interested in hearing it.

Mrs. Wang: One suggestion that has been voiced quite frequently is the analysis of the costs and benefits. I think that definitely needs to be done. However, that should not be used as an excuse for further delay. We need to have an analysis, but meanwhile to get to work so that when the statistics come in, they can be implemented, can be used, and not be used as another excuse.

Congressman Frenzel: I agree with Mrs. Wang on that one. I believe that a study or two would be helpful. When agreements are made, however, they are invariably not in pure form, and it is pretty hard to conduct a study on other than such pure issues, so you know that whatever figures are revealed by the study, they would not be instantly achievable. But I think, from a political standpoint, there are a lot of things that could be done.

There exists, insofar as I am aware, no real authority for anyone to begin negotiating. Congress would have to grant the authority to the President. In the case of the Canadian authority, of course, it was granted in a very odd way, saying that the Canadians would have to ask for the negotiations first. That may be the wave of the future, or it may have been a peculiarity of that particular arrangement, I am not sure.

I guess I would say that, usually, the urge to negotiate originates within the Executive Branch, although sometimes they get nudges from

the Legislative. I think that when people really believe in an urgent priority item, and know how long these matters take, it must become an urgent priority matter right now. You need to deal both with the Executive Branch of the current Administration and with members of Congress who might be considered interested prospects. But probably the most fertile field of all would be to make some impact on the transition team of the new administration as it comes to work.

Now it is easier if you have left some fingerprints and footprints over in the negotiating agencies, but that is not essential. I think I would rate the priorities as the transition team being number one, Congress being number two, and the outgoing Administration being number three.

Guest: Ed Hudgins, The Heritage Foundation. Congressman, to what extent do you see a potential on Capitol Hill to sell a free trade area with the Republic of China, based on the fact that it will put pressure on other nonmember countries, such as Japan, to open their markets?

Congressman Frenzel: I think it has a lot of potential in that respect, as I indicated in my presentation, but particularly where there are market access problems. But of course that means that the ROC must come to the table prepared to surrender on a lot of items that country holds dear. And, you know, obviously, nobody ever puts everything on the table or it puts it up with a rubber binder on it so that it can be pulled off very quickly. But if we are going to deal with the Republic of China as an example of how a free trade agreement opened market access for us and could be used for others, then that is the way we have to go into the negotiations. And so I think it has some pluses and some minuses. It sets a very high aspiration or level of aspirations for the agreements, you know, which I guess we could manage over a period of time, as we did with Israel and with Canada. But it is betting on double zero.

Guest: William Dabaghi. Congressman, thank you and the other panelists for your erudite presentations. My question is this. Why the need for such a high expectation going into negotiations? Why wouldn't the goal be enough that it betters economic relationships, ob-

viously underlying what we have heard from the panel, security relationships, which are so important to the U.S. as well as the ROC? Why does it have to have the highest expectation, rather than a substantial improvement?

Congressman Frenzel: I think you have the higher expectation if you take, as one of your arguments, that you are going to use this agreement as an opening wedge to all the markets of the Orient. Then you have to prove that you did a very good job with the Republic of China.

I am sort of an oldtimer and I guess you could call me a traditionalist — a creeper, rather than a galloper. I would much rather say that we have a friendly ally whom we understand and whom we trust in a high level of trade. Let us see what we can do sitting down at the board. We may find that we have created a wedge. But in any instance, if we lower barriers, we are going to find that we have created a cornucopia for consumers, producers, and potential job holders.

I would like to ask Mrs. Wang a question. We have an MFA agreement with the Republic of China. How was that agreement enshrined in law? And also I believe that we have a steel bilateral with the Republic of China. We seem to have accomplished those without any difficulty or with minimum difficulty, is that not true?

Mrs. Wang: That is true. In fact, in addition to those items, the other trade agreements, which I believe the USTR will be in Taiwan next week to negotiate, have been implemented by revisions of the local laws or changes in the regulations. And the agreements are signed between CCNAA and AIT. This has never been questioned and certainly has been implemented quite smoothly.

Dr. Chang: Thanks to all the panelists and also the participants from the floor.

Keynote Speech

Senator William V. Roth

Dr. Feulner: Ladies and gentlemen, it is a very real pleasure for me to reintroduce to our Heritage Foundation audience our keynote speaker today. Having served in Congress for more than twenty years, Bill Roth was around certainly at the creation of The Heritage Foundation, and we are very proud that he has been involved with us since the early days. And of course, everyone in this room, at least everyone in this room from this side of the Pacific who had to file tax returns just last Friday, has a great deal to be thankful to Senator Roth for. But the Roth-Kemp tax cut of 1981 is just one of his many legislative accomplishments.

Bill Roth came first to the House of Representatives and later to the Senate after a distinguished academic career, then a career practicing law in Delaware. He received both a master's degree in business and his law degree from Harvard University. Over the years, he has become a senior member of the Senate, working extensively on all economic issues, particularly centering on tax questions, the federal budget, and international trade issues.

As the ranking Republican on the Governmental Affairs Committee and an influential senior member of the Senate Finance Committee, he has long sought to promote healthy competition among world markets and in international trade. He also serves on the Intelligence Committee, Joint Economic Committee, and the Joint Committee on Internal Revenue Taxation.

Ahead of his time, Bill warned of the dangers of budget deficits, arguing that we have to cut spending, as well as cut taxes. Keeping America competitive has long been one of his major concerns, and he believes that the United States can be a leader in world markets and in creating new jobs at home by continuing the drive to export quality products.

He is a persistent and untiring Senator. Over the past two decades, he has earned the respect of his colleagues in both parties, as well as leaders outside the Congress. He has been proclaimed as "One of the

ablest members of the Senate," "A very effective, very thorough legislator," "A senator's senator." He is a rare statesman and a dependable leader.

It is a great pleasure for me to welcome Senator Bill Roth back to The Heritage Foundation.

Senator William V. Roth: It is always a pleasure to be here and to be associated in many ways with The Heritage Foundation, which has contributed so much to the success of this Administration. And I am pleased to join my friends at Heritage to discuss the growing Pacific Basin and particularly the important role Taiwan plays in this region.

I have had a longstanding interest in East Asia. This interest began many years ago when I was a young man serving in the Army and in the early months of the occupation of Japan. Later, in the 1960s, when I was a lawyer for Hercules Corporation, I first visited Taiwan and saw the beginning of that nation's miracle. My most recent visit took place at the beginning of this year and provided me with the opportunity to renew my contacts and build on my previous interests. Many of these interests are professional, that is, as a politician looks at international affairs in light of the interest and needs of his own constituents and countrymen.

When I was elected Senator in 1971, I decided to take a concentrated interest in the Pacific Basin. Some of my colleagues referred to me an Asiaphile because, other than Senator Mike Mansfield who was soon to retire, I was about the only member of the U.S. Senate with a special interest in this region. I believed that the Pacific Basin, like Western Europe, was an area of vital importance, not only to our nation's prosperity, but to peace and security. And it astonished me that more of my colleagues did not believe as I.

The western rim of the Pacific from Japan in the north to Australia in the south contains, as you well know, about 40 percent of the world's people. On top of this, it represents a region of vast natural resources, including most of the world's tin and considerable quantities of other metals and minerals. The strategic seaways from the Persian Gulf to Japan to the western United States pass through this region. Most important, it is a region of dynamic economic growth and human resour-

ces, joining North America and Western Europe as one of the three centers of world industry and commerce.

This region produces about a fifth of the world's annual output of goods and services, and this is expected to rise to about a quarter by the end of the century. Few who saw Taiwan or Japan or Korea in the late 1940s or 1950s would have predicted that, within four decades, these war devastated nations would be leading us into a Pacific Century.

In addition to Japan, which is the region's economic leader, Taiwan and South Korea have, of course, become major industrial trade economies. They are the eleventh and twelfth largest trading nations in the world today. And, surprisingly, Taiwan with 20 million people exports about as much as mainland China which has, of course, more than one billion people. At the beginning of this year, Taiwan also had the second largest level of international reserves, \$75 billion, only slightly behind Japan.

Is it any wonder that the communist world has looked with envy and concern upon these economic miracles? The mainland Chinese under Deng Xiaoping have recognized that the traditional socialist economy does not provide the incentives needed for growth. Since it undertook its economic reform program, mainland China has made some major strides in improving agricultural performance, strengthening its industrial sector, and increasing foreign trade, but per capita income remains less than a tenth of the Taiwan level.

The reforms the mainland has made so far have been relatively easy to undertake. Whether it can sustain its reform program as the going gets tougher and whether it can maintain a strong rate of growth remains to be seen.

In contrast, although the leaders of Vietnam and North Korea have talked about economic reform, they have not abandoned the aggressive political and military policies that burden their economies and make their nations international outcasts. Both countries are supporting huge military establishments that absorb much of their production. Vietnam is bogged down in a war of aggression with Cambodia. Various nations, including the U.S., have made repeated efforts to open links to North Korea. But the North Korean state continues to

carry out terroristic acts directed against South Korea and, of course, a successful holding of the Olympic Games.

What are the reasons for economic growth in the market economy in countries such as Taiwan? And what course should the U.S. pursue to realize a future of mutual opportunity where both economies will be strengthened through a symbiotic relationship?

An important reason for the economic dynamics in countries such as Taiwan is, of course, that they have made economic growth an overriding national priority. They have supported their export sectors and made sure that the infrastructure is in place for export growth. In addition, these countries have promoted a healthy business climate by encouraging savings and investment and by maintaining financial responsibility with their budgets and policies.

Second, these countries have taken advantage of a favorable international environment for growth. Their government policies and the strategies of their private sectors have been oriented toward exploiting market opportunities abroad. Exports have been promoted through such means as tax subsidies and favorable tariff treatment for raw material imports. Their governments also have attempted to maintain exchange rates that give their products a competitive edge in world markets.

Third, the cultural values of these countries, when combined with proper economic incentives, encourage thrift, discipline, and hard work. Economists have difficulty in identifying the precise role that Confucian values play in East Asian growth, just as it is difficult to quantify the importance of the Judeo-Christian work ethic in the U.S. But, clearly, culture plays a part.

Americans have viewed the growth of East Asian countries with mixed feelings. On the one hand, the growth of East Asia is a tribute to enlightened and generous U.S. programs to assist those countries in rebuilding their economies in the earlier postwar periods. East Asia is also a testament to the success of the market-oriented economic approaches we advocate, as opposed to socialist economic systems. East Asia has been one of the few places in the world where U.S. exports increased, rather than decreased, during this decade.

There are, frankly, many anxieties in the U.S. about Asia. For example, there are fears that American jobs are being lost to Asians, that we are in danger of losing our leadership position in technology. There are fears that the Asians are burying American industries and that we have become dependent on Asians to provide the capital needed to finance the government deficit and corporate investment.

I believe we should welcome the economic dynamics of East Asia because it offers many opportunities for the United States. At the same time, important adjustments are required of the United States and the East Asians in order to assure the maximum mutual benefit. These adjustments go beyond what economists call structural adjustments. They also involve changes in fundamental attitudes and basic policies.

The U.S. is not the subject of this speech, so I will be brief about what I regard are our problems. In a nutshell, Americans need to pay more attention to opportunities in the world economy. In years past, we were accustomed to taking for granted that the large markets were at home, that the most sophisticated technology was to be found in our own backyard, that English is the only language we really need to know. While almost all the school children in Taiwan and Japan are learning English, only 23,000 Americans, for example, are enrolled in Japanese courses in this country. More Americans are studying Ancient Greek than studying Chinese.

When Japanese, Koreans, Taiwanese tell me that Americans should make more effort to penetrate their markets, I can only agree. I also agree with them that we should save more, increase productivity, and put government spending back in line with government revenues.

But there is also a large adjustment needed on the part of our friends in Asia. Their countries have been engaged in single-minded efforts to catch up. For example, they have stressed commercial application in their research and development programs, rather than contributing to the stock of basic scientific information. They have pursued export-oriented growth policies, but many import barriers remain from the days when they were strapped for foreign exchange and sought to protect infant industries.

Capital restrictions and foreign exchange regulations to favor exports are common characteristics. The Korean yuan and the New

Taiwan Dollar, for example, are said to have been flexible against the dollar in only one direction. When the dollar was strong, they devalued, but when the dollar was weak, they did not appreciate. It is only in the past two years that they have been appreciating, but virtually all international authorities, including IMF, believe that this appreciation is still inadequate. The result, massive current account surpluses that have reached as much as 22 percent of GNP in the case of Taiwan, a figure that would make even the Japanese blush.

Asian countries such as Taiwan and South Korea are appreciating their currencies and liberalizing their markets, although not as readily as we might wish. In the meantime, what kind of policies should the United States adopt? Well, first, it is necessary to continue a friendly, but strong negotiating posture toward these Asian countries. Our policy should be aimed at encouraging them to open their markets and not be intended to close ours. One has to distinguish between approaches that work with liberalizing forces within Asia to open the market and those that play into the hands of those who resist openness. There are no winners in protectionism. We do not gain exports, and we lose the benefits of expanded consumer choice and more efficient production.

Second, measures to protect our producers from unfair competition should be fully and expeditiously enforced. Some supporters of free trade confuse protection against unfair competition with protectionism. In fact, the use of countervailing duties against subsidized exports and antidumping duties against dumped goods is sanctioned by the GATT and is, of course, regarded as a very legitimate tool to maintain an international trade system based upon market forces.

Similarly, there must be effective protection against those who abuse patents, copyrights, and trademarks. Fortunately, a number of Asian countries have changed their laws and policies to afford greater protection for intellectual property in recent years, in part, because it is in their own interest to do so as they develop and, in part, because of the attention to this given by the U.S. Congress in our trade negotiating. Taiwan is one of those nations that have made important changes in its laws in this regard.

Third, I would support an effort to strengthen the U.S. economic ties with the Pacific Basin region and with Taiwan in particular. Bilateral free trade arrangements are now being considered as a means to promote fair and mutually beneficial economic relations with our trading partners. Such agreement has been reached with Israel. Congress will very shortly vote on final approval of a free trade agreement with Canada. A study of U.S.-ASEAN economic relations that suggested similar special trading relationships between the U.S. and Asian countries was agreed to in the February U.S.-ASEAN meeting. Ambassador Mansfield has long advocated a U.S.-Japan free trade agreement. And of course, the distinguished Dr. Edwin J. Feulner, President of this Foundation, has proposed a bilateral free trade area between the United States and the Republic of China.

In my judgment, the concept of bilateral agreements to liberalize trade on a fair and mutual basis has much to recommend it. When countries such as the United States and Canada can agree that it is in their interests to reduce tariff and nontariff barriers, I think we should welcome this as an important and constructive step. It is a good way to speed up trade liberalization, which will be of mutual benefit to both countries.

It should be emphasized that we are not facing a mutually exclusive choice between multilateral trade liberalization through the GATT, on the one hand, and bilateral agreements on trade liberalization on the other. The GATT actually sanctions free trade agreements, recognizing their potential to create more trade than they divert. In other words, the GATT recognizes that free trade agreements can create more trade for all countries, not just for those who are signers of the agreement.

Now to promote this outcome, the GATT requires that trade liberalization in a free trade agreement cover substantially all trade between the parties to the agreement and that the reduction or elimination of trade barriers occur within a reasonable period of time. There are many examples of existing free trade areas falling within the guidelines of GATT rules, including of course the agreement among the member states of the European Community, the European Free Trade Association, and the Latin American Integration Association.

Free trade areas, as I said, benefit not only the parties themselves, but third parties as well, and they have emerged as a constructive force on the GATT, a force to press its members to keep up and strengthen the multilateral trading rules before they become outmoded by bilateral arrangements. Most commentators agree that, while the GATT membership has grown, the broader membership has been a drag on the GATT trading system, and this has prevented it from keeping pace with new forms of trade barriers and new economic realities such as the growth in services trade.

The new attraction of free trade agreements to the U.S. serves a dual purpose. First, it creates models for multilateral trade liberalization in areas not yet covered by the GATT. And, second, it serves as a warning that the U.S. will seek other forms of trade relationship if the political will does not exist to make the GATT work effectively, not only in today's world, but in the emerging global economy.

For example, a free trade area with Taiwan could help reduce the imbalance of trade that presently exists between the U.S. and the ROC. Currently, bilateral trade flows between the U.S. and Taiwan are about \$24 billion and the latter, of course, has a surplus of approximately \$13 billion. It may be that this trade imbalance could be reduced, if not leveled, by a free trade area in which Taiwan would broadly open its market by removing the remaining barriers to imports.

Tariff barriers remain the key trade issue with Taiwan. The average Taiwanese tariff is slightly over 28 percent, as compared to our average tariff of 5.4 percent on all dutiable trade. This problem remains despite the fact that Taiwan has made progress in reducing tariffs on a number of products of importance to the U.S., and for this we are most appreciative. However, to U.S. exporters, tariffs remain the principal barrier to access to Taiwan's market.

Currently, exports from Taiwan account for 5 percent of total U.S. imports, while 22 percent of Taiwanese imports come from the U.S. Japan is the major exporter to Taiwan with nearly 30 percent of the market. A free trade agreement between the U.S. and Taiwan would undoubtedly give our exporters a very substantial margin of preference in relation to their Japanese competitors.

One final point, since tariffs are the key trade barrier to Taiwan, this would encourage the likelihood of a mutually beneficial free trade agreement. It is easier to monitor the reduction of tariffs than it is to monitor the more obscure nontariff barriers we face with other countries. And of course, the U.S. is very competitive in the service sector, and a free trade agreement in this sector would bring important new opportunities to the U.S.

U.S. exports of banking services, insurance, motion pictures, and advertising would likely increase. And in fact, Taiwan might well serve as a convenient financial center for U.S. investor activities in Asia. As we consider a U.S.-Taiwan free trade agreement, we should remember that any agreement between us could not be implemented overnight. As with other free trade agreements, there would likely be a timetable for implementation and special provisions for handling import sensitive items, such as textiles.

Now while I have stressed that great benefits could flow from a U.S.-ROC free trade agreement, it should also be remembered that such agreements do not end bilateral trade disputes. And, frankly, there are negative aspects that must be considered.

For example, a series of separate bilateral agreements between the U.S. and other countries could be administratively cumbersome and costly. Moreover, such agreements sometimes create political friction with other countries. For these reasons, we may want to consider extending the geographical coverage of such free trade agreements as broadly as possible. In other words, we could think in terms of Pacific regional arrangements in which other interested market economies could join.

Because of the complexities of the pros and cons of a free trade area and in that nothing is going to happen this election year, I believe we should initiate a study of the benefits and problems of a free trade agreement between the U.S. and ROC. In fact, I expect to ask our Congressional Research Service to prepare such a study, and when it is complete, I will announce the results.

I also believe it may benefit us to have other studies undertaken as well. I think the time is right for a comprehensive review of U.S. rela-

tions with the Asian Pacific Region, and I believe that such a review would be and should be an early priority of the next administration.

A decade ago or more, in a speech before the Japan Society, I argued that our Asian Pacific policies were constrained by too many straitjackets. The Reagan Administration has encouraged a more regional approach by its support of the creation of the U.S. National Committee for Pacific Economic Cooperation on which I serve. The next step, in my judgment, would be the creation of a blue ribbon panel of wisemen groups, specifically tasked to review U.S. policy toward the region and chart directions ahead, including the possibility of U.S. participation in free trade agreements or the possible establishment of a Pacific-based Organization for Economic Cooperation and Development.

Finally, it is important to continue to promote U.S. business and financial collaboration with this dynamic region. Many of our states, of course, have established offices in Taipei, Tokyo, and other major cities in that area, attesting to the increased American interest in the region.

Some would have you believe that increasing economic interaction is a matter of personal ties, just a meeting or two. My experience is that patient work over the long term in developing and maintaining personal relations with business and government leaders abroad is indeed important. Even more important is for the U.S., as a nation, and its fifty states to project responsible market-oriented economic policies conducive to maintaining productive business relationships.

The people of Taiwan, as well as of Japan and South Korea, must have confidence in our economic strength and vitality. Despite the economic deficit, they have continued to invest in the U.S. because of the major accomplishments of the past several years, the winding down of inflation, the tremendous job creation in this country, the sustained recovery, but more assurance is required, particularly in the area of the budget.

In closing, I would like to commend The Heritage Foundation for its continuing role and interest in the Asian Pacific Region. Many individuals associated with this Foundation, Ed Feulner of course, Richard Allen, Martin Lasater, have been pioneers in developing a

positive U.S. approach to Asia. You recognize that the future of this region with its tremendous human and physical resources, backed by hard work and determination, is a vital national concern to the U.S.

I think we still have a long way to go in assuring that our country gives Asia equal attention. In my judgment, there is no area more important to the well-being of the U.S. than the Pacific Basin. Still, I do emphasize the word "equal" because some want to develop the new relationship with Asia at the expense of our traditional ties with Europe. We need both regions. They need our leadership. Working together with almost two-thirds of the world's GNP, there is little that we cannot accomplish.

Dr. Feulner: Thank you very much, Senator Roth, for setting the stage with your broad perspectives in terms of where we should be going, your specific comments in terms of how we might get from here to there with an FTA, if not a bilateral one, perhaps as you suggest, a multi-lateral one. Now, a few questions.

Guest: Ben Hart from The Heritage Foundation. Senator, you mentioned that the tariffs in the ROC are about 28 percent, whereas ours are about 5 percent. Are there also some additional, perhaps cultural, barriers to the people of the ROC doing business with U.S. firms that also need to be evened out? We are used to buying foreign products, whereas many of the smaller countries are not as used to buying U.S. products. Are there some additional barriers like that also need to be looked at?

Senator Roth: Cultural differences play a key role, for example, in the case of Japan. I think it is also true in the case of Taiwan. You can eliminate all the tariffs and nontariff barriers, but there will still be a problem in many cases of getting the consumers of those countries to buy foreign goods if a native product is available. I think that is a very key problem. I really have looked at it much more closely in the case of Japan than I have of Taiwan, but I would assume that there are somewhat the same differences. After all, we, too, particularly back in the 1920s and 1930s when we were just emerging as a major economic power, had a very strong "Buy American" sense, feeling that if you were

a good, loyal, patriotic American, you should buy American products. Now you still hear a lot of that today, but as the old saying goes, the individual who goes home in a Toyota, wearing an Italian suit, to smoke foreign tobacco, and then write his congressman about why aren't we buying more American goods is probably a pretty typical American.

We are, in my judgment, emerging into a global economy, and if it is going to be mutually beneficial, then all of us have to rise above our native inclination to not buy the best at the best price. Americans are already doing that.

For example, in my little state of Delaware, we have more automobile workers, percentagewise, than Michigan does, and I can guarantee that the people of Delaware will nevertheless buy a Toyota or a Mercedes or whatever they think is a better car at a better price. So I think that same kind of thinking has to be developed abroad as well.

Dr. Wu: I just want to give a little comment to the Senator. I think, basically, Taiwan is a little different because we are a very export-oriented economy. I do not know what happened in Japan. Probably Japan has a little cultural barrier about using foreign goods. But in Taiwan, as long as the U.S.-made product is priced competitively, I think people are going to buy it. We have a little feeling that U.S.-made products have a higher quality than those locally made, or even higher quality than the products made by Japan. So I do not think that sort of cultural barrier is in existence. I think somehow we have a sort of preference toward U.S.-made products. But the only problem is that, pricewise, it is a little higher than the local product.

Also, as long as the U.S. exporter or producer makes things a little more tailored for the consumer needs, I think that makes a difference, because if you, say, export something to my country with sort of a Western design, completely Western design, then it might not be that easy to capture the consumers' needs. I think you ought to pay a little more attention to consumer needs. I think, basically, the atmosphere there, they sort of prefer U.S.-made products. I think probably Mrs. Wang would agree with me.

Senator Roth: Let me ask you this question. You have a product produced on Taiwan, a raw material or a component of some sort. You do not think any preference would be given to that made there in Taiwan?

Dr. Wu: No, I do not think so.

Mrs. Wang: Not as far as consumers are concerned.

Senator Roth: I think that may be different in the case of Japan, where there is still a cultural difference. Of course, the Chinese have for centuries been traders, so that may partly account for the difference.

Guest: Raymond Chang. I am currently a research fellow with The Heritage Foundation. I would like to give you up-to-date information about the tariff rate in Taiwan. The nominal average rate is 14 percent now, and the effective tariff rate is 7.4 percent. As for the nontariff barriers, many people think that Taiwan has a lot of nontariff barriers. As I know, from a study I conducted on manufactured products, we do not have a lot of nontariff barriers, except on tobacco and wine, but the policy has changed recently. And we have some nontariff barriers on automobiles and other mechanized products. But we give favorable treatment to the United States that we do not give to Japanese products so that the U.S. can compete in the Taiwan market.

But as for tariff barriers in agricultural products, the protection rate in Taiwan nowadays is 18 percent, but in the U.S., it is 22 percent; in Japan, it is 67 percent. So even in nontariff barriers in the agricultural sector, Taiwan has fewer protection measures, according to my research.

Dr. Feulner: I hope you will join me in thanking Senator Roth again and all the participants.

This part of the conference is adjourned.

Afternoon Session

Dr. Chang: Ladies and gentlemen, welcome to this afternoon's session. It is my honor and privilege to introduce a good friend, Mr. Richard V. Allen. He, of course, has a long and distinguished career and if I were to introduce him fully, that would take 30 minutes. Therefore, I will only say a few words about him.

Mr. Allen is the President of the Richard Allen Company, a Washington, D.C., international consulting firm. He is a distinguished fellow at The Heritage Foundation, Chairman of its Asian Studies Center, and Chairman of the Defense Assessment Project. He is also a senior counsellor for foreign policy and national security affairs to the Republican National Committee, and was senior policy advisor to the 1984 Republican Platform Committee. He is a senior fellow at the Hoover Institution of War, Revolution and Peace at Stanford University. He serves as a member of the Board of Governors of the Ronald Reagan Presidential Foundation. He is a member of the Fund for Americans Future Steering Committee. He serves as Chairman of the International Cooperation Fund, also Vice-Chairman of the International Democratic Union. He is a member of the Advisory Council of the National Republican Institute for International Affairs and he is currently a member of the U.S. National Committee for Pacific Asian Economic Cooperation. He served as assistant to the President for national security affairs during the first year of the Reagan Administration. From 1977 to 1980, he was Mr. Reagan's chief foreign policy advisor. He was also Deputy Assistant to the President of the United States and Deputy Executive Director of the Council on International Economic Policy at the White House. Mr. Allen has published a number of books and articles on foreign policy, national security, international economic and trade policy, and East-West relations. Mr. Allen.

Congressman Judd: I wish he was still the President's chief advisor.

Richard V. Allen: Let's hope it never happens again, though, Walter. Thanks again, Dr. Chang, and colleagues. I would like to point out, accompanying me here somewhere in the audience today is another person with a connection to The Heritage Foundation, Daryl Plunk. Daryl is a visiting fellow at The Heritage Foundation, and he was employed here until he joined our company, working on Pacific Basin problems. I am also joined by my colleague Susanna Philbinger who accompanied me on a trip last week to Taipei and to South Korea, so I am fresh off the boat, so to speak, and I have recent information.

Here, at The Heritage Foundation, one finds policy analysts and other specialists hard at work on the entire spectrum of public policy issues. As everybody knows by now, The Heritage Foundation assesses the present trends and the policies of the U.S. government and, indeed, it does this for a specific purpose, to improve those policies and the context in which they are made, measured against certain standards and objectives that we believe ought to form the essential core of good public policy.

In this sense, here at Heritage, we do not attempt merely to measure and evaluate what has occurred in the past and then hope that what we have learned will lead government officials in the Administration and in the Congress to take remedial action. Our task, and it is the one that joins us with some other Washington institutions and indeed sets us apart from many others, is to describe in essential detail the specific policy measures that should be enacted to promote the welfare and the security of the American people, both at home and abroad.

Here, one finds a very healthy respect for ideas. This is because we truly believe that ideas are the source of influence and the vehicles of change. As an organization that has helped propel the mainstream conservative movement to its present position of national prominence, and some would say dominance, The Heritage Foundation is fully committed to the notion that ideas have consequences and that the failure of the custodians of public policy is more likely to be exaggerated either when ideas are absent from the public policy process or, worse, when the wrong ideas inform and guide that process. Hence, when it comes to the consideration of a topic such as the one we are discussing here today, the relationship of the United States and the Republic of China

in the trade field, our systematic analysis of the policy process leads us to the conclusion that the time is indeed right for a new and different strategy than the one we have deployed in recent years.

Let us consider for a moment the course of our recent relations with that valued ally, the Republic of China on Taiwan. Here, it is not my intention to slip this discussion into a political context, but without a firm understanding of the overall relationship between the two countries, one cannot appreciate how necessary it is that the new strategy we are presently urging on the U.S. government, a strategy designed in the first instance to enhance our national interest, which happily will strengthen and defend the fundamental interest of the Republic of China, as well.

A decade ago, in 1978, the relationship between our two countries was not only sound, but rested on the principles of *de jure* diplomatic recognition. There were, to be sure, ominous signs on the horizon in the relationship, but no one even remotely familiar with the history of the U.S.- ROC relations would have considered this relationship to be in crisis. A year later, the atmosphere changed suddenly. The U.S. began the process of breaking normal diplomatic ties to the Republic of China and established full ties with mainland China, the People's Republic of China. This new situation was not accomplished without significant struggle and turmoil on both sides of the Pacific.

President Jimmy Carter crafted and sent to Congress a legislative package designed to provide a basis for this country's dealings with our friends and longtime allies on Taiwan. This original package, deemed wholly inadequate to the task of really safeguarding the Republic of China's interests and certainly incapable of protecting our interests in and around the island of Taiwan, was subjected to extensive, prolonged, and radical surgery.

Ordinarily, those who observe the workings of Congress are clearly dissatisfied with the pace and the quality of the proceedings there. Rather than consider members of Congress as surgeons, we tend to think of them more as promoters of pork-barrel projects generated by bad ideas and schemes to make government still larger. Only rarely does Congress approach a vital national security interest in a structured and disciplined way, and only rarely do the partisan interests

coincide in Congress in a way that truly works for a good result. Thus, assisted by a large number of friends of the Republic of China, some present here today, Congress responded to the challenge of reshaping the Carter recommendations.

The result was the Taiwan Relations Act, a completely unique law that serves as the basis for our relationship with the Republic of China today. Many of our Taiwanese friends considered, at the time, this act to be inadequate and many more did not understand it well. Today, it stands as a truly unique instrument of modern diplomacy, one that accommodates the delicacy of maintaining a relationship with the most heavily populated country in the world, the People's Republic of China, and yet gives ample scope for the maintenance of a vigorous and dynamic relationship with our 20 million friends in the ROC

Eight years ago, during the 1980 presidential campaign, there were widespread fears that this delicate balance would be destroyed by the policy preferences of a presidential candidate. That candidate made it very clear that, if elected, he would uphold the Taiwan Relations Act and assured the world, to the extent that it would listen, that the U.S. would remain faithful to its commitment. In a statement on August 25, 1980, well before the election, made upon the return of George Bush from China where he had extensive discussions with PRC leaders of the highest levels, Mr. Reagan and Mr. Bush announced a policy toward mainland China and the ROC based on five very straightforward principles.

While this comprehensive policy statement laid to rest the matter of potential grave damage to the growing relationship between the U.S. and mainland China, doubts persisted in the minds of many people. Then following the 1980 election and the inauguration of the new President, the implementation of both the Taiwan Relations Act and the Reagan-Bush policy statement began in earnest.

I should not take time here to evaluate every aspect of that implementation process, nor should I claim for it total success, since there has been at least one major deviation from both the Taiwan Relations Act and the 1980 policy statement in the form of the so-called Shanghai II communique of 1982. And there have been several minor

shortcomings of an essentially procedural, but nonetheless heavily symbolic nature.

Despite a rough start in Asia policy, the Reagan Administration eventually fielded a top team of Asian specialists who shared the President's commitment to upholding the Taiwan Relations Act and to attempting to strengthen the relationship with mainland China at the same time. Today, the proof of this sound policy is everywhere about us. The PRC has stopped denouncing and shouting at the U.S. The relationship has matured and stabilized, and the agenda from which we work is not Beijing's, as it was in the past, but Washington's.

Think, too, what has happened in the ROC in this relatively short time frame. From a starting position of great uncertainty in its new life under the Taiwan Relations Act, Taiwan has grown dramatically in every single dimension. The substance of our concern today, the economic relationship, has reached the point at which we can consider a special arrangement, such as a free trade agreement, in order to cope with problems that have risen in certain sectors, as well as in the overall relationship.

The political relationship, although without an official foundation, is proceeding well. The security relationship, while interrupted in its earlier incarnation through the rupture of the mutual security treaty between the two countries, continues to develop in a sensible and progressive way. The U.S. has continued to supply the requisite defensive systems to keep Taiwan safe from the threat of the application of external force for political objectives.

There are problems, to be sure. The U.S. Department of the Treasury has used a blunt instrument on Taiwan in an effort to force a dramatic appreciation of the New Taiwan Dollar. This has resulted in appreciation of nearly 40 percent from the starting point, with most of the dramatic appreciation occurring in the latter half of 1987. The effects of this situation, especially upon the competitive position of Taiwan in the future and also upon the socioeconomic structure of that country, have not yet been fully felt. There have been other trade rows, most of them mentioned here today. But these have largely been sectoral skirmishes and market opening arguments.

If you have been even moderately diligent in appraising the response of the ROC to the U.S. and its blandishments, you would have concluded that no other Asian trading partner has done so much so fast in response to the declared needs and the desires of the U.S. What, then, seems to be the problem? Will U.S.-ROC trade relations continue to fester because of the sectoral problems with U.S. politicians and even Administration trade officials responding to pressures from interest and industry groups? The types of friction we have seen in the past leading to somewhat drastic measures available under U.S. law have resulted in settlements only after protracted struggles and negotiations. Taiwan has advanced the pace of its considerations and is constantly opening up new markets through liberalization and tariff reductions. But this will not be enough. Logic demands that the framework of the U.S.-ROC trade relationship be enlarged, defined, and institutionalized in the format of a free trade area agreement.

The notion of a U.S.-ROC FTA was first advanced here, at The Heritage Foundation, and the idea has steadily gained momentum. That Congress is becoming interested is more than evident and that popular support elsewhere is building is also clear.

Last year, we heard comments to the effect, and from on high I might add, that the ROC seeks a free trade area agreement with the U.S. as an excuse to prolong market opening and liberalization. Now we do not hear this refrain so often and that is for the better.

Over the past few years, I have conducted discussions at every level of Taiwan's private and public sectors. The enthusiasm for an FTA with the U.S. is genuine and support for the idea is wide and deep.

The ROC has an economic system that is the envy of all Asia. Through incredible hard work and diligence, it has achieved modernization and explosive growth, not through the abuse of the international trading system, but by the use of that very same system. It is today a wealthy nation with a population that works, saves, and invests wisely.

Surely, no one would be so foolish as to deny that what is happening on the mainland and constitutes a source of fascination for observers everywhere is, in substantial measure, caused by what has happened on Taiwan. In fact, Taiwan is winning the competition with the mainland because the mainland is slowly inching forward in imita-

tion of what the ROC has accomplished. Couple these encouraging developments with still others that are serving to change Taiwanese society in the political and social arenas, and there is every reason to be optimistic about Taiwan's future, provided that its economic lifeline attached to the U.S. is kept secure. If there were no problem with the huge trade deficit with Japan, there would certainly be no problem with Taiwan's today. Japan is more than content to deflect attention and blame for our present discomfiture to Taiwan, to South Korea, and to other countries in the region.

Of course, it is not foreordained that the U.S. shall maintain a bilateral trade balance with all nations. We all know that the system is not designed to work that way. But politicians and sensationalist journalism can wreak havoc with a proper understanding of a solid economic and trading relationship such as that shared by the U.S. and the ROC today.

Why, then, do not we just let things move forward on the basis of the existing trading relationship? Why complicate our lives with an FTA when it may not be necessary? My view is that the obligations imposed on the U.S. under the Taiwan Relations Act, coupled with our long-range security interests in the Pacific Basin, require that our relationship with the ROC be cemented firmly in an FTA that will bring enormous benefits to both sides. The ROC wants very much to retain its close relationship with the U.S. Merely lowering tariff barriers and facilitating market access does not serve to strengthen the bonds with the U.S. in the manner and at the level of intensity desired by the ROC. Rather, such actions have provided a much more attractive opening for Japan and others to enter the market in Taiwan and to command increasingly large shares of the respective markets.

That does not serve our interests in the long run, and it does no good at all to state blithely, as some U.S. trade officials have, that all we are looking for is a level playing field and that American industry can compete with the best of them. This sort of rhetoric sounds just swell, but if the ROC took seriously such statements and proceeded to negotiate large purchases of, say, Airbus Industrie, long-range 340 series aircraft instead of Boeing 747s and McDonnell Douglas MD-11s — of course the ROC has just announced that it is buying ten of these American

aircraft from the two U.S. manufacturers — it would not be too long before the halls of Congress would be awash with indignation and a flood of mail, indeed an avalanche, would be making its way to the Coordination Council for North American Affairs (CCNAA) here, in Washington, and to every leading official of the ROC, from the President and the Premier on down.

We have the need to begin the negotiation of an FTA agreement with Taiwan. That need is now. We have ample authority under the Taiwan Relations Act to negotiate such an instrument. We do not have the personnel in the Office of the United States Trade Representative, nor does USTR have the funding to procure the people to do the study. Congress is increasingly ready, although not entirely ready as we learned today, to provide these funds. The only remaining obstacle will be the fears of some in the State Department that "negotiating" with Taiwan confers special status, perhaps a form of sovereignty on the ROC. This is nonsense, and those who argue this way know it.

And, finally, that same band of policy wimps — and note carefully that I speak only of those who share this view as full-fledged policy wimps — who oppose negotiating a free trade area agreement with Taiwan because of the reaction to such a process in Beijing ought to realize the way things are heading. They ought to be able to think through very carefully the inexorable logic of their own view of what is now occurring on the mainland. They should recognize that, if they are correct in considering the process of liberalization and the trend toward creeping capitalism to be irreversible features of life on the mainland, and if Chinese on both sides of the Taiwan Strait continue to acknowledge that there is but one China, and Taiwan is part of China, then no one should be happier than the hierarchy in Beijing that Taiwan has been skillful and resourceful enough to negotiate a free trade area agreement with the U.S.

Clearly, in light of current domestic trends on both the mainland and on Taiwan, trends that we do not have time to analyze here in great detail, but which form the overarching reality of today's situation and have special reference to the developing political situation in Taiwan and on the mainland, in light of all of these things, we need to move forward very quickly. The rapid conclusion of a free trade area agree-

ment with the United States is, in the three-cornered context of the players involved, a "win-win-win" situation, meaning that Taiwan wins, the United States wins, and even mainland China wins. But, then, if the legions of policy wimps were to follow their own logic all the time, where would this country be today? Yes, the time for an FTA between two friends is now, and we ought to get on with this task without any further delay.

Dr. Chang: Thank you very much, Mr. Allen, for an excellent overview of U.S.-ROC relations and, also, a forceful advocacy of the need of a free trade area agreement. Now we may have time for one or two comments and/or questions, so the floor is open.

Guest: Marjorie Sonnenfeldt, Fleishman Hillard, Inc., Public Relations. Mr. Allen, the reports in the press over the last few days on the omnibus trade bill have suggested that what was once apparently approaching compromise is now leading toward a confrontation between the Administration and particularly the House Democratic leadership and that the consequences will be negative for many aspects of U.S. trade policy. Could you comment on how you see this working out for a U.S.-ROC free trade area initiative, if in fact Congress sends the Administration legislation that includes two of at least three veto bait items.

Mr. Allen: I was abroad last week and wondered a great deal about the impact on a free trade area agreement on any trade legislation or, indeed, the failure of any trade legislation and what it might mean.

Over the course of the past few years, I have been predicting and suggesting to friends in Asia, in all parts of Asia, that 1988 would witness the first time, in modern political history anyway, that trade would become a central issue in a presidential campaign. And I feel now that all of us realize that it will be an issue not only at the presidential level, but in every congressional and senatorial race as well. Trade has become a very hot issue in the United States, indeed. And we find ourselves entering this debate probably less well informed about it than any other major debate we have had in many years, at least in my recollection. After working for twenty years in presidential politics, the

presidential election process, I can say that is absolutely certain because the trade paper was the one you always found an obscure academician located in an obscure university or college to work up so that you could pass it by your candidate and get it through the world trade channels, and not much happened to it. Today, it is front and center. And I think, of course, the Democratic leadership knows that.

One serious blow was dealt, and I think a lot of people in Asia breathed easily too soon. The demise of Gephardt in both ways, the Gephardt Amendment and Mr. Gephardt as a candidate, was taken by some as a sign that protectionism had been put back in a cage when, in fact, that is not at all the case. Anybody in Washington knows that is so.

I will not be able to comment specifically because I cannot forecast in great detail, but I would say that, if stalemate results and there are not enough votes for an override, the issue will be transported into the campaign, no question about that. It will be a principal subject of debate at the top, as I mentioned, and in other areas as well. There will be no chance, no further chance, this year for a trade bill if there is no override. If there is an override, I would not even begin to want to assess the consequences. I have not time enough to assess the consequences of an override, the defeat of the President, on the issue. I think, for example, the disclosure issue might have been the wrong place to take a stand and to draw a line. It seems to me that there are far more profound and interesting issues in the trade field, of more profound interest to our long-term security, than that one. But they chose to take their stand there, and the Administration has not always been known to take a stand in the most advantageous places. A downhill slope is not the place to take it.

So with failure of the trade bill, it would seem to me that an argument, some would call it perverse, but I think it a reasonable one, could be made that we need all the more haste to move on to the discussion and the open-ended studies on free trade area agreements, particularly with Taiwan. Taiwan has been longer in a surplus position than has, say, South Korea. Korea has only been three years in a surplus position. Yet, Korea is suffering, thanks to Gephardt's Hyundai ad and a few other elements, almost as much as Taiwan and as Japan. History

or time is compressing in on all of this process. I find that fascinating. And where the Koreans have suddenly been put up front and center — as I mentioned in my remarks, Japan is only too happy to stand Taiwan out in front to take the punch that is aimed from us, and Taiwan is only too happy to have Korea out in front of it to take its place.

If you have ever watched a Portuguese bullfight and seen how they terminate the bullfight, you will understand what I am talking about. They bring out a file of young men who are all volunteers, and the bull's horns are cut off. And the young men approach this exhausted and gored bull, who is still pretty angry, step by step, until they finally provoke him into charging head on. And the lead man is the one that bends over because, of course, the bull's head is down as he charges, and literally mounts the bull from the horns. And the sheer weight of the line of the young men that gets bowled over brings the bull to a stop. It is an interesting way to end a bullfight. The bull is taken out alive, never to fight again. It is a more humanitarian way than the Spanish do.

But I am reminded of that because the Japanese love to line people out in front. If they could get Thailand and the other ASEAN nations out front, they would, too, because nothing cushions a blow like a big shock absorber made of humans. There is no chance whatever the Japanese have begun to speak about a free trade area. It will not happen, cannot happen, for every reason we know. The Japanese will not create a level playing field.

I cleared customs; my colleague and I cleared customs the other day. That was my 107th time, by count, of clearing customs in Japan. I only stayed overnight; I usually stay longer than that. But after all these years, I finally recognized that Japan really does not want a level playing field. So the rage and frustration that we are feeling is generated much by Japan, and we have no way to get a handle on Japan. After all, the Japanese are pretty heavy investors and not only in New York City condominiums. I understand they are moving south to Miami. And it seems as though the tough guys over at Treasury do not want to get tough with Japan. I often wonder why. They say, "Well, Japan has already done its number." If you have taken a cab ride from Narita Air-

port to downtown Tokyo at \$135, you know they have done some service in the appreciation of the yen.

South Korea is still a debtor nation, with a debt of about \$34 billion, and is trying to pay that debt down as rapidly as possible, but it will still have a sizable surplus again this year.

So the focus on the tigers and other countries of Asia is pretty unhealthy because, one by one, they are more vulnerable. I truly believe that, if there were not a Japanese trade problem, there would not be a Taiwanese, Korean, or anybody else trade problem.

Under these circumstances, if the trade bill were defeated, I would be for redoubling our efforts to get a free trade area agreement between the two countries going. It is sensible. And because of the special relationship that we have and because of our special obligations under the Taiwan Relations Act, which is now fading from corporate memory — many of the people who worked so hard in 1979 and 1980 to get a good Taiwan Relations Act are leaving office — we have to refresh and replenish, if you will, this reservoir of affection and respect for the Taiwan Relations Act.

Ed Feulner and I were in Taiwan just about six weeks ago at the funeral ceremonies of the late President Chiang Ching-kuo and had some discussions with businessmen, and we were astounded that some of them had no idea of the provisions of the Taiwan Relations Act. So I think we need a broad-scale effort to remind people, and I think 1988 is a fine time to do that because there is going to be another platform. And I think such a proposition ought to be written into the platform. I have revealed my hand in advance here, since I am involved in the platform, but I believe it ought to be written into the platform as one of the measures, safety valves, if you will, designed to take off some of the pressure.

Taiwan's situation is unique. It is strong, yet vulnerable. And as I mentioned, the lifeline is the U.S. I am not saying that Taiwan should not diversify its sources of weapons procurement or its sources of commodities or expand its trade horizons. It is doing all of that. Fortunately, the United States has now replaced Japan as the principal supplier to the Republic of China. I believe it was just last month, if I am not mistaken. And this is another important step.

So you can see that the authorities in Taiwan are taking a very serious view of this. This is not a stalling tactic. And this atmosphere must be communicated to the U.S. Congress who must, in turn, provide the funds for USTR to begin its study, and it must provide all the resources, financial and human, that are necessary.

Dr. Feulner: Thank you very much, Richard Allen, for your thoughtful remarks. Our final major speaker is the very distinguished Under Secretary of State for Security Assistance, Science and Technology.

Ed Derwinski was elected to one term in the Illinois House of Representatives, then served twelve terms in the U.S. Congress. During that period, he served as a member of the U.S. delegation to the United Nations, as a senior member of the House Foreign Affairs Committee, and as the founder and first chairman of the Republican Study Committee in the House of Representatives. In 1983, he was appointed Counsellor to the State Department and, in 1986, he assumed his present position, Under Secretary for Security Assistance, Science and Technology. It is a pleasure to welcome Under Secretary Derwinski back to The Heritage Foundation.

Secretary Ed Derwinski: It is always a pleasure to participate in a program sponsored by The Heritage Foundation, and I appreciate the fact that you permit officials of the State Department to darken your doors. That is a very commendable attitude. I came in just as Richard Allen was mounting a very eloquent defense of Japan and its trade practices. Since you have all heard that side of the trade picture, I will concentrate a bit more on points you may not already have heard this morning, the subject of U.S. trade with Taiwan. But let me just mention that Dick Allen did stress a very valuable point, which is the fact that in both countries we are dealing with a new generation of people, leaders who have to be reminded of what we intended when we passed the Taiwan Relations Act. Over half the members of Congress, probably about two-thirds, have come to that body since the passage of the Taiwan Relations Act, so they are not locked in as a matter of record. And we have to keep reminding them of the reasons why, at

the time, Congress felt it was absolutely necessary to pass that Act in the face of the Carter Administration actions.

On the subject of trade, I have all sorts of statistics that the Department provided me. We do not keep separate statistics; we get them from the Commerce Department, and I assume we have some input here from the USTR. But it is an interesting issue.

I have figures for all the Pacific Rim economies, and the fact is that, next to Japan, Taiwan has the greatest volume of trade with and the greatest expansion of trade with the United States. Obviously, this is mutually beneficial. The one ingredient that should be stressed is the efforts that the authorities in Taiwan can make to increase their imports from the U.S. That seems to be the key. We do not want to deny our consumers the benefits of the products that Taiwan sells us. In the last twelve months, the figures show a remarkable spirit of cooperation in Taiwan as far as U.S. trade relations are concerned, and this has been basically a unilateral development. The authorities in Taiwan have very effectively moved through liberalization, anxious to increase U.S. imports. I commend that and encourage the continuation of that pattern.

As Dr. Feulner pointed out, in my earlier career, I was in Congress, therefore, in politics. In the State Department, we are above politics. We tower above it and we stay above it, so I am not as partisan as I used to be. But when I was partisan, and I was a partisan Republican, it used to be very upsetting to have our Democratic friends always claim be the champions of the underdogs and the champions of the consumers.

Today, if you are a protectionist in trade, you are anticonsumer. If I was still in the Congress today, I would be pointing a finger at the Democrats and saying, "Ralph Nader will be very upset with you. You're anticonsumer because of your protectionist position."

So the flow of goods from Taiwan is good for the U.S. consumer. All we ask, however, is that the authorities in Taiwan looking at the trade imbalance figures give us an opportunity to increase our exports to Taiwan. That would be the cure.

In addition, over the years, I have always been impressed by the public relations value of the purchasing missions that the authorities in Taiwan have conducted. These purchasing missions are good public

relations. They take it to the grass-roots level. And I believe that this is an area where you could utilize the good will and interests of the respective states and get their input into not only the understanding of the situation in Taiwan, but also the growing trade relations, which would be important.

A figure that came up as I reviewed some items for these discussions also struck me as being interesting. I took 1981 as an example. In 1981, our exports to Taiwan were \$4.8 billion. Currently, they are running about \$7.3 billion, depending on whose figures you use. At that time, our exports to the PRC were \$3.6 billion. They are currently slightly below that figure. I mention that for what it is worth. It shows that our trade with the PRC has not reached any significant proportions, compared to Taiwan. And, obviously, in a much more controlled economy, the authorities there have decided, whether for lack of hard currency or any other reason, that increased imports from the U.S. are not to flow. And in that kind of economy, that kind of decision is what counts.

Overall, though, the U.S. trade with the Pacific Rim economies is continuing to grow. Some years ago, the point was first made by economists, then received with great shock by some observers, that it is far more important to the U.S. to emphasize its newfound trade relations with the Pacific than with our old line friends in Europe, and this trend will continue.

We have at the State Department, for example, a special effort to cooperate with what is loosely called the Pacific Basin economic development, and it is a concept that has been working well. It has not gone too far past the meeting stage, but it is a very solid concept, recognizing that the 21st century will be the century of U.S. trade with the Pacific, notwithstanding the promises and developments in the European Common Market.

Dick Allen touched on the political issue of the year, protectionism in trade. I do not think we are going to have any real impasse with Congress on trade for the rest of the year. We will have a lot of rhetoric. Rhetoric is safer than action. And I can tell you, as a former congressman, that it was always easier to discuss a subject than to have to finally cast a vote. In a campaign year, Congress is not going to force itself to vote on very many tough issues. I would suggest that we focus

on 1989, when some of that rhetoric will compel people to act, where members will lock themselves into voting positions. We want them to lock themselves into pro-trade, not protectionist voting positions. We do not want them to prematurely develop a negative attitude toward Taiwan or any of our other friends in the Pacific area.

Now, I mentioned the specific steps taken by Taiwan to improve access to products and services from the U.S. One of the great opportunities that has been opened is for U.S. banks and insurance companies. I am told that there are, at this point, about ten U.S. insurance firms that have submitted license applications to the ROC Ministry of Finance. This will be a very positive practical development. Our exports are improving, not at the same pace as the imports from Taiwan, but nevertheless positive emphasis on exports is certainly the key.

Last, but not least, we have to look at the entire region. East Asia is the major trading partner of the U.S. Taiwan is a key in stability and economic strength of that region. And for that matter, when we link Taiwan with Hong Kong, Japan, Korea, the Philippines, we find that all of these countries have the U.S. as their number one trading partner, and that is just a fact of life. It will continue to be so if we have a minimum of interference from the protectionist sort of approach.

I happen to think that, in the long run, the political momentum in this country is for continued free trade. In the political debate, those who emphasize protectionism are looking at the short range. And it is therefore necessary for us to ride the momentum of the free trade sentiment, which I think we could move in a more effective and consistent fashion if we could label it for what it really is — free trade as the best form of consumerism. And if anyone is interested in the well-being of the American consumer, he must, in fact, be a free trader. Anyone have questions or comments? I see my old friend, Dr. Walter Judd.

Dr. Judd: Only commendation, not questions, commendation for you.

Guest: Bob Holden, USIA. What is the State Department's position on a free trade area with Taiwan?

Secretary Derwinski: We have no official position, yet. What we are going to try to do this year is digest the Canadian free trade package. That is about all the political system will bear in one year. Incidentally, Prime Minister Brian Mulroney will be in town next week. We are going to try to put the final PR package together for the U.S.-Canada free trade package. It is a political hot potato in Canada, more than in the U.S. But when we finally pass that, and it looks as if Congress will accept it, probably in the interim between conventions, that will be the agenda for this year.

That is why I make the point that you have to do a good job of seeing that the members of Congress who have arrived on the scene since 1980 and the newly elected, brand new members who will be coming in as a result of this year's election are brought up to date on the value to the U.S. of the Taiwan Relations Act and our long-term, very positive trade relations with Taiwan.

Guest: William Dabaghi. Secretary Derwinski, I guess you would suggest an informal basis rather than an official basis, but what are the political steps that you see to move the U.S. and the Republic of China on Taiwan toward an FTA agreement? What are the steps necessary in the political world?

Secretary Derwinski: Let me take the easy part first. The positive step that I would take is to sell it as a totally positive vehicle for both sides. That is, in fact, what it would be. Now the problem will not come on the issue of trade. The problem obviously will come from those people in government who think that such a development would adversely affect our relations with the government in Beijing. My personal opinion is that we should just stake out what we think is in the best interests of the U.S. In this case, an FTA with Taiwan would be in the best interests of the U.S. and Taiwan. We should not be concerned directly or indirectly because the greater U.S. presence in the Pacific, frankly, is something that has not been unwelcome to the authorities in Beijing. So I think we could overcome what I would call the bureaucratic and official overconcerns if we just package this in a totally positive fashion. I think it is salable to the public and to Congress.

Mr. Dabaghi: Someone said today that one of the greatest obstacles would be officials in your own State Department toward this. Do you agree with that?

Secretary Derwinski: Well, first, let me say that, in the State Department, we have a certain degree of freedom of speech.

And I think it would be accurate to say that most of the freedom of speech in the State Department is demonstrated in the memorandums that go back and forth between the different bureaus in the Department. The result of that is a paperwork blizzard and a tendency not to make decisions. But if an FTA with Taiwan or any other country is in fact the goal of the next President, and the President decides that, as a matter of national policy, we should do something, then the State Department, notwithstanding the communications within the bureaus and the turf fights and the scrambling, knows it is part of the Administration.

My frank evaluation, after six years in the State Department, is that the State Department is basically willing to work with and be part of any administration's foreign policy. Once a decision is made that this is our national policy, the State Department is basically good at lining up. But they have to be told very clearly, very succinctly, what the policy is.

Mrs. Wang: This is a comment related to your earlier comment about an FTA being in the interest of the U.S. and the ROC. So we decide to go ahead. I think it is also in the interest of PRC because they have said consistently that a stable Taiwan is what they desire and what they would like to keep. And nothing will work better than an FTA to keep a stable Taiwan, wouldn't you agree?

Secretary Derwinski: Oh, yes, in principle, very much so. But I think it is fair to say that what we are looking at is a situation where there seems to have been a political adjustment in Taiwan, a political transition that has been remarkably smooth. And, yet, we are still faced with a period of time where the political developments on the mainland are subject to quite a few ups and downs, a couple of steps forward and a couple of steps backward. The picture is not quite as clear; the per-

sonalities are not quite as clear. The behind-the-scenes maneuvering is nowhere as clear. And as a result of that, while I think you are absolutely correct that, just as a continued stable Hong Kong would be in the interests of the PRC, whether that is the end result, we will not know for nine years. You cannot really say with certainty that is the case now.

Guest: Mr. Secretary, do you share Mr. Allen's characterization about the State Department's fear that, if the U.S. negotiates an FTA agreement with the ROC, it will be like conferring sovereignty on the ROC? Do you share his view?

Secretary Derwinski: The sovereignty issue breaks all sorts of ways. In trade, I think less so. This may not be the world's best example, but, you know, a little over ten days ago, we abducted a drug lord in Honduras, and the question has been raised as to whether or not this was in violation of Honduran sovereignty. The question is whether the overall U.S. international role in leading the effort to effectively fight the international drug cartel was a far greater priority than the technical issue of whether or not, at that particular point, Honduran sovereignty was violated. Now I just cite that as an example.

In trade, there is no such personality or political risk because trade is consumerism, especially in the U.S. The products that flow in here are products that the American consumer willingly purchases, and that is the conscious personal decision of the American consumer. I see it as nothing but, if anything, enhancing his personal freedoms and not a violation of sovereignty.

However, it is only proper that I should tell you one little story about Richard Allen. When I left Congress after 24 years and went over to the State Department, I ran into Richard Allen at a cocktail party. He asked, "How are you doing at the State Department?" And I said, "Oh, just fine. It's fascinating, educational. I'm learning, just learning so much." He said, "What are you doing?" I said, "Well, every day, I go to all sorts of meetings. After an hour or two of discussion, we agree to meet again." I said, "That's all that happens." He commented, "My

God, you broke the code." And with that experience, I have had a much more objective and relaxed attitude at the State Department ever since.

Mr. Allen: Mr. Secretary, you mentioned that the corporate memory of the Congress has dissipated because so many people have turned over on the Taiwan Relations Act, and people are not knowledgeable about it. But is it not useful to remember that the Taiwan Relations Act confers, and as an architect of it, you know, full authority of the United States government to negotiate all areas of agreement with the Republic of China on Taiwan? I think that what has happened here is that the provisions of the Taiwan Relations Act have become less clear and those who do not want negotiations of any sort with the ROC, because of the fear that it may be construed as conferring sovereignty, use that as an excuse. This unique Act is the only one like it in the entire world, to my knowledge, and certainly in our foreign relations maintaining diplomatic and other contacts with some 150 or 160 nations. The richness of this Act is that no other nation bases its relationship with the United States on an act of Congress, which is the equivalent of the law of the land.

This instrument clearly states that we can negotiate and we can and should negotiate economic agreements. That, after all, was the whole rationale for the Taiwan Relations Act.

How can we pierce through this very thin and artificial veil that has been put up, at least apparently put in place ever since Al Haig was Secretary of State which, of course, was converted to another result after 18 months? How can we pierce this veil and get a serious negotiation going and overcome the argument that such a negotiation is somehow unlawful or uncustomary?

Secretary Derwinski: I agree with your basic point, but I would describe the problem as slightly different. What happens is that those people in government, and for that matter, active observers outside of the government who are supportive of the Taiwan Relations Act are rather calm or even complacent on the issue. Whereas those people inside of government and outside of government who, for a variety of reasons, would be critical of the passage of the Act or its impact on

policy today, are alert to whatever they can do in interpretation or even distortion to make their points contrary to the spirit of the Act.

So we get back to the point that there should be an educational effort to see that the new Congress and others who come into government after the elections understand the intent of Congress at the time of the passage of the Taiwan Relations Act. Remember, it was very clearly motivated by what Congress considered an adverse political development. It could not overturn it. It did not really want to overturn it, but, in fact, the Taiwan Relations Act provided for what we wanted at that time, a very positive relation with our old friend, the Republic of China. That was the intent of Congress, and no Congress has taken a step to undercut that intent. It is not only the law of the land, but it was the clear intent of that legislative body at that time.

Guest: One point of information. Did you have to clear your remarks here with the State Department before you came here?

Secretary Derwinski: I have a prepared statement I will leave with Dr. Feulner. I have been basically extemporizing today. If I cleared everything I said with the State Department, even you might doze off. I am here unofficially and personally. I am not giving you the State Department line.

But I do wish to emphasize, in defense of the State Department, we are not as wicked as we are painted from the outside. In fact, my observation has been that the State Department will support any President any time under the policies the President clearly emphasizes. Then the Secretary of State plays a certain obviously key role in seeing that the Department does respond.

The trouble with the State Department is that it is a bureaucracy. All bureaucracies work slowly. All bureaucracies have their inconsistencies. All bureaucracies are composed of a variety of interesting individuals. And in the State Department, they are usually bright and usually talented.

What they need probably more than most other departments is really strong leadership. When they have it, they function that much better.

Dr. Feulner: I invite my colleagues, Mr. Allen and Dr. Chang, to come up for the final session and share with all of you their concluding observations.

I would like to begin by again thanking all of you for being here with us today from Washington, from California, and points in between, and of course, the Republic of China. The proceedings of this conference will be transcribed and published, and I hope you will find them a useful reference work as the issue of a changing and evolving U.S.-ROC economic relationship develops.

Let me review some of my notes to launch this session. Dr. Chang mentioned in his opening remarks that the United States should become more internationally competitive, and I would like to emphasize that point. It is a subject that has concerned my colleagues and myself here over the last several years. We have published studies on it. We have held conferences on it. But I would point out that, in fact, in both our manufacturing sector and in our service sector, we have made tremendous strides over the last five or six years in terms of the competitive nature of American products overseas. We are doing much better. We still have a long way to go.

Mr. Shelley made the very trenchant point that we are all reminded of whenever we look out the front windows here at The Heritage Foundation — that Congress plays a unique role in terms of how this question might evolve. He noted that Congress changes the ground rules to help its own constituencies, and this, indeed, is one of the problems that must be faced in developing public policy alternatives, not just here at The Heritage Foundation, but everywhere in the public policy arena.

I would respond to Mr. Shelley that it is up to us who believe that there are new ways of addressing questions such as bilateral economic relationships. We should be building our own "counterconstituencies," if you will.

We heard a very impassioned and erudite plea from Barbara Keating that free trade is basically pro-consumer. We should build a coalition, frankly, with American consumers, as well as with American business, in terms of promoting a closer economic relationship with the ROC, probably through an FTA.

I was reminded by my colleague Roger Brooks that when it comes to the bilateral economic relationship and exports from the ROC to the U.S. and who would be affected, the largest exporter to the U.S. from the ROC is a local ROC firm by the name of General Electric, which, the last time I heard, was headquartered in the suburbs of New York City.

Josephine Wang emphasized and considered very carefully the different legal questions that were put forth, including some of those that Mr. Allen and Secretary Derwinski have addressed regarding the Taiwan Relations Act. And I believe that her comments in terms of removing some of the legal obstacles to moving in this direction will be very helpful in the future.

I would also call particular attention here to a paper Heritage published four or five months ago by our visiting fellow Terry Emerson on the U.S.-Taiwan Relations Act and the overriding importance of the Taiwan Relations Act, particularly vis-a-vis the Shanghai II communique. Copies of that study are available in the lobby for anybody who has not seen it.

I think we have to build a counterconstituency. We have to work with our good friends at the U.S.-ROC Economic Council, with David Kennedy and his group here, and with C.F. Ku and the ROC-U.S. Economic Council in Taiwan, in terms of building up interest in an FTA among the business leaders of both countries. Congressman Frenzel's remarks were very pointed. He said that, if there is a country that you trust, and if there are benefits on both sides, it is very clear that you should work toward an arrangement such as an FTA in solving bilateral trade differences.

Senator Roth has promised that he will ask the Congressional Research Service to do an in-depth study of how sectors, individual sectors within our economy might be affected by an FTA.

In response to an inquiry from the floor, I would comment that, of course, an FTA that is agreed to on a bilateral basis would be phased in over an extended period of time. It is a fact that the financial institutions and the service sector in the ROC are not as developed as they are in the U.S. and that perhaps particularly the financial sector is not prepared to move to an FTA. This is not really a relevant considera-

tion because the negotiating and then the implementation of an FTA over an extended period would provide positive impetus to the Chinese side toward a more intensive and more vigorous financial sector, one that could, in fact, take full advantage of the bilateral nature of an FTA.

Secretary Derwinski noted that the Prime Minister of Canada will be visiting here very soon to discuss the U.S.-Canadian free trade area agreement. He used the phrase that it was a political hot potato north of the border. And by implication, I think, that is the key political point that has to be stressed here in the U.S. If you consider a bilateral free trade area agreement between the U.S. and the ROC, today, the advantages are so clear on the American side for moving in that direction. Basically, the ROC has almost virtually unlimited access to our markets already. Dick Allen has reported to us after his recent visit that there is a strong and enthusiastic endorsement for a move toward more open trade among every sector that he visited. And this from the side more difficult to convince. We should be the easy ones to convince because we are opening up another market there without necessarily opening it up to our friends and competitors.

So the political "hot potato" in this new situation of the U.S.-ROC FTA does not exist. This is something that we have to remind our friends over here on Capitol Hill and in the U.S. Trade Representative's Office of. This FTA might be a lot easier to negotiate than one with Canada.

The next step is obviously to work through these political dimensions and the political discussions, as Congressman Frenzel pointed out. We also should look beyond this Administration to implement these ideas, as Mr. Allen pointed out. We should put them forward as positive proposals, for both political parties in their platforms. And we should push that educational effort that Secretary Derwinski mentioned, not only for the new members of Congress and for a new administration, but also for all of those who are around today, but for whom this issue has low priority.

As we look at an FTA on a bilateral basis, I think we can see it not only as being beneficial in and of itself, we can also see it as being a very positive ingredient in moving toward free trade worldwide, toward giving an extra impetus, if you will, toward the GATT negotiations.

And so as we move ahead toward party platforms, toward the congressional elections, toward a transition to a new administration, and then finally toward working with that new administration, I want to assure everyone here in the audience, particularly our friends who have come from the Republic of China to be with us today, that an FTA with the ROC certainly is going to be very high on the continuing agenda of all of us here at The Heritage Foundation.

And now, Dr. Chang, would you give us some of your final thoughts?

Dr. Chang: After almost a full day of thorough and fruitful discussion on the subject of a free trade area between the U.S. and the ROC on Taiwan, it is a great pleasure for me, on behalf of my colleagues from the Republic of China, to say how grateful we are for the very efficient management of such a successful conference by The Heritage Foundation under the leadership of Dr. Feulner. I believe, together with several preceding ones on the same subject, this one will contribute a great deal to a better solution of the U.S.-ROC trade imbalance.

We have heard various points raised by participants of our two countries concerning the costs and benefits of signing an FTA between our two nations, and they have been ably summarized and analyzed by Dr. Feulner. I trust that the time has now come for us to transform our words into concrete action. At risk of seeming too blunt, I would encourage and challenge all participants today to make things move before President Reagan hands over the Presidency to his successor.

The reason that we are interested in an FTA with the U.S. is that our foreign trade has been and still is heavily dependent on the U.S. Until only very recently, more than 40 percent of our annual exports have had to find their home on the U.S. market. Owing to the highly inter-related economic relationship between the two nations, it is quite true that when the U.S. sneezes, Taiwan catches cold. When the trade deficits first exceeded \$10 billion in 1985, both countries started to realize that, sooner or later, trade issues would dominate our bilateral relationship. Unfortunately, since the beginning of 1986, hardly a day goes by without an almost routine pronouncement or analysis in the U.S. press about what the country should do to promote its trade and

reduce its staggering trade deficit with its two major trading partners, of whom one is the ROC on Taiwan.

Although many measures have been taken on the ROC side, including import tariff reduction, market access for service industries, major purchases and special concessions on certain import items, dispatching of regular Buy American missions to the U.S., and help in promoting the sales of U.S. products in Taiwan, the bilateral trade figures are, however, still in favor of the ROC with an ever worsening record of \$13.6 billion in 1986 and \$16 billion in 1987.

I think you probably will join me at this point in wondering why all these measures have not worked. A survey conducted in June 1987 might give us some hints. The China External Trade Development Council surveyed 543 local manufacturers who imported more than \$300,000 worth of Japanese goods in 1985 to ascertain the chances of their shifting their customers from Japan to the U.S. The result indicated that Japanese goods are more competitive than U.S. goods here in terms of price, quality, and after-sales service. Of those surveyed, 23.3 percent said they were not likely to switch their business from Japan to the U.S. 30.4 percent said it was possible for them to make such a change, and 46.3 percent said it would depend upon the general situation.

In addition to the geographic position and cheaper freight rates from Japan to Taiwan, more joint ventures or other cooperative relations with Japanese companies, plus the fact that Japanese traders are very active in promoting their products turn out to be the major reasons for local makers preferring Japanese products to the American counterparts.

This outcome can somewhat substantiate the claim that we have made over the years. That is, even if we open up our market, the U.S. may not necessarily stand to gain. On the contrary, the Japanese may grab an even larger market share. Therefore, an accord must be reached between the U.S. and ROC on a bilateral basis. An FTA is exactly the kind of bilateral trade agreement we both need badly.

We do agree, as Michael Aho stated in an article published in *The Wall Street Journal* last month, bilateral agreements are justified only in special cases and that Canada and Israel are special cases for the

U.S. Nevertheless, we were also encouraged by Professor Paul Wonnacott from the University of Maryland when he said, "The GATT multilateral system served the world well for the past 30 years, but may now have run out of steam." In fact, as Hobart Rowen suggested in an article appearing in the Sunday *Washington Post* on January 10, "U.S. trade negotiators, long impatient with the slow moving international trade bureaucracy represented by GATT, have warned for the past few years that if global trading rules cannot be liberalized and expanded to the increasingly important area of services, the United States will pursue trade agreements on bilateral lines. And some trade experts wonder if a U.S.-Japan trade agreement or a U.S.-Taiwan pact and so on may now be feasible."

In a speech delivered in Memphis in early February, Treasury Secretary James Baker clarified his earlier remarks about the "mini-lateral and market liberalization club" even clearer. And, furthermore, he also mentioned that Japan, the ROC, and South Korea were interested in participating in such negotiations.

As an initiator of a proposal for a U.S.-ROC FTA, our friends in The Heritage Foundation have a very good opportunity to pursue their optimistic mood even further. As a country involved in this complicated process, our government and people, in general, have to be ready when the time comes for a U.S.-ROC FTA. That is to say, it seems inevitable that, to some extent, the conditions and environment, both within and without the country, must be improved and enhanced and our economy more liberalized and internationalized in every respect.

Faced with the fact that we will be losing our GSP treatment starting next January, we feel strongly that something has to be done in order to make up for the possible loss of competitiveness in our products. As the number one beneficiary of this treatment, we have exported more than \$11.6 billion worth of commodities to the U.S. during the last three years, that is from 1985 through 1987, under the GSP. Consequently, starting next year, we have to find somewhere in the U.S. to absorb all or most of \$3.7 billion worth of goods annually. If, however, we have a bilateral FTA, then there will be no problem at all because everything will be traded under low or very low custom duties. Therefore, as far as timing is concerned, I think right now is best.

The proposed bilateral U.S.-ROC FTA, in my opinion, should have the following characteristics. First, the removal of all tariff and non-tariff barriers on trade between our two countries over a relatively short period of time. Second, assurance that most American and Chinese exporters will still have to consider all the normal aspects of a commercial relationship, such as delivery dates, quality of products, after-sales services, and credit worthiness. If everything goes well, the elimination of customs duties, periodical consultations, and less restrictive licensing, as provided by the FTA agreement, will significantly strengthen and encourage bilateral trade. As a result, this bilateral FTA can serve as an open channel for the free flow of investment and services which, in turn, will benefit our two nations a great deal.

I have just reported very briefly as to why we need, how we need, and when we need an FTA between our two countries. But before I conclude my remarks, let me quote one paragraph in a speech delivered by Mr. Vincent Siew, Director General of the Board of Foreign Trade, Ministry of Economic Affairs of the Republic of China. He says, "I find that under an FTA, both our countries might pay the price of a loss of trade flexibility and tariff revenue in the short run. In the long run, however, an FTA agreement should prove to be quite beneficial to both nations. Generally speaking, the benefits from an FTA between the ROC and the United States could be greater than any shortcomings. I personally believe that an FTA agreement would at least double our two-way trade after implementation. I strongly believe that this is a proper and effective way to show other countries that a free and fair trading system will benefit all countries in the world."

To sum up, let me say that, although an FTA between our two nations does not sound very attractive to the Congress or to the Administration at this time, let us not forget that as long as we begin and continue our search for a proper solution such as this, we cannot fail, because there is nothing that cannot be altered and nothing that is totally unfeasible.

Keep Jimmy Wheeler's observation in mind. He said, "The fact that the ongoing free trade talks with Canada, a much closer U.S. ally than Taiwan, are highly unlikely to result in an FTA agreement indicates the limited hope available for any such agreement with Taiwan, or any

other Asian country, in the foreseeable future." But an FTA between the U.S. and Canada was signed on January 2 of this year. Let us only hope that, as Martin Lasater urged in his paper last year, "Congress [will] authorize the Administration to proceed with preliminary analysis and negotiations. The Administration should begin its formal inquiries into the costs and benefits to the United States of such an FTA at the earliest possible opportunity." Should all or any of the above steps be taken, then the efforts of this conference and its participants will have completely paid off.

Mr. Allen: Dr. Chang mentioned that he thinks the timing is right, now, before President Reagan leaves office, before he turns over his office to someone else. I just wanted to let you know that we all feel, here, that if the conditions are not proper, we are going to urge him not to turn it over to anyone else.

So you can keep that very much in mind as you consider this. There are really only several options and two main alternatives. One is to continue along the same lines the patchwork of our trade relationship with the Republic of China, a nation to which we owe certain very special responsibilities. That is to say, fight sector by sector and allow problem after problem to overwhelm us. Just as we resolve one set, we find that there are others coming upon us and that we are allowing the narrower special interests and sectoral pressure groups to drive and then form that trade policy. Or, on the other hand, we can take a broad, comprehensive, long-range strategic approach with a free trade area agreement, which will provide the overall frame and format for an intelligent pursuit of U.S. national interests, but at the same time enhance the interests of the people in the Republic of China.

That makes great and imminent good sense, it seems to me. I hope all of you have picked up this Number 150 Heritage Lecture Series, which was one of the instruments of the original proposal for the FTA that Ed Feulner and I made last year, just ten months ago. In it is contained what I consider to be the finest short course on the essence of free trade, in particular, its application to a free trade area agreement with the ROC. It comes in the form of seven pages by Senator Phil

Gramm — one of the most eloquent presentations on the subject that I have ever heard.

I would like to quote three very short passages from what Phil Gramm had to say because it bears on what we are talking about here today, and it bears on some of the choices that we face and that members of Congress face as they deliberate on the very important issue of trade.

He says, "Unfortunately, there are some basic economic truths that Congress does not understand. One of these is that 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." Addressing, of course, the subject of jobs and trade, he says, "Where do American trade deficits come from? I never tire of trying to explain this to my colleagues. But there's 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."

He goes on to say, "You should recognize that all of the so-called facts that you hear every day on the floor of the United States Senate, 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 the trade or the trade deficit. I never cease to be amazed that this point is made over and 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."

He says, "The United States has created 13 million new jobs [more by now, however]. . . since the trade deficit soared in 1982. No other nation on earth can match that performance. We've produced more jobs since our trade deficit sky rocketed in 1982 than Europe and Japan combined."

This speech, which I certainly can attest to, represents the summation of all the reasons not only why Phil Gramm is right, but why an FTA is certainly right for our time. I cannot remember who it was, in responding to a question about pessimism of a sports event outcome, said, "Oh, no, it ain't over until it's over." Whoever that person was, he is right about this. There may be pessimism about the prospects for a free trade area agreement today, but certainly not nearly what there was 24 months ago. And the momentum that we have achieved in just the last ten months since our conference here last summer and the work that we have done with you in the Republic of China clearly indicates that the momentum is moving in the right direction. So it ain't over until it is over. And we are just now beginning, I think, a long-term debate. We are going to continue to press our efforts to enact a free trade area agreement because it is vital, because it is in the fundamental interests of the United States of America. That constitutes good policy.

The ideas that are generated and become policy, whether as a result of The Heritage Foundation recommendations or some other process, are worthwhile. And this particular idea has reached, I think, the zenith of interest. It will move on from here, hopefully become law with the full support of not only the present Administration, in case we are not able to get it started before January 20th, but certainly in the next administration.

The Asian Studies Center of The Heritage Foundation will continue to study this problem and publish on it. Our works are widely recognized, read not only here, but abroad. And finally we are proud, very proud of our strong and close relationship with our friends from the Republic of China. We are particularly proud that we could be here together to discuss, once again, this important issue. We will not forget it and we hope that you will not either.

Dr. Feulner: This meeting is adjourned. Thank you all very much.

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THE HERITAGE LECTURES

As U.S. trade problems with Asian friends and allies continue to trouble Washington, protectionists in Congress have focused more of their energy on erecting barriers against many of America's Asian trading partners, regardless of the heavy costs that ultimately will be paid by the U.S. consumer. Clearly, a new U.S. trade strategy is needed, both to deflect protectionist sentiment and to create a more healthy relationship with its top Asian trading partners. A key element of this new strategy should be a Free Trade Area, in which trading partners are free to eliminate, over time, those restrictions, such as tariffs and certification requirements, that inhibit free trade. The U.S. already has an FTA with Israel and is in the process of concluding one with Canada.

This volume, the second published by The Heritage Foundation on this subject, looks at the FTA concept with another vital U.S. ally and trading partner, the Republic of China on Taiwan. A distinguished and diverse group of experts assembled by The Heritage Foundation and the Institute of International Relations in Taipei explore the many aspects of the U.S.-ROC trade relationship, giving special attention to the enormous mutual benefits to be reaped by Washington and Taipei in the establishment of an FTA.