

ASIAN FREE TRADE AGREEMENTS: ARE THEY GOOD FOR THE USA?

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CONTENTS

	Page
WITNESS	
The Honorable Karan K. Bhatia, Deputy United States Trade Representative, Office of the United States Trade Representative	9
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable Karan K. Bhatia: Prepared statement	14

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THURSDAY, JULY 20, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05, a.m., in room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order. Ambassador Bhatia, we are pleased to have you here today. You are a well-known expert on United States trade policy, particularly with regard to Asia. Details of your recent trip to that region, including visits to Taiwan, Vietnam and India, are of particular interest to Members of this Committee.

You reportedly have been the highest ranking Administration official to visit Taiwan in the last 6 years. So your insights on trade relations with Taiwan should be particularly timely.

This would be a good time for me to mention that I personally am a strong supporter of negotiating a free trade agreement with Taiwan. There is also an immediate trade issue facing Congress with regard to Vietnam. Your insights on that would be appreciated as well.

We all recognize that trade across the Pacific in both volume and value has long surpassed trade across the Atlantic. Such trade is the engine which drives the prosperity enjoyed not only by the people of the United States, but by those who live along the Pacific Rim and throughout the world beyond. This new century is indeed the Pacific Century.

American consumers have become comfortable with products bearing labels reading made in China or some other Asian local, as long as the quality is good and the price is low. Visit any department store, any electronics dealer or any discount store and you will find labels reading made in Korea or made in Taiwan or made in India. Buy a car and it will likely have a Japanese or Korean product name.

It was a little disconcerting to learn that even the American flags passed out to spectators at a recent Fourth of July parade in Glenview, Illinois bore the label made in China. One wonders if we don't make even the stars and stripes in the United States any more. What do we manufacture here, and what would Betsy Ross say?

At a Senate hearing in 1955 General Motors Chairman Charles Wilson, who went on to serve as President Eisenhower's Secretary

of Defense, made the often quoted remark: "What's good for General Motors is good for the USA." In truth, what Mr. Wilson actually said was, "What is good for the country is good for General Motors, and vice versa." But the point was really the same.

General Motors of course has fallen on hard times in the half century since Mr. Wilson's famous remark. The company announced last November that it is slashing 30,000 jobs and closing nine plants. Ford Motor Company followed suit in January, announcing a downsizing which will eliminate another 30,000 jobs and will lead to 14 factory closings.

Many of these lost manufacturing jobs are in the Midwest, a region I represent. These lost jobs provided financial security to tens of thousands of Midwesterners who use the wages provided to achieve the American dream of buying their own home and sending their kids to college.

These are the Americans who feel that the globalization of the economy has left them behind. They wonder, for example, why we unilaterally opened our automobile markets to South Korean manufacturers who, according to a Congressional Research Service report, sold 730,000 cars in the United States in 2005 while South Koreans bought only 5,800 cars from America. This lack of sales was reportedly largely due to a number of trade restrictions in effect in South Korea.

Mr. Ambassador, I have been a free trade advocate my entire congressional career, but in this time of an exploding trade deficit with Asia, Americans are insisting that free trade must also be fair trade and increasingly they are wondering, does more trade with Asia mean just more red ink for America?

I note that our country is running a substantial trade deficit with all three Southeast and East Asian countries with which the United States Trade Representative is currently negotiating; Malaysia, South Korea and Thailand. I note also there were large demonstrations in Bangkok earlier this year and just last week on the streets of Seoul expressing vehement opposition to the Free Trade Agreement negotiations with the United States. Many opponents of course were farmers. But these demonstrators should realize that if rice is Asia's sacred cow, automobiles are America's. We cannot sacrifice even a portion of our automobile industry if complete market opening, including the agricultural sector, is not guaranteed on the other side of the Pacific.

I would like to just make two additional points. First, it should be noted for the record that many in Congress objected to the inclusion of certain business visa provisions in the FTA successfully negotiated with Singapore. Many saw that as an infringement upon congressional prerogatives and a failure by the U.S. Trade Representative to keep the pledge of prior consultations with Congress.

Such bilateral trade agreements on visas open the door to further outsourcing of jobs, which threaten America's workers. I would like the United States Trade Representative's guarantee today that the FTA being negotiated with Malaysia, South Korea and Thailand will contain no such provisions.

Second, the provocative launch by North Korea of a series of missiles on American Independence Day should put to rest any suggestion that Americans will want to buy North Korean made products

from the Kaesong Industrial Complex. We would appear foolish in the eyes of the world to open our market even a crack to a nation which threatens us and our allies with missiles and nuclear weapons, and which continues to counterfeit our currency.

I would like the United States Trade Representative's commitment today that there will be no Kaesong provision in the FTA being negotiated with South Korea.

Mr. Ambassador, the sparkle of the diamond of expanded free trade does not shine as brightly in the halls of Congress as it once did. You certainly have your work cut out for you compared with your predecessors in making the cause for more Asian free trade agreements.

In general, I support free trade agreements, as I have said before, with some important qualifications. I look forward to hearing from you on how what is good for free trade agreements is good for the USA.

I now turn to my friend, Mr. Faleomavaega, for an opening statement.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

I certainly want to commend and thank you for holding this hearing this morning. And welcome Ambassador Bhatia for being here representing our U.S. Trade Representative's office.

Mr. Chairman, I am pleased that under your leadership this Committee is holding a hearing on the Asia free trade agreements, questioning whether or not these agreements are good for American businesses and for American workers. For the past several years I have been very engaged in the Andean Free Trade Agreement in Latin America and also within the upcoming free trade agreement now being negotiated, or has been negotiated.

Given the fact that my district has the largest tuna canning facility in the world, that our private sector economy is more than 80 percent dependent directly and indirectly on the U.S. tuna fishing and processing industries, and the two U.S. canneries, Starkist and Chicken of the Sea, employ over 5,000 workers and represent well over 70 percent of our workforce in my district, in the years 1984 and 1986, 1990 and 1992 the International Trade Commission conducted section 332 investigations and on each occasion found, and I am glad to say, that canned tuna is an import-sensitive product.

Fourteen years later it can be argued that the outcome of another section 332 investigation hopefully would yield the same results.

Mr. Chairman, despite these outcomes our Nation continues to negotiate free trade agreements that displace not only my district and the industry that we are directly involved in with the jobs of more than 5,000 workers in my district. Quite frankly, there is just no way that we can compete against a labor force in countries like Thailand where they pay less than 50 cents an hour for their canneries workers. The same is true in the Philippines, and even among the Andean countries. And yet my workers in these two canneries are paid significantly more than the national minimum wage to clean and pack tuna.

For the past several years I have fought for increased wages for my workers. To this day it sickens me that when women who toil day and night and clean fish for 20 years only end up receiving a

pension of about \$100 a month when they retire from working in these canneries.

I am not an economist. I don't think you have to be a rocket scientist to figure out why we end up with such high trade deficits, not only with our Asian partners, but it seems to me all other parts of the world as well.

I remember in recent years, Mr. Chairman, some 60,000 jobs of our colleagues in States representing the South. The entire textile industry that was very prominent in the southern portion of our country is gone. Is it due to the free trade agreements? I say in large part it has been.

NAFTA is a classic example that to this day we are still debating the pluses and minuses of whether or not we did the right thing in passing on this NAFTA agreement which is supposedly to cure all the labor problems of people coming from Mexico, that they are supposed to maintain their own economic structure so these people don't have to illegally immigrate to this country to find jobs.

That is something that I definitely will seek some more answers to from our friend Ambassador Bhatia.

I have to commend and restate the Chairman's comment, the fact that I also believe in free trade, but it should also be fair. For anyone to contend that Thailand and other ASEAN country member nations have been disadvantaged as a result of the Andean Free Trade Preference Act, I would like to set the record straight and say the ASEAN nations are the largest foreign suppliers of tuna to the United States market. Thailand supplies the United States with more tuna than any other foreign country.

Seems like, Mr. Chairman, we are giving free trade agreements like giving out candy from a store. And yet I also sense, Mr. Chairman, a real inconsistency in our policy. We give free trade agreements to some countries and yet we don't do it in others. Is it because of political reasons, is it a carrot and stick situation that we find ourselves in?

Just yesterday we had a meeting with the foreign minister from New Zealand, crying foul, "Why are we giving a free trade agreement to Australia and not to a very close partner and democratic place like New Zealand?" We don't seem to have very good answers for that as well.

I am hopeful, Mr. Chairman, that as a result of today's hearing the Office of the United States Trade Representative will more fully consider the needs, especially as the negotiation of the Thailand Free Trade Agreement, which is currently stalled as a result of political uncertainties, including the resignation of Thailand's recent prime minister and demonstrations that have disrupted the talks.

I am looking forward to hearing from Ambassador Bhatia his statement concerning this issue. But, Mr. Chairman, it is not just free trade agreements with the Asian countries, it is free trade agreements, period. The problems we are having with NAFTA, the Andean Free Trade Agreement, and I am sure in all other parts of the world, is we just are—there just doesn't seem to be not only a sense of continuity and fairness, but what is the bottom line? Our working people are losing jobs, we all know the reason why cor-

porations and why the corporate community from our country go to other countries. Cheaper labor. That is the bottom line.

So why would we be paying \$15 an hour for our professional workers here when the same work capacity could be done in another country that pays only \$3 an hour? Again, I think we have got some very serious problems here as far as free trade agreements are concerned and I look forward to hearing from Ambassador Bhatia.

Thank you, Mr. Chairman.

Chairman HYDE. The gentleman from California, Mr. Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman. I want to publicly apologize for having to cast a vote in my other Committee a few minutes ago. I also want to commend you and my friend Mr. Faleomavaega for very thoughtful statements.

Mr. Chairman, the Administration is dispatching our top trade negotiators to the leading capitols of Asia to hammer out new free trade pacts with the region's rising economies. The agents of big business in this country have the chance to whisper a lot of advice during those long 14-hour flights, so I am here today to speak on behalf of American working men and women.

I am obviously not opposed to free trade agreements in principle. As a matter of fact, I received my Ph.D. in international economics and taught international economics for more years than I care to remember at the university.

Bilateral trade accords that contain strong and enforceable protections for workers and the environment can advance our Nation's interest. The free trade agreement between the United States and Jordan, expertly negotiated by the Clinton Administration in 2000, dealt with some of these important matters.

But, Mr. Chairman, I am strongly opposed to agreements that fail to protect the rights of workers both at home and abroad, that cause the loss of hundreds of thousands of American jobs here in the United States and which undermine the global environment. Free trade alone is not the answer. As has been said *ad nauseam* and *ad infinitum*, we need trade that is both fair and free.

We do not need to look far to understand the wisdom of this principle. The North American Free Trade Agreement, which I strongly opposed and voted against, was utterly devoid of meaningful labor and environmental provisions. As a result, over a million American workers have lost their jobs thanks to growing trade deficits with Canada and Mexico.

Real wages in Mexico have fallen by 25 percent since the inception of NAFTA. Let me repeat this. Real wages in Mexico fell by 25 percent since the inception of NAFTA. So much for the slam-dunk benefits of free trade agreements.

But rather than looking at the facts, the Administration has chosen to pursue blindly its free trade ideology in Asia at the expense of American workers. Let me briefly focus on two of the most likely candidates for Asian free trade agreements, South Korea and Malaysia.

Mr. Chairman, I am a strong friend to both of these key countries. South Korea remains a critically important ally of the United States and we will continue to work closely together on the North Korean nuclear crisis. America's economic and political relations

with Malaysia have also grown exponentially over the past decade, creating new linkages between the United States and this important Muslim-majority nation. It is precisely these close ties that should cause our trade negotiators to put labor rights at the core of potential free trade deals.

The United States must not only protect American workers but must also demonstrate to workers in South Korea and Malaysia that we will not ignore their fight for greater rights. Increased trade with South Korea must be accompanied by substantial improvements in workers' rights and environmental protection. Korean labor laws are not in full compliance with internationally recognized standards of freedom of association and the right to organize.

Korean workers face significant limitations on their right to strike and more than half of the Korean workforce is made up of so-called irregular workers who have little or no labor protections or benefits. Worker protests and demonstrations are also regularly broken up by brutal police violence.

Malaysian workers certainly don't fair any better. The Malaysian Government has taken concrete steps to inhibit the development of unions in its largest industry, the electronics sector, as well as other so-called pioneer sectors of the economy. The Malaysian Government has also pursued legal action for years against Irene Fernandez, the head of the highly respected Malaysian NGO, whose only crime was to publish the truth about widespread abuse of migrant workers detained by Malaysian authorities.

Mr. Chairman, the Administration must deal with the unpleasant realities of the labor situation in South Korea and Malaysia and in other Asian nations with which it would like to negotiate free trade agreements. We cannot simply sweep these sad truths under the rug. When our negotiators are instructed to include strong labor and environmental provisions in free trade agreements, these provisions must be enforceable in reality.

If the South Korean or Malaysian Governments weaken their labor laws after the trade deals are in place, we must be certain that they cannot continue to enjoy the great benefits of access to the American market.

Mr. Chairman, free trade agreements without strong enforceable labor and environmental provisions only lead to the erosion of working conditions around the globe. Today I call on the Administration to change its fundamentally flawed model for free trade agreements and negotiate deals that protect American workers and create jobs here at home.

And before concluding, Mr. Chairman, I would like to turn to my friend, Mr. Faleomavaega, and explain to him why the foreign minister of New Zealand is unhappy. There is no country I have greater respect for than New Zealand. I did my doctoral dissertation on New Zealand. But New Zealand cannot arbitrarily exclude nuclear-powered American ships from its ports and expect the same treatment that our ally Australia gets from us which shares many of the unpleasant military burdens that we carry across the globe.

So New Zealand must get over this obsession. Nuclear-equipped ships enter many ports in many civilized countries, and there is no earthly reason why New Zealand should exclude itself.

Mr. FALEOMAVAEGA. Would the gentleman yield?

Mr. LANTOS. I am happy to yield.

Mr. FALEOMAVAEGA. In our meeting with the foreign minister of New Zealand I was the one that raised the very issue of the nuclear problem with our friends in New Zealand whereby they disallowed our ships and aircraft from landing there because of our current policy of not denying or even admission of the presence of nuclear weapons.

It is only fair. I think the problem here is if you want to be our friend, we also should be willing to carry the same burdens and responsibility as a democratic country. Seems like we are doing the dirty work and New Zealand gains all the benefits of being a non-nuclear, helping us with the nuclear problems that we are faced within the world.

I agree with the gentleman and I conveyed that message strongly to our good friend and my dear friend the foreign minister of New Zealand, Mr. Winston Peters, who I have known for years. And I thank the gentleman for his comments on that issue.

Mr. LANTOS. Thank you, Mr. Chair.

Chairman HYDE. Mr. Chris Smith of New Jersey.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman, and thank you for convening this very timely hearing. Let me just say a few opening comments and ask that my full statement be made part of the record.

Mr. Chairman and Mr. Ambassador, the Administration often makes the case that if we enter into these free trade agreements, it leads to more openness in the mitigation of some of the more egregious practices by offending governments. While that sounds good and it is absolutely well meaning, I have been concerned that in many instances that has not been the case and probably the quintessential example is the People's Republic of China. There was this big push, as we all remember, for PNTR. Annually we would be waiving most-favored nation status, the extension of China into the WTO. While China's economy has certainly risen almost exponentially in terms of economic growth, its human rights situation has actually worsened.

I would ask you if you would during the Q and A or perhaps in our opening statement—the AFL-CIO, as you know, has filed a petition. I am one of the two Congressmen who signed on to that petition, expertly written by Mark Barenberg, Professor of Law at Columbia University. As he points out in our petition, the documents show how the Chinese Government and multinational corporations persistently violate the rights of China's factory workers.

The petition shows through four methodologies that the Chinese Government systematically in the repression of its factory workers significantly contributes to up to a million jobs that are lost in the United States.

As you know, in China millions of child workers in forced labor produce goods and services, many of them for export. Workers who protest or seek to form independent unions are fired, beaten and imprisoned.

China's labor market bears no resemblance to a free competitive market. Millions of migrants from the countryside are denied their basic rights of urban residence in manufacturing towns and cities.

They are so powerless that the average worker is simply not paid for 3 months of earned wages. Meanwhile, corporations are reaping huge profits at the expense of Chinese factory workers who are paid wages as low as \$0.15–50 per hour. These are violations of internationally recognized human rights.

I would point out parenthetically that I have myself been in some of the laogai, in Beijing Prison No. 1, where Tiananmen Square incarcerated, detainees, and prisoners were making jelly shoes and socks for export, a clear violation of our own Smoot-Hawley Act, as you know.

Let me also raise very briefly the issue of Vietnam. Obviously that is a front burner issue with a free trade agreement in the offing or at least moving in that direction.

I visited Vietnam last December and spoke to some 60 different people, including large numbers of dissidents in Ho Chi Minh City as well as Hanoi and I was struck by how the human rights situation, especially in people who disagree with the Communist Party, continue to get imprisoned.

One of the women that I met with is the wife of Dr. Fong. Dr. Fong is an intellectual, a man who believes in democracy. He got sentenced to 5 years in Vietnam's prisons for downloading an essay that was on our United States Embassy Web site, entitled, "What Is Democracy?" He translated it, sent it out, was incarcerated and is now incarcerated for 5 years.

Vietnam is also a country of particular concern because of its ongoing violations of religious freedom issues.

So it seems to me at least at best premature to be moving ahead on a trade agreement when we have a number, large number of violations of fundamental human rights.

I hope this year, frankly and finally, the USTR will take up this petition that has been so well-documented by the AFL–CIO with regards to labor rights. It hurts American workers, and it certainly hurts the Chinese worker as well.

Chairman HYDE. Mr. Tancredo.

Mr. TANCREDO. Thank you, Mr. Chairman, Mr. Ambassador. The United States has currently—or recently concluded an FTA with a number of countries, including Morocco, and the CAFTA countries, and Oman and Vietnam are on the horizon.

One concern many of us had with these agreements is that they are being negotiated with countries with populations that have very little purchasing power. All of the CAFTA nations combined had roughly the purchasing power of New Haven, Connecticut. As such, they aren't really in any position to buy many of the things Americans sell.

Taiwan on the other hand has a high standard of living, a significant middle class, has already shown brand loyalty to American products over the years. Seems to me that an FTA with Taiwan would be a higher priority for the USTR than CAFTA or bilateral deals with Bahrain or Vietnam.

I know that you have had recent trips to Asia and you visited Taiwan. I am pleased to learn of that trip because I believe that such visits and direct communications between our Governments in Taiwan are crucial to strengthen our relationship with Taiwan.

You know that it is the eighth largest trading partner, ranking between South Korea and Malaysia, both of which are in active FTA negotiations. Yet the pace of negotiations with the bilateral deal with Taiwan is dragging and I would hope that you will address during your testimony or in the question and answer, of course, if this is because of the Administration's concern that an FTA with Taiwan will ruffle Beijing's feathers.

Along the lines of the direction of my colleague's opening statement, Chris Smith, that China is working on establishing a free trade zone in the region with every country except Taiwan. This so-called ASEAN Plus Three initiative, one of China's primary goals in doing this is to economically isolate Taiwan the way that they diplomatically isolated the island by barring its participation in international organizations.

If China is successful in this endeavor and the United States does not ink an FTA with Taipei, then Taiwan's economic survival could be seriously challenged, increasing pressure on the island for the government to simply capitulate the Chinese pressure to annex the island.

All these concerns are something that the Administration should be taking into consideration, and I am hoping that you will address all of these during your testimony and I look forward to hearing it.

Thank you, Mr. Chairman.

Chairman HYDE. Mr. Chandler, do you have a statement? Mr. Flake, do you have a statement?

Very well. Ambassador Karan Bhatia appears before the Committee this morning to present the Administration's views on the ongoing negotiation of free trade agreements with Asian economies in his capacity as Deputy U.S. Representative. Prior to joining USTR, Ambassador Bhatia held the position of Assistant Secretary for Aviation and International Affairs at the U.S. Department of Transportation from 2003 to 2005. Prior to joining the Bush Administration in 2001, he was an equity partner at the law firm of Wilmer, Cutler & Pickering, where he was a member of the firm's international and corporate groups.

We are very fortunate to have the benefit of his expertise in international trade.

Ambassador Bhatia, would you please proceed with your testimony?

STATEMENT OF THE HONORABLE KARAN K. BHATIA, DEPUTY UNITED STATES TRADE REPRESENTATIVE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Ambassador BHATIA. Thank you very much, Mr. Chairman and Members of the Committee. It is a real pleasure to be here today to be able to discuss the Bush Administration's trade initiatives in Asia.

It is obvious, Mr. Chairman, based on the variety of questions and interests that there is a whole slew of issues that we can and hopefully will be able to get into. My thought would be there is testimony that has been prepared that perhaps could be entered into the record, and I will try and give a condensed version of that and touch on as many of the specific questions that came up during the

course of that. If I miss some of the issues, certainly I would be open to answer anything during the Q & A session, if that is okay.

Chairman HYDE. Without objection, your full statement will be made a part of the record and you may proceed as you wish.

Mr. BHATIA. I apologize if I go a little over my time in delivering the opening statement.

Mr. Chairman, Members of the Committee, I am very pleased to be able to appear before this Committee today, the Committee on International Relations, because we do very much believe that the President's free trade agenda serves not only to strengthen our economy but also to foster democracy, development of the rule of law, and institutions of good governance.

Consistent with the Committee's request, I will focus on the Administration's trade agenda in Asia, which is my area of focus at USTR.

If I can, perhaps I can start with a word about the trade agenda more broadly. Over the last 60 years the United States' policy of seeking to expand trade across Administrations and across parties. I believe this has helped to raise standards of living globally, and has helped to lift countless millions out of poverty.

Here at home the facts are clear: Trade liberalization is estimated in the last 60 years to have contributed a trillion dollars to U.S. annual incomes or over \$9,000 per household on average. And in just the last 10 years or so free trade has helped raise our GDP by nearly 40 percent and has coincided with the creation of over 16 million new jobs along with today's low unemployment rate.

Much of this has been achieved through multilateral trade liberalization, and I should note that with the Doha Development Round that is ongoing today we have another opportunity to benefit the global economy and in particular to bring many developing nations more fully into the global trading system.

I won't go into that issue in detail unless Members of the Committee want to, but suffice it to say that we are looking for strong contributions from other countries in this regard. We cannot do it alone. We do remain fully committed, however, to seeking an ambitious outcome to these negotiations.

With respect to Asia I think it is fair to say that no region of the world probably better illustrates our robust trade agenda today than Asia. In that region I believe we are presented with exciting opportunities for market openings, for the creation of new and deeper relations, for the creation of new jobs in the United States that would be export-oriented, but at the same time the region presents some of our more significant trade challenges. Some of those issues were raised in the opening statements.

By simply way of overview, our trade with Asia clearly continues to grow. Our exports to the Pacific Rim increased to \$233 billion last year, or in 2005, excuse me. Overall two-way United States goods trade with these countries allow for almost \$800 billion annually, which is almost a third of total U.S. goods traded. It is the rare United States company or multinational company that doesn't have operations in at least a couple of Asian nations, and Asia is becoming an increasingly important market for small and medium United States businesses as well.

There is strong economic growth, fast growing middle classes, dynamic economies, and as a result I think Asia offers more promising economic opportunities for the foreseeable future for the United States than perhaps any other region of the world. Of course that economic significance is matched by its substantial strategic and geopolitical significance.

So recognizing both the promise and the stakes, the Administration is working hard to deepen our economic engagement in Asia to encourage bilateral and regional trade and investment and to bring the countries of the region into the rules-based trading system.

Now in practical terms that has meant five things. First of all, pursuing free trade agreements, and that obviously is a major topic today. But, secondly, conducting dialogues under trade and investment framework agreements and other arrangements; third, negotiating accessions to the WTO, including Vietnam; fourth, participating in regional trade enhancing organizations; and fifth, enforcing trade agreements.

Let me touch on each if I may briefly. First of all, our FTAs are considered the gold standard in international trade agreements and they are tough to negotiate. I believe one of the opening comments suggested that we were handing out FTAs like candy. I can assure you from the point of view of those who are negotiating these agreements, and I think from the point of view of our trading partners on the other side who I believe feel very hard pushed by the United States in negotiating those agreements, we are not by any means handing them out like candy. We think through very, very carefully before launching trade agreements and then work very hard to conclude very high-standard, comprehensive agreements.

Our FTAs cover not just tariff and nontariff barriers to trade, but they include far-reaching commitments covering really virtually every aspect of trade and commerce. They contain strong commitments on transparency and openness, they create standards for multilateral agreements, and they address other issues, including labor and environment issues.

I should note that many observers, objective observers, believe that the balance of movement in these FTAs when one looks at changes that are happening in domestic laws, that the balance of movement is often perceived to rely more on the part of our trading partners than in the United States, and certainly if you look at the way tariffs move, United States tariffs frequently come down substantially less in our FTA agreements than they do on the part of our foreign trading partners. This certainly would be true with respect to our agreements with respect to Korea and Malaysia.

The history of the FTAs in the region; we concluded an FTA with Singapore in 2004. To date, that has resulted in a 24 percent increase in U.S. exports to that country, creating new jobs and new wealth for American workers. We have launched FTA negotiations with Thailand in 2004 and those agreements, as has been noted, have been suspended because of Thailand's ongoing political crisis, although we have recently agreed to hold informal consultations on outstanding issues over the next several months in order to allow us to rapidly re-engage and conclude this deal if and when a new Thai Government is formed, hopefully later this year.

As a number of Members have mentioned, we have launched FTA negotiations with South Korea and with Malaysia. Both are significant trading partners, with dynamic economies and tremendous strategic significance in the region.

A quick update on the status. We concluded the second round of the Korean FTA talks last week in Seoul. We are in the midst of the Malaysia talks this week in Washington. These will be challenging FTAs in a number of respects, but I think it is fair to say that the progress to date in both has generally been encouraging.

Perhaps, Mr. Chairman, I can pause here to address two of the issues. The first is the question of immigration that you raised and commitments in that regard. Let me just assure you I believe this issue has come up in the past, including with the Oman FTA perhaps most recently. And it is the policy of the Administration to make quite clear in the context of our FTAs that no provision of the agreement will be construed as imposing any obligation with respect to a party regarding its immigration measures.

Secondly, you raise the issue of the Kaesong Industrial Complex. In that regard let me indicate that this is an issue clearly that both we and the Koreans have flagged. We have made clear that it is both our, and our strong perception that it is Congress' position, that this needs to be an agreement between the people of South Korea and the people of the United States and that it is not intended to benefit North Korea, and indeed benefits flowing from this agreement to North Korea would in our view be inconsistent with the very spirit of the FTA.

Let me continue. In addition to the FTAs we are using our trade and investment framework agreements, or TIFAs, to deepen our relationship with Asian partners. We have agreements with a number of the ASEAN countries; Indonesia, Philippines, Cambodia and Taiwan.

In that regard I noticed a number of Members raised the issue of Taiwan and the question of an FTA there. I have recently come back from a trip to Taiwan. I understand I was the most senior ranking Administration official to visit Taiwan over the course of the last 5½ years. It was a visit to conduct a dialogue under our TIFA and to help address outstanding impediments in our trade relationship.

We do have a good strong trade relationship with Taiwan. There is a substantial amount of trade there. It is not a trade relationship without issues in it right now and the TIFA was intended to help address some of those issues.

This is precisely the kind of steps that we undertake while looking forward toward a deepening and a strengthening of the trade relationship. There is work that needs to be undertaken in that regard.

I would point out, Congressman Tancredo, first of all, that needs to continue to happen. Secondly, I believe there needs to be a continued strengthening of support for a United States-Taiwan FTA among many of the relevant constituencies and stakeholders here in the United States. One thing that I have heard a great deal from our businesses in Taiwan and our economic stakeholders was that policies that Taiwan itself was imposing upon itself and upon its relations with the broader Asian region, including, for instance,

limitations on cross straits trade, it placed increasing pressure on Taiwan as a destination for United States economic involvement.

The long story short is this is an increasingly integrated region and if Taiwan is going to undertake policies that make itself less attractive to United States companies looking for regional hubs in Taiwan, those are considerations that need to be taken into account.

So one of the messages that I delivered to the officials in Taiwan was that it would be helpful as we look forward to a deepening of the relationship if they would rethink some of these policies or perhaps address some of these policies to enable us to make a stronger case that there is a strong business interest in the deepening and the strengthening of that relationship.

Let me—I don't want to take too much time here, but let me point out that we enjoy structured dialogues as well with Japan and India. And let me pause briefly if I can with respect to China, Mr. Chairman. I don't think any overview of our activities in Asia would be complete without a discussion of our trade relations with China.

In February of this year the United States Trade Representative's Office under the then leadership of Ambassador Rob Portman undertook a complete comprehensive top to bottom review of our trade relationship with China. It was a comprehensive assessment and it concluded that, while the U.S. has clearly derived substantial benefits from United States-China trade, that relationship has not been sufficiently balanced in the opportunities that it provides.

It assessed that we are entering, however, into a new phase of United States-China trade relations. You can sort of think about it in three phases. The period 1986 to 2000 was one in which we were working to try to bring China into the global rules-based trading system; the period 2001 to 2005 was one in which China was going through the accession process and trying to meet its commitments. Now, with the beginning of 2006 we are entering into a new period in which the report concluded our trade resources need to be re-focused on getting China to open its market, to reform its policies that skew its commitments and discriminate against United States exporters, and to abide by its WTO commitments.

In short, China has got to bear the responsibilities that commensurate with the benefits it has obtained from participating in the rules-based trading system.

To this end we have enhanced our trade enforcement capacity by establishing a new Chief Counsel for China Enforcement, which is the first time in history that we have created an enforcement czar focused on a single country; creating an Interagency China Enforcement Working Group, by adding new analytical resources to help create stronger and more forward looking cases, and by closely collaborating with trading partners and seeking to enforce our rights.

We are also looking forward to strengthen, expand and increase the effectiveness of our United States-China dialogue on issues ranging from subsidies practices, financial services, labor, transparency, et cetera.

We are also bringing cases before the WTO. I should note that we have already filed one WTO case against China this year con-

cerning China's treatment of United States-made auto parts and we are on the verge of filing another when China rescinded the regulation that was the cause of the complaint. We have been working closely with allies in Europe and elsewhere in bringing these cases.

Let me lastly perhaps touch on Vietnam, as Congressman Smith mentioned. We have been working hard to encourage our trading partners in the region to accede to the WTO. Today one of our top trade priorities is securing Vietnam's WTO accession. On May 31st we signed the Bilateral Market Access Agreement that will help clear the way for Vietnam to join the WTO.

The agreement will dramatically reform the Vietnamese economy, it will open its market to United States exporters, and it will also subject Vietnam to the disciplines and rules of the WTO.

With respect to the issue the Congressman raised of religious freedom and human rights, we are by no means blind to that set of issues. We take that set of issues very seriously and indeed they have been raised repeatedly with the Vietnamese.

I think, although USTR is not the expert on human rights and labor rights issues, I believe that if my Department of State colleagues were sitting here they would tell you the situation in Vietnam is far from perfect but that it is improving. I believe that they would also tell you and I believe it is our experience that the decision that faces the Congress right now, which is whether to vote for permanent normal trade relations, just as a footnote, not a free trade agreement but PNTR, presents us with a fairly stark choice, which is do we try and bring Vietnam into the global trading system and subject it to WTO rules, which are not rules admittedly on religious freedom or human rights issues, but they are rules that have powerful effects on the way the Vietnamese society will function and certainly how its economy will function.

It will create new competition, new opportunities, new abilities for United States companies to come in and set up businesses there and hire Vietnamese employees and create competition in the labor market there. And it is our view that the true travesty that exists is where a state so controls the economy that there is no ability for the value of worker services to be competed over. And it would be our view that the best course of action that we can take is not to shut Vietnam out of the WTO, or worse still, allow Vietnam into the WTO but not allow us to be able to pursue claims against Vietnam or have our companies be able to get the benefit of Vietnam's WTO accession. But rather to involve them in the WTO and to continue the process of progress that we believe has been made today.

I am happy to engage in further discussion on this issue.

Mr. Chairman, I vastly exceeded my time, I fear, but I have been trying to weave in answers to some of the questions. I suspect there are probably some that I missed and I would be delighted to answer further questions on them now.

[The prepared statement of Ambassador Bhatia follows:]

PREPARED STATEMENT OF THE HONORABLE KARAN K. BHATIA, DEPUTY UNITED STATES TRADE REPRESENTATIVE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Chairman Hyde, Ranking Member Lantos, Members of the Committee, it is a privilege to be here today to discuss the Bush Administration's free trade initiatives in Asia.

Meeting regularly with Congress is an important part of our work. During the eight months that I have been at USTR, both former U.S. Trade Representative Rob Portman and current Trade Representative Susan Schwab have placed a very high priority on consulting regularly with Congress and working to reestablish a bipartisan consensus behind an active U.S. trade policy. I'm particularly pleased to appear today before the International Relations Committee, whose responsibilities include broader U.S. foreign policy concerns. We strongly believe that the President's free trade agenda serves not only to strengthen the U.S. and global economy, but also to foster democracy, development, rule of law, and institutions of good governance.

Consistent with the Committee's request, I will focus today on the Administration's trade agenda in Asia—my area of focus at USTR—and, in particular, on the free trade agreements that we are currently negotiating with Korea, Malaysia, and Thailand. I will also touch briefly on our trade relations with Japan, China, India, Taiwan, and Southeast Asia, and would be happy to delve into those relationships at greater depth, if you would like.

Doha Round

Before turning to our trade policy with respect to these nations, let me first raise a subject that will affect our trade relationships with Asia and the rest of the world for years to come: the Doha Round of multilateral trade negotiations.

Over the last 60 years, the United States' policy of seeking to expand trade has helped to raise standards of living globally and lift countless millions out of poverty. As industrialized countries have lowered their average tariff on industrial goods from 40 percent to 4 percent—thus opening their markets to exports from other countries—global exports have grown from \$58 billion to over \$10 trillion, benefiting both industrialized and developing countries. Here at home, trade liberalization since 1945 is estimated to have contributed \$1 trillion to U.S. annual incomes, or on average \$9,000 per household. In just the last ten years or so, freer trade has helped raise our GDP by nearly 40 percent and has coincided with the creation of over 16 million new jobs and today's low unemployment rate.

The Doha Round is the first WTO/GATT Round to focus specifically on international trade as a way to lift millions out of poverty by giving developing countries greater access to world markets. To accomplish this, we are working hard to lower the tariffs that impede developing nations from trading with developed nations and with each other. We are also working to lower the subsidies of wealthier nations that can distort markets and place developing nations at a disadvantage. This is a once-in-a-generation opportunity to bring developing nations into the global trading system as full partners, and we cannot afford to miss it.

In spite of setbacks, we remain fully committed to achieving an ambitious outcome to these negotiations. But we cannot do it alone. We need others to make meaningful proposals, just as the United States has done, including through our October 2005 offer to reduce agriculture subsidies. We are at a critical juncture right now, with the President's trade promotion authority set to expire next summer. Those who want a successful round must commit to serious tariff reductions and real market opening, so that the results of the Round will match the promise that heralded its inaugural session nearly five years ago.

Asia Trade—Overview

Turning now to the subject of our trade policy with respect to Asia in particular, let me note that our trade agenda has a number of goals. We seek to create opportunities for U.S. farmers, workers, and businesses abroad by reducing tariffs and barriers to trade and investment, thereby opening markets and creating more level playing fields. By enhancing the channels for commerce and investment, we also seek to strengthen bilateral relationships and reinforce U.S. foreign policy objectives. Finally, we seek to ensure, through firm and vigilant enforcement of trade laws and obligations, that our trading partners live up to the agreements they make.

Perhaps no region of the world better illustrates our robust trade agenda than Asia. There, we are presented with exciting opportunities for market openings and the creation of new and deeper relationships, as well as some of our most significant trade challenges.

Our trade with Asia continues to grow. Our exports to Asian Pacific Rim nations increased from \$181 billion in 1995 to \$233 billion in 2005, despite poor growth in Japan, the impact of the Asian financial crisis, and trade barriers to U.S. exports. Overall, two-way U.S. goods trade with these countries accounts for almost \$800 billion annually—nearly a third of total U.S. goods trade. The U.S. commercial presence across Asia is at its historic peak. It is the rare U.S. multinational that does

not have sales operations or production facilities in at least a couple Asian nations, and Asia is becoming an important market for small and medium U.S. businesses looking to move into international markets. U.S. foreign direct investment in the region has tripled over the last decade. Looking forward, with strong economic growth, fast-growing middle classes, and dynamic economies, Asia offers more promising economic opportunities for the foreseeable future than any other region of the world.

The economic importance of the region is matched by its substantial strategic and geopolitical significance. Representing over 40 percent of the world's population, there are few areas that pose greater challenges for U.S. foreign policy than South, Southeast, and East Asia, which just in the past several years have captured global headlines with terrorist incidents, military tensions, natural disasters, and the prospect of global pandemics.

Recognizing both the promise and the stakes, the Administration is working hard to deepen our economic engagement in the region, encourage bilateral and regional trade and investment, and bring the countries of the region into the rules-based international trading system. In practical terms, that has meant pursuing free trade agreements, conducting dialogues under trade and investment framework agreements (TIFAs) or other arrangements, negotiating their accessions to the World Trade Organization, participating in vital regional trade-enhancing organizations, and enforcing trade agreements.

FTAs with Singapore, Thailand, Korea, and Malaysia

A word about our FTAs. They are considered the gold standard in international trade agreements, and they are tough to negotiate. They cover not just tariffs and nontariff barriers to trade, but include far-reaching commitments covering virtually every aspect of trade and commerce. I should note that, among other things, they contain strong commitments on transparency and openness, an important step in laying the foundations for democracy and rule of law. Further, our comprehensive FTAs help seed regional trade, raise standards for multilateral agreements, and promote economic and political reform.

Our first FTA partner in Asia was Singapore. This comprehensive agreement is already paying off for U.S. businesses, with U.S. exports to Singapore up by over 24 percent since the agreement took effect in 2004.

Shortly thereafter, the President announced his Enterprise for ASEAN Initiative, which aims to deepen our relationships in Southeast Asia by offering the possibility of FTAs with all the ASEAN countries that are WTO members. Under this Initiative, we launched FTA negotiations with Thailand in 2004. Unfortunately, these talks have been suspended since February because of Thailand's ongoing political crisis. Last week, we met with Deputy Prime Minister Somkid to discuss the impact of the political situation on Thailand's economic outlook and our trade relationship. We have agreed to hold informal consultations on outstanding issues over the next several months, in order to allow us to rapidly reengage and conclude this deal if and when the Thai Government is formed, hopefully later this year.

Earlier this year, we launched FTA negotiations with the Republic of Korea. Whether measured by population or GDP, Korea is our largest FTA partner in many years. We concluded the second round of the talks last week in Seoul and, while this has been and will be a challenging FTA in a number of areas, the progress to date has generally been encouraging.

Under this FTA, American workers, farmers, ranchers, and businesses stand to gain greater access to a large and growing economy. Korea's growth in trade—double digit increases for each of the past ten years—has enabled it to become the world's tenth largest economy. Two-way trade in goods between our two nations currently stands at approximately \$72 billion in 2005. Korea is our seventh largest trade partner, while we are Korea's third largest trading partner. One has only to compare Korea's economic dynamism with that of its neighbor to the north to see the benefits of a robust policy of trade engagement with the world.

A comprehensive FTA with Korea will bring down tariffs, reduce barriers to U.S. manufacturing, agricultural, and services businesses, and improve the investment climate for American investors. In short, it will level the playing field for our companies and investor. This FTA will also cement important economic and political reforms that the Korean Government has undertaken. It will reinforce our strong ties to Korea, a key alliance partner for over 50 years, and will enhance our engagement in Northeast Asia.

Finally, in March of this year, we launched FTA negotiations with Malaysia. While few Americans are aware of the magnitude of our trade relationship with Malaysia, this nation is our tenth largest trading partner—and our largest in Southeast Asia. Our exports to Malaysia grew by about 20% over the past decade, but hold the promise of much stronger growth in the future. Today, Malaysia imports

more from the United States than from any other country except Japan, and we are now Malaysia's largest foreign investor, eclipsing even nations such as the Netherlands and Britain that have deep historical ties to Kuala Lumpur.

Malaysia is a leader in the Muslim and developing world, and a U.S.-Malaysia FTA will demonstrate the U.S. commitment to the region, deepening our bilateral relationship and strengthening support for our efforts on key political and security issues such as counterterrorism and counter-narcotics.

TIFAs and Other Dialogues—Other East Asian Economies, China, and India

In addition to FTAs, we are using our "Trade and Investment Framework Agreements," or TIFAs, to deepen our trade relationships with Asian partners, address bilateral trade issues, cooperate on regional and multilateral issues, and, in some cases, lay the groundwork for FTAs. We have robust TIFA dialogues with a number of individual ASEAN countries—including Indonesia, the Philippines, and Brunei—under which we meet several times a year to discuss the full range of issues on our trade agenda, ranging from intellectual property rights, to regulatory issues affecting agricultural trade, to customs agreements to combat shipments of illegal goods. Last week, we signed a U.S.-Cambodia TIFA that we hope will help spur bilateral investment and provide us with a forum to handle trade issues as they arise.

We also have an active TIFA dialogue with Taiwan. I recently traveled to Taiwan for two days of discussions under the U.S.-Taiwan TIFA, and was able to get a firsthand view of the vibrancy of that economy and of the importance that senior leaders there place on our trade relationship. That relationship is a strong one, with nearly \$57 billion in two-way goods trade last year. Taiwan is an important economic partner for the United States and it is one that we are determined not to overlook.

No overview of our activities in East Asia would be complete without a discussion of our trade relations with China, relations that are critical to our economy and our people. In February, USTR unveiled a top-to-bottom review of our trade relationship with China. It was a balanced and comprehensive assessment that concluded that, while the U.S. has clearly derived substantial benefits from U.S.-China trade, the relationship has not been sufficiently balanced in the opportunities it provides. The review also called for our China trade policy resources and priorities to be refocused.

Now that China's transition period as a new WTO member is ending, the United States will treat China as a mature trading partner and will draw upon the full set of tools available to us to ensure that China complies with its commitments. China needs to do more to open its markets, reform policies that skew markets and discriminate against U.S. exporters, and abide by its WTO commitments, particularly in the area of intellectual property rights enforcement. In short, China must bear responsibilities that are commensurate with the benefits it has obtained from participation in the rules-based trading system.

In accordance with this view, USTR has enhanced its trade enforcement capacity by establishing a China Enforcement Working Group, and I will say more about this later. We are also working to strengthen, expand, and increase the effectiveness of the U.S.-China dialogue on issues such as standards and SPS issues, China's subsidies practices, financial services, telecommunications services, labor, environmental protection, and transparency and the rule of law, among others. The Administration recognizes as well the importance of increasing coordination with other trading partners in pursuing these issues and—as evidenced by our coordination with European and Asian partners on intellectual property rights and auto parts issues—is already vigorously pursuing such coordination.

This emphasis on enforcement, we believe, complements the dialogue with China that we carry out on a number of levels, primarily through the Joint Commission on Commerce and Trade. During the most recent JCCT in April, we achieved progress on a range of important bilateral issues, including measures to improve intellectual property rights enforcement, China's commitment to join the WTO Government Procurement Agreement, transparency of government regulations, improved market access for medical devices and telecommunications services, and beef.

Now let me turn to Japan, which is the third largest market for U.S. goods, with exports of \$55.5 billion last year, and is our fourth largest overall goods trading partner, with \$194 billion in two-way goods trade. While a key market for the U.S., formal and informal barriers still prevent U.S. products from reaching Japanese consumers. Japan's continued ban on imports of U.S. beef remains one area of particular concern, and we look to Japan to reopen its market in the very near term. The principal institutionalized mechanism for bilateral trade policy engagement with Japan is the Regulatory Reform Initiative, which along with other initiatives on finance and investment is a key component of the Economic Partnership for Growth that President Bush and Prime Minister Koizumi launched in June 2001. Under this initiative, we are tackling many of the same kinds of market access

issues that we would address under an FTA and seeking to ensure trade is fair and mutually beneficial.

Turning to India, we have seen double-digit growth in our exports in recent years and are excited that our economic relations with the world's largest democracy are on the verge of expanding significantly. As India continues to embrace economic reform, it will claim its place among the world's largest trading nations. The United States is proud to be India's largest overall trading partner. In July 2005, President Bush and Prime Minister Singh endorsed creation of the U.S.-India Trade Policy Forum (TPF), a bilateral mechanism devoted to creating an improved environment that will facilitate bilateral trade and investment. The TPF has already met six times—three at the ministerial level—and is making steady progress reducing trade impediments, many of which have been in existence for well over a decade. We have set an ambitious target to double two-way trade over the next three years, and we are encouraged by our progress to date.

WTO Accessions—Vietnam

While working to strengthen bilateral relations, we have also worked hard to encourage our trading partners to accede to the WTO. By requiring countries to open up their economies and reduce tariff and nontariff barriers to trade, WTO accession not only creates new opportunities for U.S. exporters, it also subjects acceding countries to the disciplines and rules of the WTO.

In 2004, we helped secure the WTO accession of Cambodia. Today, one of our top trade priorities is securing Vietnam's WTO accession. On May 31, we signed a bilateral market access agreement that will help to clear the way for Vietnam to join the WTO. The agreement will dramatically reform the Vietnamese economy, requiring it to reduce tariffs and nontariff barriers and opening its fast-growing markets to U.S. manufacturers, service providers, farmers and ranchers. But we are not there yet. For Americans to benefit fully from Vietnam's WTO accession, the Congress must provide for permanent normal trade relations (PNTR) with Vietnam. If that change in law does not occur, every other member nation will have WTO relations with Vietnam—including the right to bring WTO cases against Vietnam—but the U.S. will not. We hope that the House will soon take up this important legislation, and I would urge the Members of this Committee to support this effort.

Participating Regionally through APEC

We continue to attach great importance to APEC, which has helped us advance our trade agenda in key areas, such as intellectual property rights, trade facilitation, and transparency. President Bush has made it clear that APEC is the "premier forum in the Asia Pacific region for addressing economic growth, cooperation, trade and investment." The United States has \$1.6 trillion in total goods trade with APEC economies, accounting for roughly two-thirds of total U.S. goods trade. Yet opening markets through APEC has been slower and more painstaking than many would like. As APEC nears its 20th anniversary, it needs to be strengthened and revitalized, so that it can better address the wide range of challenges facing the Asia-Pacific region. We are currently working closely with other APEC members to develop ways to do that—with the goal of ensuring that APEC is more efficient and more effective for the United States and all its members in promoting growth and advancing liberalization in the growing Pacific Rim markets.

Enforcing Our Rights

As I mentioned at the beginning of my statement, achieving market access for U.S. citizens and businesses loses its value if our trading partners do not follow through on their obligations. We expect our trading partners to abide by the commitments they make. USTR has been using the tools and resources provided by Congress to ensure that American businesses can compete on a level playing field.

Let me note here the emphasis that we at USTR have placed on the enforcement of China's trade commitments. Stepping up that enforcement was a particular focus of the Top to Bottom review discussed above. In particular, it called for the creation of a new Chief Counsel for China Enforcement (the first time in history that USTR has created an enforcement czar focused on a single country), a China Enforcement Working Group, the infusion of new analytical resources in USTR to help create stronger and more forward-looking cases, and close collaboration with trading partners in seeking to enforce our rights.

We are already far along on implementing many of the recommendations in that report. We recently hired a Chief Counsel for China Enforcement. We have already filed one WTO case this year—concerning China's treatment of U.S.-made auto parts—and we were on the verge of filing another when China rescinded the offending regulation. We have been working closely with allies in Europe and elsewhere in bringing these cases.

Let me mention in particular, that we continue to press China on its obligations to honor U.S. intellectual property rights. We have made clear that if action is not taken to curb piracy in China, we will not hesitate to exercise our rights at the WTO to enforce its obligations.

Thank you for this opportunity to testify. I look forward to your questions.

Chairman HYDE. Thank you very much, Ambassador.

Mr. Smith of New Jersey.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman.

Mr. Ambassador, thank you for your comprehensive answers and testimony. Let me just ask you with regards to China again, if I could, and you talked about subject to the WTO and the regimen that that imposes on a country, rules and regulations, but one of the concerns that I had when WTO was being crafted was the lack of concern. Intellectual property rights are actionable offenses, as they should be, but when you get into the areas of human rights and even workers' rights, what does the WTO have to say about that?

The problem that I and many others have with regards to workers' rights in China is that there has been a systematic tightening of the noose, if you will, on workers in the PRC. There is an aggressive, comprehensive denial of the right to organize collective bargaining. Increasingly workers are finding that they are not paid, so wage arrearages have become a significant issue in China. And if you strike, you are on your way to the gulag. Just try it and you go. You are tortured. It is an engraved invitation to abuse if you strike in the PRC.

There are as many as 10–20 million child laborers. There is a lot of forced labor. We know the laogai system, 1,100 strong and plus, we have an MOU with them. We have had it since Bush 1, during the Clinton Administration. That MOU on gulag-made goods isn't worth the paper it is written on. As we all know, we have got to ask them to investigate, they, being the Chinese officials, and there is a time period. We must have compelling evidence.

I mentioned Frank Wolf and I—I didn't mention Frank, but he was with me when we visited Beijing Prison No. 1. It was only because we took samples from that prison factory that we were able to get a hold on an import sanction on those goods coming to the United States. Otherwise, our customs people are like the Maytag repair salesman, they do not have the kind of access because of a flawed MOU.

So that MOU was touted again and again during Bush 1 and Clinton, and I don't hear much of it now even though it is I guess still in force, but we know that there are prison-made goods that are finding their way onto our shelves here in the United States. Again, that is not even 15–50 cents an hour, that is zero per hour.

There is the occupational health issue. We have got OSHA in this country and it does provide at least a modicum of protection for our workers, but in the PRC, according to the *Country Reports on Human Rights Practices*, in excess of 125,000 men and women died in the factory last year. There was an official Chinese document that suggested that rates of illness and injury have never been higher in the Chinese manufacturing sector. So that it is getting worse, and they don't lift a finger to protect.

I raise all of this because there is a significant section 301 complaint petition that has been filed with the USTR. Two years ago a similar complaint was filed. Remediation, if you want to call it that, was suggested that the Administration would try to push, and I am sure a good faith effort was made, but we have got nothing to show for it, nothing.

The bottom line is if you are a factory worker, your life is relatively grim in the PRC and it is dangerous going to work every day. Why don't we take this and please respond to it? Will you take this petition and investigate? This is very well documented. I have read it three times now. Very well written, heavily footnoted, and in addition to Chinese workers being hurt, United States workers are being hurt as well. There is a displacement factor. The upwards number in here is 1.2 million people who have lost their jobs. I don't know if that is absolutely correct, but it is a good faith effort to arrive at job loss here in the United States.

And it also has a corresponding depression on factory workers throughout the world. When you pay so little and when China produces so much, it hurts developing countries in Africa and elsewhere because it brings down what can be paid for a product on the world market.

So what is your view on this petition? Has it been reviewed? And I hope you are not going to tell us it is going to be rejected again.

Ambassador BHATIA. First of all, Congressman, let me, if I can, make a completely unequivocal statement here on the subject of China's labor practices. I am not here to defend China's labor practices in any way, shape or form. I do not think any of us would suggest, and I think this is something that was said by the Administration at the time of the last 301 petition, that we believe China is in the shape that we would like to see it, or anything close to the shape we would like to see it in the area of labor. So let me just get that on the table.

Second thing I need to say is, there is a section 301 petition currently pending before us. It is filed, there is a process we proceed under, and so I am a little limited as to what I can say to you there. I can tell you that the petition is under consideration by the Section 301 Committee that exists.

But perhaps I can talk in a little more general terms about what the Administration has been doing in the area. It is not just USTR, but it is more broadly. There have been a number of initiatives by the Department of Labor that have been launched with respect to the Chinese to seek to work in some of the areas that you mentioned, occupational, health, and safety, as well as in other areas.

The issue of whether China is compliant with international labor standards is something that is a key factor in determining whether China continues to be deemed a non-market economy by the Department of Commerce, which is something that really bites; something that they care about. So that is another relevant factor here.

I think a third factor that I would say one needs to think about 301 in terms of is what we really want to have happen here. I mean, what we want to have happen is for China's labor practices to improve, for some of these egregious examples you are talking about to end, we want to see China's labor market not be distorted by government policies and things that range from the egregious,

as you term it, to simply the out-and-out irrational, which also exists in this area. So I think all of these are issues.

The question that we ultimately have to face, and indeed that the 301 decision will have to wrestle with, is what the most effective way to do that is. Now, this may not bare on the 301 petition, but one thing I would point out is perhaps the most positive development we have seen with respect to China in recent years has, in fact, been the rising growth of wages and of labor rates in China.

And I would submit to you that the reason we have seen that is because of the greater trade, the greater involvement of foreign enterprises in China, which has had the effect of both stimulating demand in the labor market but also creating the effect of a set of conditions and standards that are increasingly being adhered to.

So, the issue of whether China is where it should be or not is one that I do not think there is any disagreement among probably any of us. The issue we are faced with is what is the most effective way to do that.

Finally, ultimately, I would point out that the 301 mechanism is one that is a mechanism that has carried over from a pre-WTO era. So we need to think very carefully about the question of the use of 301 remedies, given that we are now under new strictures and restrictions in terms of sanctions that can be placed on it.

Mr. SMITH. If I could, Mr. Chairman.

Chairman HYDE. If you don't mind.

Mr. SMITH. Okay.

Ambassador BHATIA. I would be delighted to follow up with you, Congressman.

Chairman HYDE. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

I would gladly yield an extra additional minute to my good friend from New Jersey, if he wishes to pursue his question.

Mr. SMITH. Thank you, Mr. Chairman, and Mr. Faleomavaega.

Does WTO preclude 301 remedies?

Ambassador BHATIA. Congressman, I can't answer that question directly, simply because I don't know what remedies conceivably could be imposed. I don't know. But I can tell you that one needs to look very closely at how WTO obligations cabin 301.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I want to thank Ambassador Bhatia for a very excellent statement. I noted in your initial statement, Mr. Ambassador, you said that free trade agreements strengthen the U.S. economy. But I think previous to that, Mr. Lantos had indicated in his concerns the tremendous loss of jobs in our country due to the impact of free trade agreements.

I am not an economist, but my good friend, Mr. Lantos, is an international economist, and I am trying to reconcile these two observations to say which is which.

I want to note the fact that we are members of the World Trade Organization.

Ambassador BHATIA. Yes, sir.

Mr. FALEOMAVAEGA. That we have these regional trade blocks.

Ambassador BHATIA. Yes, sir.

Mr. FALEOMAVAEGA. And then we have these free trade agreements both multilaterally and bilaterally. And in all this mix, do you honestly believe that we are really heading into the right direc-

tion in terms of providing a more stabilized economy, providing for more opportunities for our workers in the business community?

This is one of the problems that I am concerned with, Mr. Ambassador. And I hate to, Mr. Chairman, use NAFTA as an example, but I can't help but to say, look, one of the problems that we have with this free trade agreement, if you want to call it that, we used labor and environmental issues as a side or supplemental issue. That wasn't how we agreed to it; to say, well, we'll take care of those issues but let's move on and get NAFTA moving. Well, somehow in the situation with our trade relations with Mexico, it seems to be totally opposite.

The whole import of NAFTA, supposedly, was to prevent these illegal immigrants from coming over into the country so that jobs would be provided with our export market to Mexico and with all these things. But this has not happened. Like I said, I am not an economist, but I find this probably in the same situation in our trade relations with other Asian countries. We are exporting, but I don't see where we are providing more workers working opportunities because of this.

We are now at a trade deficit with these Asian countries, which is a good example of what I'm trying to get at. Can you reconcile that for me, Mr. Ambassador?

Ambassador BHATIA. Sure, Congressman. Thank you. The point you raise, I think, is one that we probably need to do a better job of explaining, because I believe so passionately that our free trade agreements are not only reconcilable with economic growth and stability in our country but are essential to it. The reality, Congressman, is that the nature of not only the U.S. economy, but every other economy around the world is changing rapidly and will continue to change rapidly. The forces of globalization that we all know about are impelling us in that direction.

The question the FTAs present to us are, I think, twofold: One, whether foreign markets that currently are, if not closed, at least more closed off to us than our own economy is to the foreign countries, whether that balance needs to be struck. So if you look at industrial tariffs, let's say in Malaysia, or you look at them in Korea, they are multiples of what our industrial tariffs are. The Koreans, the Malaysians and others have access to the United States market, which is one of the reasons, I would submit, not the only reason, but a contributing factor in why you see those trade deficits.

So if the concern is to reestablish balance, which certainly is one potential goal out there, the FTAs are in fact critically helpful to that. They don't only deal with tariffs, obviously. They also deal with nontariff barriers and the creation of intellectual property rights protections. And those are also essential to economy and to our workers because those are fundamentally necessary preconditions, one could argue, for our companies to be able to compete effectively in those economies.

So I will proffer that answer. And another point I would make is that while change is always difficult in economies, I fully agree with that, and we do have systems and programs and things in place to try to help address that change, the change ultimately, I do believe, is for the better.

If you look at our other export-oriented jobs today, they pay higher, on an average 15–18 percent higher than the nonexport jobs. Services jobs, which are more likely to be export-oriented jobs, are generally likely to be paid higher wage and have more satisfactory jobs.

So, the U.S. economy is changing, there is no question, but the benefits we are moving towards, and what we can only really capture in a free-trade environment is a situation where we have a healthier economy.

I don't know if that answers your question, but that is how I think we look at it.

Mr. FALEOMAVEGA. My time is up, but I hope to get a second round.

Thank you, Mr. Chairman.

Ambassador BHATIA. Thank you very much.

Chairman HYDE. Mr. Flake.

Mr. FLAKE. Thank you, Mr. Chairman, and thank you for holding this hearing. I thank Mr. Ambassador for being here, and I just want to say from the outset I am a huge believer in free trade.

Ambassador BHATIA. I am well aware.

Mr. FLAKE. And anxious to see more free trade agreements. I hope we move quickly with the Korean Free Trade Agreement, and I do believe that when we change economies, we change the political dynamic as well. And I think we can see evidence of that in China and elsewhere.

I just wish that we were more consistent with that principle and would apply it to Cuba. But that is the subject of another hearing, I'm sure.

Let me just ask you: How big of a problem are our own agricultural subsidies? I know we have had some problems in the Doha Round with regard to Asian free trade agreements. What are we going to be faced with?

I know that is important for other regions, but how important is it that we restructure? As we go toward reauthorizing the Farm Bill coming up, we know that we need to make some changes, and gratefully so. These subsidies are bad for a number of reasons, but one of them is that it really makes a mess of some of these free trade agreements. It makes them less free trade than anything else.

And the biggest problem with the free trade agreements we have signed in the past couple of years have been the massive exemptions to them. So, if you can offer some guidance as to how big a problem it is with Asian free trade agreements and what we are doing to solve that.

Ambassador BHATIA. Congressman, I think the issue of agricultural subsidies is not one that I would say thus far has emerged as a major issue in our Asian FTAs. I would point out that we are still only in the second round of the negotiating with the Korean and the Malaysian agreements, so I don't know for certain what issues may come up. They have not come up as major issues there, but they are clearly a very major issue in our Doha Round negotiations, which sits on top of all of these and establishes the multilateral framework.

I would note that we, as the United States Government, working in close cooperation with Congress, the relevant Committees and with Congress as a whole, have put forward in the Doha Round a very aggressive ambitious offer that would deal with both the issue of market access in agriculture, i.e. tariffs and being able to sell into the market, as well as trade distorting subsidies. And we have put forward a proposal that would require substantial reformation of our own subsidies, if it were to be accepted.

The principal issue we have in the Doha Round, as you may be aware, is the question of whether other trading partners, the Europeans in particular, are willing to be as bold. And, unfortunately, it takes not only two, but 150 to tango in the Doha Round. We are going to have to see if we can coalesce around an ambitious outcome there. But it is an issue in our international trade negotiations.

Mr. FLAKE. Well, thank you. I just hope the Administration is aware that there are many of us here in Congress who, for whatever reason we can use, and whatever excuse or whatever else, we need to readdress the Farm Bill, in particular, as we come up to reauthorize it, and to make it more consistent with our free trade goals and objectives.

And I want to commend the Administration for pursuing, as I mentioned, these free trade agreements, and in particular, in other regions as well, in Africa, AGOA, and AGOA II, have made a difference. I think most of us recognize if we want long-term sustainable development in the developing world and in Third World countries, then trade is where it is at.

Ambassador BHATIA. Yes.

Mr. FLAKE. So thank you for what you are doing.

Ambassador BHATIA. Thank you for your support.

Chairman HYDE. Well, I think we have run out of questioners. Oh, Mr. Wilson. We saved the best for last.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman. Being so junior, he can't see me down here this far. But just honored to be serving on this Committee with Chairman Hyde. And of course, we are in his last year, so this is sort of bittersweet for many of us who are so proud to serve with him.

Ambassador, I want to congratulate you, too. I am the former Co-Chair of the India Caucus, and you, I believe, may be the highest ranking Indian American ever to serve in a public office, and we are very proud of your service.

Ambassador BHATIA. Thank you.

Mr. WILSON. Additionally, I really share a concern of my good friend, Mr. Faleomavaega, that when people think of free trade agreements, in my home State of South Carolina, they are thinking outsourcing. But you really actually brought to mind that, indeed, we need to tell the story better.

I am not quite the free-trader my good friend Mr. Flake of Arizona is. I hope there will be safeguards for domestic industries, such as textiles, and I understand that they can't be there forever, but certainly, to safeguard against dumping and against transshipment and relabeling.

We need to get the message out, and you call it export jobs, but these are jobs created in the United States for exports abroad. I think the message needs to get out more about the exports-imports to Asia from the United States.

Additionally, a message I have given to my Indian friends is that they need to make it clearer about the investments in the United States.

Ambassador BHATIA. Absolutely.

Mr. WILSON. When I think of Asia, I think of my home State of South Carolina and Fuji Film, American Koyo Ball Bearings, and I think of Honda building vehicles in South Carolina, and then I think next door, Australia. PBR Brakes are made right down the street from where I live. So we have phenomenal investments.

And then I think, too, amazingly enough of when I came and you were talking about Taiwan, we have a billion dollar investment from Mosa Plastics Group, Nan-Ya Plastics in Lake City, South Carolina, that creates jobs in a very depressed community. It means a lot.

Ironically, we have PRC Builds, through hire, refrigerators, air conditioners, and apartment-sized appliances, of all things, at a facility in Camden, South Carolina. And so I know firsthand.

But we do, and you have a hard job in your position with the trade representative, but I hope that somehow this message can get out about the jobs created through exports. And the information is available by State, almost by county. And also the impact of encouraging investments.

So what efforts are being made to make this message?

Ambassador BHATIA. Well, first of all, let me start by thanking the Chairman for holding a hearing like today's, which hopefully helps start getting the message out. And your point, Congressman, about both trade and investment being critical parts of this, really two sides of the same coin in today's globalized economy, is another very, very important element of that.

The reality is that the United States is increasingly a destination for foreign investment that creates jobs; that creates innovation; and that makes our economy more competitive. So we, and perhaps our trading partners, need do a better job of getting that word out.

The reality is that a substantial and growing portion of U.S. jobs in all sectors, but including in the manufacturing sector, are jobs that are supported by foreign investment into the United States.

One of the things we are trying to do, and we are a small office at USTR, but we are trying to get out a little more into regions of the country, like South Carolina and elsewhere, to spread that message. I think our corporations, frankly, can probably help in this regard as well. They need to be pointing out to folks that their jobs, in many cases, are supported by, or certainly the standard of living and the wages are supported by exports.

And there are many major manufacturers in many of the districts that are represented here today that, frankly, given the export markets that we have had over the past few years, and the fact that they are growing, the future of those companies may well reside with foreign exports and with free trade agreements that will open up those markets even more.

I am all ears and willing to work with anybody who has good ideas about how we can get that message out more effectively.

Mr. WILSON. Well, we need to do this, because there are textile plants closing this week, Avondale Mills in Aiken, South Carolina. So this is what the media will be covering, and we really need your assistance.

Thank you very much for your service.

Ambassador BHATIA. Thank you. Thank you, Congressman.

Chairman HYDE. Ambassador, I just have one very short question.

Ambassador BHATIA. Certainly, Mr. Chairman.

Chairman HYDE. We are running a record trade deficit with Asia, and there are those would who believe that increasing the trade volume with Asia only means more red ink. What is your response to that?

Ambassador BHATIA. Congressman, I think the trade deficit, if you look at it, and I think if you talk to economists, they will say the trade deficit is influenced by factors that go far beyond, indeed trade deficits are dictated by factors far beyond the trade regimes themselves. They have to do with macroeconomic factors and they have to do with economic growth.

The reality is that our economy has been the healthiest of all of the G-8 economies for the past 5 years. So when we have a strongly growing economy, with, and I would admit this, a low savings rate here in the United States compared to savings rates that are much higher abroad, those are some of the key factors that are going to lead to deficits.

So if the concern is deficits, I think what we need to do is continue to promote economic growth domestically in our trading partners, including in Asia but also Europe and the rest of the world, and we need to help address the savings rate problem that we have here.

I would say that I think to the extent FTAs and trade agreements can contribute in leveling this and helping promote balance, the trade agreements do serve that function. They help lower tariffs and nontariff barriers abroad, which helps make it easier for our goods to be exported. I think if you look at the example of Singapore, where our exports have increased 24 percent, substantially more than I would note Singapore's have, I think they are a good testament to that.

Chairman HYDE. Growth trumps deficits; right?

Ambassador BHATIA. Growth is something we wouldn't want to give up, I think I would say.

Chairman HYDE. Mr. Faleomavaega wishes to make a closing statement, something we don't hear very often in this Committee, so we look forward to his closing statement.

Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Mr. Chairman, I thank you. I am always very, very pleased when our Chairman and other leaders of our Committee set up hearings that pertain to the Asia-Pacific Region. I say this because I believe I am the only American whose roots are from the Asia-Pacific Region and who is a Member of this Committee.

I think sometimes in our national and foreign policies, we seem to look at Asia-Pacific, I don't know how to describe it, Mr. Chairman. But given the fact that two-thirds of the world's population resides in the Asian Pacific Region; given the fact that six of the 10 largest armies in the world is in the Asia-Pacific Region; given the fact that the second most powerful economy in the world happens to be Japan, in the Asia-Pacific Region; given the fact that two of the most populous nations in the world reside in the Asia-Pacific Region; given the fact that I think our trade with the Asia-Pacific Region is four times greater than any other region of the world, I think it gives me a real sense of appreciation of the fact that we now have finally come to grips with the fact that the Asia-Pacific region is very important not only to our strategic and military interests, but certainly to our economic interests.

Ambassador Bhatia, as an American who happens to be of Indian-American ancestry, it gives my sense of pride and strengthens the diversity of our Nation to see you in your position. Truly, we are a Nation of immigrants, and your presence here I think gives me a sense of reassurance that, hey, we are all in this together. And I sincerely hope that the 14 million of us Asian-Pacific Americans that make up the fabric and the greatness of this Nation are making meaningful contributions.

So I am really, really happy this morning that the Chairman has seen fit that we call this hearing to address these very serious problems in our trade deficit with the Asian region, but more importantly, the fact that we need more communications. I remember 10 years ago nobody wanted to be on the Asia-Pacific Subcommittee. We were bashing the Japanese then, and in recent years we bash the Chinese, because of our own seemingly self-interest and thinking that this region is the enemy. It can only be due to the fact of the tremendous diversity of cultures and people who do not understand that one size does not fit all, even in the diversity of the Asia-Pacific Region itself and the dynamics of the economics and of the culture.

So, again, I want to extend my real appreciation to Chairman Hyde for calling this hearing and for having you, Ambassador Bhatia. And I could go on the whole day in dialoguing with you about this very interesting issue, but in closing, thank you, Mr. Chairman and I thank the Ambassador.

Ambassador BHATIA. Thank you very much.

Chairman HYDE. And I want to thank you, too, Ambassador. You have made a very constructive presentation and you have stimulated our interest even further. Thank you.

Ambassador BHATIA. Thank you, very much, Mr. Chairman.

Chairman HYDE. The Committee stands adjourned.

[Whereupon, at 11:26 a.m., the Committee was adjourned.]

