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URGENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

URGENT

March 8, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #M-36

TO: Legislative Liaison Officer -

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COMMERCE - Michael A. Levitt - (202)482-3086 - 324
DEFENSE - Samuel T. Brick, Jr. - (703)697-1305 - 325
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NSC - William H. Itoh - (202)456-6534 - 249
NEC - Elizabeth Lindemuth - (202)456-6630 - 429
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FROM: RONALD K. PETERSON (for) Ronald K. Peterson
Assistant Director for Legislative Reference

OMB CONTACT: Annette ROONEY (395-7300)
Secretary's line (for simple responses): 395-6194

SUBJECT: USTR Oversight Testimony on U.S. Trade Policy Issues

DEADLINE: 2:00 P.M., TODAY, March 8, 1993

COMMENTS: If you have not responded by the deadline, we will presume your agency has no comment.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
T. Dorsey
K. Kizer
J. Serlemitsos
D. Heath
N. Schwartz
K. McGinty

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RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is **simple** (e.g., concur/no comment) we prefer that you respond by **faxing** us this response sheet. If the response is **simple** and you prefer to call, please **call the branch-wide line** shown below (NOT the analyst's line) to leave a message with a secretary.

You may **also respond** by (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); (2) sending us a memo or letter; or (3) if you are an OASIS user in the Executive Office of the President, sending an E-mail message. Please **include** the LRM number shown above, and the **subject** shown below.

TO: Annette ROONEY
Office of Management and Budget
Fax Number: (202) 3955691
Analyst/Attorney's Direct Number: (202) 395-7300
Branch-Wide Line (to reach secretary): (202) 395-6194

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

SUBJECT: USTR Oversight Testimony on U.S. Trade Policy Issues

The following is the response of our agency to your request for views on the above-captioned subject:

_______ Concur

_______ No objection

_______ No comment

_______ See proposed edits on pages ______________

_______ Other: ______________________

_______ FAX RETURN of _____ pages, attached to this response sheet draft3

TESTIMONY OF AMBASSADOR MICKEY KANTOR,
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE SENATE COMMITTEE ON FINANCE

March 9, 1993

I welcome the opportunity to appear before the Finance Committee today to discuss the approach and direction of the trade policy of the Clinton Administration. This is my first public appearance before a Congressional committee since I assumed my responsibilities. I am delighted that I can appear first before this committee, which recommended me for confirmation to the position.

In his February 26 speech at American University, President Clinton set forth his vision of America's role in the global economy, confronting the third defining moment of the 20th century. Our role in the world emerges quite clearly from that important speech. As we and other nations struggle to face the new realities in the aftermath of the fall of Communism, the United States will be fully engaged internationally, not turning inward away from the world. We see our prosperity bound up with prosperity of our trading partners in Europe and Japan. We will work with them to promote global growth, aid the development of other less fortunate nations, address the emerging issues of environmental degradation and proliferation, and focus on the central importance of what is at stake in Russia.

Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services. As the President said, we will compete, not retreat. And we will both cooperate and compete.

The trade policy of this Administration starts from the same point as economic policy does: our prosperity and that of our children depends almost entirely on our ability to compete and win in the global markets.

A little more than a generation ago, American industrial and technological superiority were unquestioned. Our workers, consumers and companies lived almost entirely within the American economy, and prospered there. But those days, when the world was a far simpler place, are long gone. Today, our exports and imports represent more than a quarter of our entire economy. And in the new global marketplace---where capital, management, production, technology and even labor are increasingly mobile---more than 70% of our products face competition from products produced in other countries.

As the members of this committee knows, even before his speech at American University, President Clinton had spoken repeatedly about the changing world and these challenges in the campaign. This is a President who understands the global economy and the connection of our domestic economy to the global economy.

The President has appointed to positions throughout the Cabinet and the executive branch an unprecedented number of people who have spent the last twenty years of their lives---in Congress, in international business, in academia---learning about, and helping America to understand, the realities of global marketplace.

Principles of Administration Trade Policy. Let me start with the principles that will guide Clinton Administration trade policy, which run through the President's American University speech

1. **In this Administration, trade policy is a part of integrated economic policy, and the fundamental goal is economic growth and the creation of high wage jobs for American workers.**

The trade deficits which have grown up since 1980 are a fair measure of our competitive slippage, but they represent many factors beyond trade policy and trade agreements. If as a nation, we increase public and private investment, if we attack our budget deficits, if we take control over our health care system, if we educate our children and train our workers---we will have taken enormous steps toward prospering in global competition. If we do not take those actions, trade agreements alone will not produce prosperity for our people.

Nothing is more important to our economic prosperity,

our competitive success, and our trade policy than the adoption of the President's economic package. Bill Clinton was elected to get the economy back on track, and to fix the track: to insure that we came out of recession in the short term, and to lay the groundwork for long term prosperity. The prosperity on which the economic futures of American families and America's children depends requires a commitment to increased public and private investment, which could only come about by simultaneously increasing those investments, and making a no-holds-barred attack on the budget deficits.

Politics has its place, and I was the President's campaign chairman before I became United States Trade Representative. But plenty of Republicans, including those on this committee, have long understood that our present economic course was an unacceptable path of drift and decline. The lack of investment and the deficits have crippled our economic performance; if unaddressed, they could consign this country and its children to a diminished economic future. America, and all of us in political life, will benefit if we can come together to pass the President's program.

A real attack on the budget deficits will reduce long-term interest rates, leading to increased investment and job growth. U.S. companies choosing where to invest will find contributing to our own country's growth a more attractive option. Over the longer term, increased investment in the education and training of our workers, our transportation and communications infrastructure, and research and development generally, are vital to our ability to compete globally. In that connection, the Administration's New Technology Initiative, unveiled by the President and Vice President Gore on February 24, is a concerted effort to bolster U.S. civilian technology which has too often been slighted because of our traditional focus on defense technologies.

Moreover, the link between the President's program and our ability to promote global growth is unescapable. The economic stagnation of the past few years has not been confined to the U.S. Growth will resume through concerted action by the leading economic powers: our attack on the budget deficits, Germany's willingness to lower interest rates, Japan's readiness to stimulate its domestic economy. For each of us, hard steps, with short term costs, are necessary to produce growth and prosperity. President Clinton's call to arms makes it possible for him to enlist other nations in joining us in a concerted effort to promote global growth.

2. **Past Administrations have often neglected U.S. economic and trading interests because of foreign policy and defense concerns. The days when we could afford to do so are long past. In the post-Cold War world, our national security**

depends on our economic strength.

In the immediate aftermath of World War II, the United States led the free world in creating a free and open trading system. The Bretton Woods Agreement, the Marshall Plan, the creation of the GATT and the IMF are all testimony to the vitality of the free world in creating a post-war economic framework.

This framework was both geo-political and economic in its origin. The United States recognized the military threat posed by Communism; that our vital interests would almost always be defined in national security terms. At the same time, we realized that the expansion of trade and investment was one of the Free World's most potent weapons.

This policy was virtually painless for the United States. Although the U.S. was the world's economic giant, U.S. trade amounted to relatively little. In 1950, for example, U.S. exports and imports each amounted to only about 4% of the GNP, or 8% for trade as a whole. For Britain and France, on the other hand, trade with the United States was their economic life line, representing 40-45% of their GNP.

As a result, the United States tolerated "infant industries" policies in both Europe and Japan and other forms of protectionist economic policy in the post-war environment. Indeed, the creation and support of these economic policies by our allies was seen as an essential element of our national security interests.

Our foreign and economic policy in the post war era deserves credit for its historic accomplishments. We contained Communism, and rebuilt the economic strength of the free world. In the four decades following World War II, growth in the non-Communist world tripled. More importantly, Communism as a political system failed to maintain its toehold in Western Europe.

By the early 1970's, however, our trading partners had begun to come of age, and external shocks, such as the oil embargo of 1973, jolted our economy. We had started negotiating voluntary restraint agreements on textile and apparel imports in the 1960's. But the U.S. ran its first merchandise deficit of the century in 1971, protected our steel industry in 1973, and confronted the first wave of popularity of cars from Japan. Accustomed to steady economic growth and a secure domestic market, American business and workers had difficulty adjusting to the new dynamics of world trade. Equally important, government policy did not change. American jobs and economic interests continued to take a back seat to foreign policy concerns.

The deterioration in our trading position and the loss of our competitive edge predated 1981, but the policies---and lack of policies---pursued in the last twelve years accelerated the decline. The deep recession of 1981-82 took a devastating toll on U.S. manufacturers, but even when the economy recovered strongly, the overvalued dollar saddled U.S. exporters with a serious competitive disadvantage. Confronted with the reality of Japan's trade and industrial policies, the Reagan Administration's only response was laissez faire and, after the 1985 Plaza Accord, dollar devaluation. By 1987, the U.S. trade deficit was $150 billion, $60 billion of which was with Japan. The weakness infecting basic industries spread to our leading edge high technology sectors as well.

This rather brief, and admittedly selective, history of the past half century is not intended to assign blame, but to provide a backdrop for where we are today. The truth is there is ample blame for everyone. U.S. business was very slow to adjust to the blast of competition; there was no excuse for their failure to see what was happening years ago. But it is also true that U.S. government policy saddled our companies with every conceivable burden: higher costs of capital, a constantly changing tax code, increasingly serious health care costs, and, most relevant to us, a trade policy that for many years failed to enforce our laws at home, or open markets abroad.

The fundamental question that I am asked about trade policy is: how much continuity, and how much change. By any fair measure, the trade policy of the Bush Administration represented a significant improvement over its predecessor: more realistic, more effective and more committed to market opening. Great credit goes to Ambassador Hills and her staff, but a large measure of the credit should go to the six year, bipartisan Congressional effort, in which this Committee was instrumental, which culminated in the Omnibus Trade and Competitiveness Act of 1988. Thanks to that Act, the United States has a trade policy, with clear objectives that have broad support from Congress and the private sector. Obviously, there is no shortage of difficult decisions to make, but the United States Trade Representative is charged with enforcing the laws and opening foreign markets, and given the tools to do so.

This Administration will not subordinate the interests of U.S. businesses and workers to foreign policy and defense concerns. We will not stand by and expect our businesses and workers to compete with counterparts abroad, when those counterparts benefit from the support of their governments. At the negotiating table, I will be representing the interests of American workers, farmers and businessmen and women, just as my counterparts represent theirs. We will continue to play our part in making the international trading system work, but we will insist on our trading partners bearing their share of the responsibility as well.

3. We will compete, and we have proven that we can.

Because of failed government policies, and the difficulty of adjusting to the new global economy, the United States has had serious competitiveness problems in many areas of the economy. But I have no doubt about the ability of our corporations, our farmers and our workers to compete. In many sectors---computers, aircraft, machinery, agriculture, motion pictures, financial services---American companies and American workers set the standard of excellence in the world. Our universities and and our entrepreneurs are the envy of the world. We will build and maintain a strong manufacturing base, and we will manufacture everything from semiconductors to steel. We welcome the products of other nations, but we will not prosper if we are content to simply buy, sell, assemble, and distribute high-quality and low cost goods from abroad.

Export expansion has been the bright spot in an otherwise dismal economic picture over the past few years. From 1985 through 1991, U.S. exports increased from $216 billion to $416 billion, in current dollars. We regained our position as the world's number one exporter. By 1990, more than one in six U.S. manufacturing jobs were related to merchandise exports, and the average wages for workers in manufacturing and service exporting sectors, where American products are most competitive, substantially exceed the U.S. average. This dramatic increase in exports has occurred even though 85% of U.S. exports come from only 15% of U.S. companies. The export potential of our vibrant small and mid-sized businesses remain to be realized, and that is a high priority for this Administration.

4. **We will seek to expand trade by opening foreign markets, and we will enforce the laws at home.** One of my principal responsibilities as USTR is to open foreign markets and break down barriers to U.S. manufactured goods, agricultural products and services, in Carla Hills' memorable phrase "with a handshake or a crowbar." This includes pursuing the strong protection of U.S. intellectual property, so important to our high technology industries. When all is said and done, opening foreign markets is our main objective in the Uruguay Round; it is the impetus, from our standpoint, for the North American Free Trade Agreement (NAFTA); it will be a principal focus of our efforts with respect to Japan and China, as well as in other nations around the world.

Market-opening leads to expanded trade and a growing world economy. But it is particularly crucial for the United States. We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, this market will always be basically open. Consequently, we need to use every tool at our disposal---multilaterally where possible, and bilaterally where necessary---to make sure that other markets are comparably open to our own.

That includes resort, where necessary, to Section 301, strengthened by Congress in 1988. Both Super and Special 301 have proven to be valuable tools for breaking down significant barriers to our products and services, including the failure to protect our intellectual property.

It should be understood: while there are many factors beyond trade policy that contribute to trade deficits, trade policy matters. Allowing other nations to promote and protect their industries, building profits from secure home markets, while targeting our open market, is a formula for competitive suicide. We will not stand by and pretend that other nations share our commitment to expanded trade and open markets if the real world evidence suggests that they do not.

5. **We will ask companies and workers to join in partnership with government to build competitive industries.** Nor will we stand by, indifferent, when companies, workers and communities are hard hit by foreign competition---fair or unfair. In appropriate cases, our Administration will offer trade relief to industries under pressure, but we will expect in return that the affected companies and workers will commit to actions that will build the future competitiveness of the industry. This Administration is asking all Americans to join in the effort to rebuild our country's economic strength; there will be no free rides. We will not protect industries, only to watch them raise

salaries for their CEO's and prices for their customers.

Let me address specifically a number of the major issues facing us. In these cases, intensive interagency discussions are under way, with some key decisions upcoming in the next few weeks, but I can give you some sense of our approach and current thinking.

NAFTA. As the President has stated, trade policy must be part of our overall economic policy. In that context, both as a candidate and as President, he has consistently affirmed his support for the North American Free Trade Agreement (NAFTA), provided it is accompanied by the right U.S. domestic economic policies and provided it is supplemented by additional agreements and domestic actions to address concerns regarding labor and the environment. Addressing these concerns does not mean re-opening the NAFTA text. Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994. This package taken together can then be an important and positive part of our growth strategy. An expanded NAFTA package can contribute to the ability of our companies and farmers to compete at home and abroad while also ensuring that working conditions and living standards rise throughout North America.

We have already seen the benefits we can reap from as Mexico opens its markets. Thanks to the economic liberalization enacted by President Salinas, our exports already have grown from about $14 billion in 1986 to $40.6 billion last year. This export growth has reversed what was a $6 billion trade deficit in 1987 and turned it into a trade surplus of nearly $6 billion last year. And these increased exports have come from every region of the United States. Mexico is one of the top 10 overseas markets for 38 states, and 20 states each shipped roughly $250 million or more to Mexico in 1991.

Mexico is our fastest growing major export market, our second-largest market for manufactured goods, and our third-largest market for agricultural products. Seventy percent of Mexico's imports come from the U.S., and Mexicans already consume more U.S. goods per person than either Europeans or Japanese.

Moreover, the NAFTA negotiations already have contributed to significant progress in Mexico in putting teeth into its environmental laws. This Administration is committed to negotiating the side agreements needed to reach that an historic result. But if the side agreements are not sufficiently strong, the promise of NAFTA will not be realized, and we will not support such an agreement.

I met for the first time with Mexican Secretary of Commerce Jaime Serra on February 17. Secretary Serra and I agreed that negotiations on the supplemental agreements should begin during the week of March 15.

The Administration has an intensive interagency effort at work to reach a consensus about our objectives for the supplemental agreements. At the same time, we intend to consult with the Hill, and meet with a wide range of interested groups, including business, labor, environmental organizations and public interest groups, before beginning negotiations. No one can predict the pace of the negotiations, and we will not let time considerations drive these negotiations. Nevertheless, we would like to conclude these negotiations in time for us to submit NAFTA implementing legislation to the Congress this year. Our goal is to have an expanded NAFTA package passed this year so that the NAFTA can enter into force on the envisioned effective date of January 1, 1994.

On March 17 we will begin negotiation of the supplemental agreements on labor standards and safety, environment and import surges which the President called for during his campaign. We will not ask you to vote on NAFTA implementing legislation until these negotiations result in comprehensive, enforceable agreements.

In the supplemental agreements on environment and labor, we are looking for concrete improvements. We want the agreements to have mechanisms and provisions to raise standards where they are deficient, strengthen national enforcement of national laws, improve the U.S.-Mexico border environment, and ensure, so far as possible, that the NAFTA promotes prosperity and improved social conditions in all three countries.

I am optimistic that we can achieve these goals, because Mexico and Canada share them too. My Mexican counterpart, Jaime Serra, has told me that he would like to view these talks not as a negotiation, but a collaboration. Mexico has excellent labor and environmental standards on its books, and President Salinas is committed to strengthening the enforcement of these laws.

I see the labor standards and environmental agreements covering three basic areas:

-- improved cooperation on worker and environmental safeguards, including technical assistance, and data sharing, with a goal of attaining the best protections in the world;

-- improving enforcement of standards and national laws, both through national institutions and new commissions which will provide independent scrutiny of measures taken to enforce national laws; and

-- reviewing the impact of the NAFTA on the state of North America's workforce and environment.

It is clear from this that these agreements will be exciting and ground-breaking. A commission that scrutinizes Mexican and Canadian behavior will likewise scrutinize our own. And this could raise tough issues for us, including matters of prosecutorial discretion, state/federal relationships, the operations of the courts, and Constitutional guarantees of due process. One of the most difficult issues is the question of using trade sanctions against countries or companies that do not meet national labor and environmental standards. My staff and I will be looking to you and to our experts in the labor and the environmental communities to find ways to address these problems as the negotiations progress.

Similarly, USTR, along with OMB, Treasury, Labor and EPA, we will be studying the various options for funding, from venture capital to international banks to border fees.

In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know there are concerns in certain industries about whether NAFTA's provisions could result in an import surge. I want to address those concerns, but I am wary of requests that seem to reopen the NAFTA and that could provoke counter-demands by Mexico. We should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So any new measures may be more likely used against against U.S. exports. As with labor standards and the environment, I will be looking to you and our business community for guidance on these matters.

The Uruguay Round. President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations which has been on-going since 1986. When Sir Leon Brittan, the EC Trade Minister was here on February 11, I announced the President's decision to seek the renewal of fast track procedures to complete the Round. I indicated at that time that timing of the request and the duration of the authority we would seek would be determined only after further discussions within the Administration, and consultation with Congress and the private sector. We are in the midst of that process, and no decision on timing or duration has yet been made.

Ambassador Hills, and her staff, expended enormous effort for four years to reach a strong Uruguay Round agreement. Others committed to the Round, including the Director General of the GATT, Arthur Dunkel, have done the same. Through discussions with the private sector and Congress, we are developing a good sense of the accomplishments to date, and the remaining obstacles to be overcome before the Round is completed. I think we can complete the Round in a way that will benefit the United States and the world economy, but based on our discussions to date, I do not believe that we were as close to completion as some have suggested in had reported in early January. I told Sir Leon that our goal was a good agreement, not just a quick one.

Sir Leon pointed out the danger that whatever consensus that has emerged so far behind the draft "Final Act," known as the Dunkel text, could dissipate if quick agreement was not reached and the U.S. and other nations tried to re-open the text to address issues where we have concerns. While I recognize his concern, the fact remains that we are not going to reach agreement until some of our major problem areas with the draft "Final Act" are dealt with seriously and effectively.

Moreover, the question of whether this Round deserves support depends very much on the market access commitments for goods and services which are still being negotiated. If we reach ambitious agreements on market access---cutting tariffs, breaking down non-tariff barriers---the Round will suddenly hold out potential benefits of the magnitude that will inspire enthusiasm in the American business community, and their workers, that has been, to date, muted, at best.

We chose to announce the decision to seek fast track procedures when Sir Leon was here, because the Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access for goods and services. The three-year deadlock over between the rest of the world and the EC over agriculture stalemated the Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks. We will not complete the Round without some leadership by the U.S. and the EC, but we will also not complete it if Japan continues to behave as if it has little stake in the outcome. We also need to see meaningful contributions from other trading partners---the newly-industrializing countries in Asia and Latin America---and the developing countries who owe their economic gains to a strong, open multilateral system. It is time to address the free riders in this Round.

A successful Round would give an immediate boost of confidence to the world economy, sorely in need of one. It would contribute to increased economic growth over the next decade by lowering barriers to trade in goods, bringing new rules and discipline to services, agriculture and textiles, and creating, for the first time, a set of enforceable rules for protecting intellectual property and governing investment. But the Round is not a favor that the United States is doing for the world. If it is ambitious enough, U.S. companies and workers stand to gain a great deal because of lowered barriers in our existing markets, and the creation of new markets.

But our criterion should be clear: despite the sometimes single-minded focus on agriculture, and the preoccupation with the so-called "new issues" of intellectual property and services, support for the Round in the U.S. will turn on the benefits that result for U.S. exports of manufactured goods, agricultural goods, and services produced by workers and farmers here in the United States. However, in pursuit of those benefits, we will not weaken the provisions of current law that provide remedies for our industries against the unfairly traded products of other countries.

European Community. We have our share of current difficult issues with the EC. Despite this, our trading relationship with the European Community is one of the most important in the world and is critical to the integrity and vitality of the multilateral trading system. We are each others' largest trading partners, and maintain a diverse and largely balanced trade relationship. Last year two way-trade amounted to $194 billion, with the U.S. running a surplus of nearly $9 billion.

The evolution of the European Single Market (EC-1992), which officially came into effect on January 1 of this year, has been a prominent feature in our trade relations with the EC in recent years. We have welcomed the European project for its elimination of trade barriers between 12 of our most important trading partners, creating a single market comparable in size to our own. But we insist that European integration legislation and policies treat US firms fairly. When European policies create new barriers to US exports, we will act firmly to protect our interests. I have already moved to address the barriers to US firms created by the newly-implemented EC directive on procurement by utilities. As the EC proceeds to form the European Economic Area with other Western European countries, to deepen its own economic and monetary integration and to add associate members from Eastern Europe, we will continue to make full use of the tools in our international agreements and US trade laws to keep markets open.

Japan. No aspect of our trade policy has proven more complex or contentious than our relationship with Japan. In the past decade, our trade deficit with Japan has totalled nearly $500 billion dollars. The bilateral deficit peaked at $60 billion in 1987, and then came down over the next four years to $43 billion. U.S. exports did increase from $38 billion in 1988 to $48 billion in 1991, but have levelled off since, as the Japanese economy has stalled. This year, the bilateral deficit has again increased to $49 billion. As always, the disproportionate amount of the deficit is made up of autos and auto parts, and electronics.

A year ago, in the immediate aftermath of President Bush's trip to Japan, there was significant anger on both sides of the Pacific, particularly as the recession deepened. The presidential campaign, which had the potential for inflaming the relationship further, did not. A great deal of credit goes to President Clinton who steadfastly refrained from criticizing Japan and instead ran a campaign focused on dealing with our problems at home to strengthen our economy.

Nonetheless, the U.S.-Japan trade relationship needs immediate and serious attention. Clearly, the Japanese market has gradually become more open to our products and services, and those of other nations, over time, but the progress has not been rapid enough to combat the loss of jobs and the damage to the relationship. Numerous barriers remain in Japan which prevent, or dramatically reduce, the sale of U.S. products and services which are highly sought after in other countries around the world.

At the same time, Japan feels that it has been bombarded by demands from the U.S.---export less, import more, strengthen the yen, negotiate about individual products, negotiate about sectors, talk about structural impediments---demands that frequently change, but never end. After years of a booming economy, Japan faces its own economic difficulties, making government and business leaders even more hostile to pressure from the United States, even while many in Japan freely admit that change can occur only as a result of outside pressure.

Resentments on both sides of the Pacific have built as a result of a decade of almost constant acrimony over one trade issue after another, yet after that decade of acrimony, we still find ourselves with an intolerable trade deficit, making future collisions inevitable.

In the first instance, we must insist that Japan fully implement the range of agreements already negotiated---and implement them in such a way that they provide important and concrete benefits to the U.S. and other non-Japanese suppliers. Very early on, we have a chance to gauge the efficacy of these agreements. In the coming weeks, we will be reviewing the progress on the Semiconductor Agreement, to monitor the progress being made toward the expectation of a 20% market share in Japan for foreign semiconductors. We intend to vigorously follow up on commitments that were made in January 1992 with respect to the auto parts market in Japan. We face an early potential flashpoint over the 1990 Supercomputer agreement, where Cray Research Inc. is protesting an award by the Japan's National Institute of Fusion Science to NEC. On all these issues, we will be consulting closely with this Committee and other interested members of Congress.

Above and beyond the series of individual disputes, we need to find a better approach for dealing with Japan trade issues---one that will lead steadily in the direction of a more equitable balance of economic benefits and responsibilities. The beginning of a new Administration is the natural juncture for a careful review of the overall U.S.-Japan relationship, to underscore the importance of the relationship by collaborating on problems that we can move on jointly, while moving to address the very real bilateral problems between us. President Clinton's commitment to dealing with our problems at home, without blaming Japan or any of our other trading partners, provides a more promising starting point for discussions about hard steps that Japan needs to take on its part.

China. With the highest growth rate in the world over the past decade and an entrepreneurial boom in the south, China has enormous potential as a market for American goods and services. At the same time, China's human rights practices do not conform with international standards; its arms sales mock our non-proliferation efforts and increase danger and instability globally; significant barriers to our products and services continue while China sends an increasing share of its exports to the United States. All these factors raise serious questions about the nature of our relationship.

These issues have come together in the annual MFN debate in the Congress. The Bush Administration was adamant in rejecting every effort to put conditions on extension of MFN to China. The Clinton Administration will address all of these concerns---human rights, proliferation and trade---and we will address them aggressively. We are currently reviewing our policy toward China, including MFN, and I can tell you that we will consult closely with the Congress.

On trade, an interagency team is in China this week following up on the two trade agreements that Ambassador Hills negotiated last year on intellectual property rights and on market access. So far, the Chinese are abiding by the terms of the agreements, although the latter was signed only in October. We are leading the process to negotiate China's entry into the GATT, and we will ensure that significant further changes in China's trade regime are made before that happens. Finally, we are looking at other areas, such as services, that were not the subject of earlier negotiations yet are very important to our businessmen. We expect an equitable and balanced trading relationship with China, and we will settle for no less.

The Administration and Congress also face the issue of renewing the Generalized System of Preferences (GSP) program, which we are reviewing carefully as we consider our overall policies of trade and aid with developing countries. As the President noted in his speech, the steady expansion of growth in the developing world is in our interest and theirs as well. We need to do our part to alleviate the grinding poverty which afflicts much of the world; at the time, we are building markets for products made by our workers here.

Let me close on a personal note, which I mentioned in my confirmation hearing. There is nothing theoretical about the job I have, or the work that we will do together. I travelled around the country during the last campaign, and I have seen the pain to people and communities from jobs lost as a result of a changing global economy. I have spoken with many of you, and through you, I have heard the concerns of your people. Together, we need to find the mix of policies that rebuild the U.S. economy so that our children have the opportunities that we were fortunate enough to have.