Loyola of Los Angeles International and Comparative Law Review

Volume 13
Number 1 *International Business Law Conference: Investment and Trade with the Republic of China*

Article 2

10-1-1990

Keynote Speech

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principles of law, especially regarding intellectual property protection. The ROC has made great political and economic strides, and thus deserves world recognition as a full member of the international community. Membership in the GATT is a logical and necessary first step. The notion of two Chinas may be politically unacceptable in both Taipei and Beijing, but the reality is that there are two Chinas—although only one seems to be moving forward both economically and politically. My hope is that the ROC will remain economically strong, will continue to move toward true participatory democracy, and that the PRC will again begin the slow, painful, but essential journey toward political and economic freedom. Only then can there be "one China."

Keynote Speech

LINDA F. POWERS*

In an effort to help United States firms increase their exports, the United States government is focusing heavily on trade and investment with the Republic of China ("ROC"). To describe this focus, I will first comment on the overall trade picture with the ROC, and then discuss the United States government's concern over the persistent trade imbalance looming over the United States-ROC trade relationship. Finally, I will explore the actions taken by both United States and ROC authorities in an effort to address this persistent trade imbalance. Against this backdrop, I will identify the areas of major trade opportunities that United States government initiatives and programs have focused on to help increase United States exports to the ROC.

The ROC is an economic powerhouse. Its economy developed so rapidly that the ROC is now the United States' fifth-largest trading partner. Unfortunately, the ROC trade surplus and corresponding United States trade deficit ranks second only to the United States' bilateral deficit with Japan. As a result, the United States government places these initiatives to increase exports to the ROC at the top of its agenda.

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Despite decreases in this trade deficit by several billion dollars each year, the trade imbalance remains a concern. Hopefully, it will be reduced to $13 billion or so by 1990. Although significant, this figure compares well to United States bilateral deficits with countries in other regions of the world. For example, in 1988, the United States trade deficit with the ROC decreased about 17%, while the overall United States trade deficit fell about 21%. Japan aside, the decrease in the United States trade deficit with the ROC surpasses that of any other country in Asia. With the European Community, the United States enjoys the return of a traditional surplus situation.

In its efforts to address and discover solutions for the trade imbalance with the ROC, the United States government focuses on both structural factors and market barriers. Although market barriers tend to receive more attention, the United States government conducts thorough analyses of structural factors as well. The structural factors that contribute to the trade imbalance include the differing character and size of the United States and ROC markets. Given its smaller market, the ROC possesses a very limited capacity to absorb United States exports. More importantly, the ROC cannot readily alter the size or diversity of its markets.

By diversifying ROC export markets, the United States may effect structural changes in the ROC economy. The United States presently stands as the number one export market for the ROC. The trend of companies from third-world countries using the ROC as a base for exporting products to the United States accentuates this problem and the need to diversify ROC export markets. Large expected increases in spending for public infrastructure provide additional avenues for structural change in the ROC economy. Altering the ROC government's domestic policy, which significantly encourages exports and discourages consumption and importation, presents yet another possible means of tearing down the structural barriers to balanced United States-ROC trade.

Already many of these barriers are falling. Domestic demand presently rises faster than external demand. In fact, external demand has recently shrunk. The savings rate dropped from 36% to 30%, signalling an increase in consumption. Of course, 30% remains a healthy savings rate, one that the United States envies. In sum, all of these factors help to improve the trade imbalance.

Of course, structural problems on the United States' side exist as well, such as our budget deficit, our proclivity to consume rather than save and invest, and our relative lack of skilled labor and technicians. Hence, we include these factors in our analysis as well.

I will now briefly discuss the market barriers to United States exports. Each year the United States Trade Representative publishes an inventory and analysis of trade barriers affecting various foreign countries around the world. The 1989 report identifies six kinds of barriers in the ROC market that create problems for United States firms attempting to export goods to the ROC. The first of these six areas is import policies. The overwhelming majority of complaints by United States companies regarding import policies concern tariffs. Naturally, developments in reducing ROC tariffs significantly facilitate United States exports to the ROC. Other import policies that create problems for United States exporters include bureaucratic hurdles to obtaining import licensing, difficult standards for obtaining those licenses, and lack of transparency. A second category of trade barriers includes the different product standards and testing and certification requirements between the United States and the ROC. United States companies often find it difficult to meet such requirements, particularly with respect to agricultural goods. Third, export subsidies pertaining primarily to agricultural commodities, such as rice and sugar, also constitute trade barriers. However, the impediment to trade created by these subsidies decreased throughout the late 1980s. A fourth category relates to intellectual property protection problems. The piracy issue concerns not only inadequate enforcement but also inadequate coverage of laws. For example, ROC law provides no provision for confiscating infringing goods or protecting trade secrets. In addition, ROC law provides no patent protection for such items as microorganisms, foodstuffs, and semiconductors. Service barriers constitute the fifth category. ROC laws limit the ability of United States companies to set up branches offering financial services. For example, a United States firm may only establish two life insurance companies and two non-life insurance companies in the ROC each year. United States banks can open only a single branch in Taipei and one branch in another city. The sixth and final category of deleterious import policy is a "catch-all" category. This category pertains to monopolies and monopoly taxes, particularly in the area of tobacco and alcohol.

What is being done by United States and ROC authorities about this situation? The structural barriers are presently being studied with particular attention to dismantling market barriers. The ROC undertook a similarly progressive macroeconomic policy change by allowing its currency exchange rate to rise substantially. Recent treasury reports confirm no evidence of ongoing currency manipulation. This quelled earlier concerns over the possibility that keeping the currency value artificially low would boost the exportability of ROC products.

The 1988 United States Omnibus Trade Act gave the effort to dismantle trade barriers a major boost. Problems in the intellectual property area causing the United States to place the ROC on the Special 301 priority watch list improved, resulting in a downgrade to the regular list. One of the most constructive results of the 1988 Trade Act was the Detailed Action Plan created by the ROC. The plan presented a framework of the ROC's strategy for opening markets and reducing trade barriers. Although another one of today's speakers will discuss this plan in greater detail, I will briefly set forth the plan's four main objectives.

First, set an ambitious goal to annually reduce the bilateral trade surplus by ten percent, thereby expanding domestic demand for imports. Second, expand the ROC's foreign market diversification by spreading out the destinations of its exports. This effort should lessen some of the pressure on the bilateral trade balance with the United States. Again, the ROC aims to reduce exports to the United States to only one-third of its total export volume by 1992. Third, liberalize the internal economy and import measures by reducing tariffs, streamlining licensing procedures, dropping licensing requirements for goods, and only requiring licenses for products that are on a so-called negative list. Finally, seek comprehensive solutions rather than piecemeal resolution of individual difficulties. These were the underlying objectives behind a major part of the 1988 Trade Act, and the Detailed Action Plan represents a new approach to dealing with these problems.

The United States and the ROC made substantial progress this year. As mentioned earlier, the ROC significantly reduced tariffs and streamlined licensing procedures, while the United States effectively utilized the negative list system. The United States and the ROC reached two major milestones in the intellectual property area: a bilateral copyright agreement and a bilateral audio-visual protection agreement. With respect to service barriers, progress consists of a banking law that was presented in the summer of 1989, the drafting of a new insurance law, and liberalized telecommunications. One of the most pragmatic examples of progress this year has been the implementation of the action plan provisions to improve the information flow between the United States and the ROC. The United States and ROC governments must distribute information to United States companies about market opportunities in the ROC to increase United States exports to the ROC. The United States government will soon publish a book which gives early warning of all procurement and purchasing opportunities. The book will also present actual detailed explanations of unsuccessful export projects by United States companies.

Expanding concessionary financing for United States exporters presents a particularly interesting opportunity. Along with its robust economic growth and opportunity, the ROC possesses huge foreign reserves, second in size only to Japan, that makes financing for exports to the ROC relatively easy compared with other nations. United States companies often run into considerable problems with a lack of aid and mixed credits in other markets. In contrast, concessionary financing greatly facilitates exportation of products to the ROC.

Finally, I would like to mention three areas which represent major trade opportunities. These are: (1) capital equipment and infrastructure items; (2) engineering and technical service relating to those areas; and (3) other financial, transport, and shipping type services. As one of its centerpieces, the Trade Action Plan aims to increase public spending, especially on infrastructure items. The ROC will construct two metro systems and a high speed rail system. The United States is already successfully involved in one of the metro projects. We anticipate further success in other projects as well.

In the environmental area, the ROC is committed to spending over $10 billion for environmental control systems, including systems for management of solid and toxic waste and air pollution control. The ROC government drafted and approved a twenty-year master plan for environmental programs. Since the ROC government decided to forego the construction of several nuclear power generation facilities, opportunities exist for United States participation in a number of other kinds of power generation. A variety of projects under construction covering the entire range of the ROC's infrastructure, including airport expansions and petroleum projects, present bountiful, as well as diverse, opportunities for United States companies. We shall continue to work hard to help United States companies increase exports to this expanding nation.