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**Senate Foreign Relations Committee
Subcommittee on East Asian and Pacific Affairs**

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***“The United States and the Pacific Rim: Future Avenues for Economic Cooperation
The Export Market in Asia: Opportunities and Constraints”***

Madame Chairman, I want to thank you for the opportunity to appear before you today. This hearing is important and timely. It is difficult to overstate the significance of our economic relations with East Asia to U.S. companies, workers, and the American people. A discussion of the opportunities and constraints in the export market in Asia is worthwhile and important.

I will open my remarks by emphasizing the opportunities. As Chairman Murkowski’s announcement for this hearing pointed out, “in 2004, U.S. trade with East Asia and the Pacific totaled \$735 billion and accounted for nearly 33 percent of total U.S. international trade. In comparison, trade with North American Free-Trade Agreement (NAFTA) countries accounted for 30.4 percent. Five of the top ten U.S. trading partners are Pacific Rim nations (China, Japan, South Korea, Taiwan and Malaysia).” In addition, the economies of East Asia taken together are our largest merchandise export market. In 2004, 23% of U.S. exports went to East Asia (by comparison, slightly less, 21%, went to the European Union (EU)). And even more impressive is the rate of growth in our exports. In the period 1999 – 2005 U.S. exports to East Asia grew at an average growth rate of 7.65%. By comparison, our exports to the EU grew only 3.44%. Our services exports to East Asia also continue to grow rapidly, with average growth in the period 1999-2004 of 6.6%.

While the growth and opportunities in this region are real, so too are the challenges U.S. companies face in accessing markets in the region. Issues such as weak protection of intellectual property rights, lack of transparency and effective enforcement of laws and regulations, excessive bureaucracy, and corruption are significant issues. In addition, the use of unjustified sanitary and phytosanitary restrictions sometimes blocks U.S. agricultural products and technical standards can also be used for protection of local industries. Issues of exchange rates and subsidies of local enterprises have been cited as factors of concern in some of the markets in the region. In some markets high tariffs or significant non-tariff barriers pose major obstacles in particular sectors.

Finally, economic forces are driving greater integration among the economies of East Asia. Trade is not a zero-sum game and such integration is not necessarily a negative for the United States. However, it will be important for the United States – government and

private sector – to continue our efforts to remain deeply engaged in the region. That is why the Administration has been and will continue to work hard to ensure a level playing field in our economic relations; increase market access for our goods, services and agricultural exports; and enforce our trade laws in a fair and transparent manner. Through these efforts we seek to ensure that US companies and workers, and the American people, get the benefits they deserve from our economic relations with the most dynamic part of the global economy.

I would now like to say a few words in more detail regarding the three largest economies in the region, China, Japan, and the Republic of Korea.

China is arguably the best example of the mix of economic opportunities and challenges that we face in the East Asia region. There are some very positive factors in our trade relations. China is our fastest growing export market in the world. U.S. exports to China have increased by nearly 115% since 2000. The United States has not increased exports by a comparable amount to any other country in the world over this period. This is in part due to China's strong efforts to implement its WTO commitments by reducing tariffs and increasing market access in many sectors. This increase in exports to China is particularly noteworthy considering that U.S. exports to the rest of the world were fairly stable between 2000 and 2004. And China's economy continues to grow at a rate of 9% a year driving a continued demand for commodities, intermediate goods, and consumer products.

At the same time, we continue to see a broad array of obstacles to increased market access for U.S. goods and services. This is one factor in the massive bilateral trade deficit that we face with China. Issues include the widespread theft of intellectual property; non-transparent rules and regulations and uneven enforcement of such measures; unnecessary restrictions on operations by foreign companies, including direct sales companies; subsidies to state-owned enterprises; and a range of financial sector issues. The continued restriction on the import of U.S. beef due to concerns over bovine spongiform encephalopathy (BSE) is also a major issue. We also continue to monitor China's emerging competition policy regime and new policies on technical standards and intellectual property rights, to ensure they support, rather than limit, the development of an open, market-based economy. While the Chinese leadership shares our goals on many of the economic issues, including strengthened protection for intellectual property rights, they have not yet succeeded in ensuring implementation of these policies across the country.

We have no higher economic priority in the region than engaging with China, using all the tools available to us, to ensure China plays by the international rules of the game and to achieve greater market access and a level playing field for U.S. exports in the China market. We will continue to work at this through bilateral, regional, and multilateral mechanisms.

Finally on China, I would note that over the longer term, even in the absence of any trade distorting policies, the entry of China's massive, hardworking, and increasingly skilled

workforce into the global marketplace will restructure the global economy and pose significant challenges for American companies and workers and those of the EU and Japan. In addition to our strong, continuing efforts to ensure China plays by global rules we need to take the steps at home – in areas such as education, tax policy, and managing healthcare costs -- that will ensure continued U.S. competitiveness over the decades to come.

Although Japan's economic growth in recent years has been slow, it is now picking up speed, due in part to economic reforms undertaken by Prime Minister Koizumi. Despite past slow growth, Japan remains the second largest economy in the world, with a market that is huge compared to the others in the region. For example, in 2004 U.S. merchandise exports to Japan were over \$54 billion, compared to the \$25.6 billion we exported to China.

However, in Japan too we see issues that create obstacles for U.S. exporters. The ban on U.S. beef imports due to concerns over BSE is a top priority for the Administration, though we are encouraged that we now appear close to a reopening. The privatization of Japan Post is a centerpiece of the Prime Minister's reform agenda. We look to the Japanese Government to not allow Japan Post to bring new financial products to market until all the financial services firms are competing on the same terms, ensuring a level playing field for U.S. companies in that sector. Pricing for pharmaceuticals and medical devices is an area in which greater progress is also important. We encourage Japan to adopt policies that fully recognize the value of innovation and we hope that the Japanese government will make progress on speeding the approval process for drugs and medical devices.

Korea is an important and growing export market as well. In 2004 U.S. merchandise exports to Korea were \$26.3 billion, up 9.4% from the previous year. While we have a robust trading relationship, U.S. exporters also face hurdles in Korea. These include the ban on imports of U.S. beef. We now appear to be in a position to make further progress on this issue and look forward to the resumption of U.S. beef exports to this large market in the near future. We are working with Korea to bring greater transparency to its pricing, reimbursement, and regulatory processes in the pharmaceutical sector. We have been encouraging Korea to streamline its tariff and tax regime to provide better market opportunities to U.S. vehicles. The protection of intellectual property is another key area of concern in the Korean market place and we are working with the Korean government to strengthen its copyright laws and its enforcement efforts.

I would now like to discuss the efforts we at the Commerce Department and other trade agencies are making to help U.S. companies take advantage of the opportunities in East Asian markets and to reduce the challenges. Our top priority for ensuring open markets for our companies remains the global Doha Round negotiations under the WTO. The East Asian economies have an important role to play in ensuring the success of the Doha Round and we continue to look to them for active, positive involvement.

On a regional basis, we continue to be active participants and supporters of APEC. We also have a range of bilateral trade fora with economies in the region, including our Joint Commission on Commerce and Trade with China, our Regulatory Reform Initiative with Japan, our Quarterly Trade Talks with the Republic of Korea, and a number of fora with ASEAN member countries as a group and individually. In ASEAN, the centerpiece of our economic policy interaction is the Enterprise for ASEAN Initiative (EAI), which President Bush announced in October 2002. Under the EAI, the U.S. offers the prospect of free trade agreements (FTAs) with ASEAN countries that meet three criteria: 1) have a Trade and Investment Framework Agreement with the U.S.; 2) are WTO members; and 3) are committed to economic reform and openness. The U.S. has implemented an FTA with Singapore and is negotiating one with Thailand. We have also announced an ASEAN Enhanced Partnership initiative which will focus on strengthening our relationship across the full range of economic, political, and security issues. In addition to the FTA efforts already mentioned, we remain interested in negotiation of additional FTAs in Asia as circumstances permit.

We use all of the fora described above and visits by senior-level U.S. government officials to press on our issues of concern and help ensure open markets and a level playing field. Further, the hundreds of Commerce Department employees in Washington and posted in the region who are working to support our economic interests with the East Asian economies are always ready to engage in solving problems for U.S. companies, especially small and medium firms, facing difficulties accessing markets in the region. In this effort we work closely with our colleagues at the other trade agencies, including USTR, the State Department, the Department of Agriculture, the Treasury Department and others.

In addition, we continue to develop new approaches to ensure the rights of U.S. companies are protected and that they have the market access they deserve. For example, Secretary Gutierrez has recently announced a series of steps to strengthen our efforts on the critical issue of theft of intellectual property. These include the appointment of intellectual property rights experts assigned to U.S. Embassies or Consulates in key overseas countries, including two additional experts in China to join the one already there, and one in Thailand; and a Global Intellectual Property Academy that will provide training programs for foreign government officials on IPR issues. It also includes a China Intellectual Property Rights Advisory Program -- developed in coordination with the American Bar Association, the National Association of Manufacturers, and the American Chamber of Commerce in China -- that will allow U.S. small and medium-sized enterprises (SMEs) to request free, one-hour consultations with an experienced volunteer attorney to learn how to protect and enforce intellectual property rights, such as trademarks, patents or copyrights, in China.

Finally, I would say a few words about the trade promotion tools available from the Department of Commerce to support efforts by U.S. companies to do the real work of business on the ground in Asia. These services, some free, some provided on a cost-recovery fee basis, include counseling for export-related questions and advocacy on issues such as resolving payment issues, settling disputes, and winning contracts. Commerce Department Commercial Officers also provide a variety of customized

services designed to help U.S. companies find buyers or distributors and establish business relationships overseas. They also provide a wide range of general and customized market research, which can include specific information on the export prospects for a product or service in a potential market. Finally, the Commerce Department, working with other agencies, offers a wide variety of export, marketing and lead generation services at trade shows, trade missions, and product literature (catalog) shows and can coordinate on issues such as export financing. All of these services can be accessed in the U.S. through the Department's Export Assistance Centers, including the Center located here in Anchorage and ably headed by Chuck Becker, who I believe is well known in the local business community.

In closing I would again like to thank you, Madame Chairman, for the opportunity to appear before you today. Further, I would like to thank you and the members of the sub-committee for focusing attention on the issue of our economic relations with Asia, a topic of critical importance to Americans today and far into the future. We at the Commerce Department will continue our aggressive efforts to help U.S. companies grab the opportunities and manage the challenges of exporting to dynamic markets of East Asia, and the rest of the world.

Thank you.