



Washington REPORT

News and analysis from Washington, D.C. about key issues in U.S.-Asia Pacific Relations

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Managing Challenges In U.S.-Asia Trade Relations USAPC Interview with Ambassador Carla A. Hills

Since the Democratic-controlled Congress convened on January 4, U.S. lawmakers have held numerous hearings and introduced legislation aimed at rectifying the "unfairness" underlying the U.S. trade deficit with China. Many also have challenged the benefits of trade agreements negotiated by the Bush Administration, such as the U.S.-Korea Free Trade Agreement (FTA), and insisted on the inclusion of labor and environmental standards in trade accords. These initiatives respond to what many Members of Congress perceive as the public's growing sense of unease and vulnerability about the effects of trade and globalization.

Ambassador Carla A. Hills, who served as U.S. Trade Representative from 1989 to 1993, challenges trade critics on Capitol Hill. She offers new insights into the imbalance in U.S.-China economic relations, touts the benefits of the U.S.-Korea FTA, and underscores the need to better educate workers about the importance of trade to their livelihoods.

USAPC: You co-chaired the Council on Foreign Relations' China Task Force, which issued a report on April 10 entitled, *U.S.-China Relations: An Affirmative Agenda, A Responsible Course*. Among other points, the report maintains that trade barriers are not a significant cause of the U.S.-China trade deficit. Please elaborate.

Hills: The Task Force reviewed a great deal of economic data and concluded that the U.S.-China trade deficit primarily reflects a broad macroeconomic imbalance between the two countries rather than unfair trade practices by China. Actually, China is one of the most open of the developing countries.

The bilateral deficit results largely from the fact that China consumes so little and saves so much. China's consumption rate is about 38 percent, which is extraordinarily

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Washington Cracks Down On Beijing's Trading Practices

Within the course of two weeks, the Bush administration took two major trade actions aimed at redressing the trade impact of China's use of industry subsidies and its lax enforcement of intellectual property rights (IPR).

These actions represented a departure from the White House's previous reliance on bilateral discussion forums, such as the Joint Commission on Commerce and Trade (JCCT) and the U.S.-China Strategic Economic Dialogue, to address trade problems.

Countervailing Duties. On

March 30, the Commerce Department announced a preliminary determination that Chinese producers/exporters of glossy paper had received subsidies ranging from 10.90 to 20.35 percent. As a result of this finding, Commerce instructed U.S. Customs officials to collect countervailing duties on imports of glossy paper from China to offset the subsidies.

Importantly, this decision alters a 23-year-old policy of not applying the U.S. countervailing duty law to non-market economies (NMEs), like

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Official Washington

In each issue, Washington Report will provide the names and contact information for selected executive branch officials with jurisdiction over economic, political, and security issues important to U.S.-Asia Pacific relations. This issue will focus on pertinent personnel from the National Security Council (NSC).

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low for a major economy. By comparison, consumption in the United States is about 70 percent of GDP. In India, it is over 60 percent. China's savings rate nudges 50 percent—quite high for a developing country. By comparison, the U.S. savings rate is in the negative range.

The Task Force believes the U.S. government could encourage China to stimulate domestic consumption and reduce political tension here by, for example, permitting the valuation of its currency to respond to market forces. We found that China was unlikely to permit its currency to appreciate in response to market forces if other East Asian governments, such as Japan and South Korea, did not do so as well. Thus, the Task Force concluded that a broader discussion regarding currency policy would be helpful.

Also, the Task Force concluded that increased Chinese government expenditures on health care, pensions, welfare, and education would help to stimulate domestic consumption and reduce savings, as would financial reforms aimed at opening the mortgage market, providing car loans, and creating other forms of consumer finance, like credit cards.

The Chinese people save so much because they are worried about their futures. Their government spends very little on social welfare programs—less than four percent of GDP. And for some time, China has had a one-child policy. Consequently, most Chinese cannot look to their children to support them in their old age—and they are aging very rapidly. So they feel they must save for their health, their pensions, and the education of their children.

USAPC: How about on the U.S. side of the relationship? Did the Task Force recommend actions the United States should take to help correct the misalignment?

Hills: Yes. The Task Force emphasized that, first, the United States should increase domestic savings by trimming the federal deficit and cutting back on “pork-barrel” spending. Second, we should strive to improve our competitiveness in the global economy by educating the U.S. population to be as efficient and skilled as possible. And third, the U.S. should continue to pursue market-opening trade negotiations so there are more markets for U.S. exports.

Getting the bilateral economic relationship in order will require *both* countries to undertake reforms. The trade imbalance is not primarily a result of China's trade barriers.

USAPC: That point is a very hard sell on Capitol Hill these days. Many lawmakers regard China's trade barriers as *the* problem.

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U.S.-China Working Group Founders Advocate

Engagement Agenda With China—Representatives Rick Larsen (D., Washington) and Mark Kirk (R., Illinois) said April 18 they are determined to pursue an agenda aimed at broadening all aspects of U.S.-China relations via the U.S.-China Working Group. Larsen and Kirk founded the 60-plus-member group in June 2005 in an effort to “create space in Congress where lawmakers could examine rationally various issues in U.S.-China relations.”

Specific elements of the pro-engagement agenda will include: (1) a bill to help U.S. small and medium-sized businesses export to China; (2) a proposal to triple funding for U.S. public diplomacy in China; (3) a bill aimed at expanding Chinese language study in the United States and U.S. student exchanges to China; and (4) a bill to foster U.S.-China energy cooperation and trade in energy technologies.

Kirk described congressional attitudes toward China as “relentlessly negative.” Republicans tend to “over-hype” China’s military capabilities, while Democrats too often seek protectionist solutions to the macroeconomic imbalance. To re-educate lawmakers, it is crucial, according to Kirk, to compile data detailing each congressional district’s economic relationship with China. Lawmakers then would better understand that China-targeted protectionist bills risk harming rather than helping their constituents.

Other China-Focused Legislation:

Kirk and Larsen face a formidable challenge, however, judging by the following sampling of legislation. These bills reveal the extent to which U.S. lawmakers regard China as an economic threat. They also attempt to give more urgency to bilateral talks aimed at liberalizing China’s currency policy, providing better protection for U.S. intellectual property rights, and redressing China’s alleged unfair trade practices.

● **China Currency**—The “Fair Currency Act of 2007,” introduced by Sen. Jim Bunning (R., Kentucky) and Rep. Tim Ryan (D., Ohio), would make exchange rate misalignment by any foreign nation a countervailing export subsidy. Rep. Phil English’s (R., Pennsylvania) bill would require the Treasury Secretary to impose tariffs on all Chinese imports based on the extent to which the *yuan’s* value against the dollar has been manipulated. Rep. John Spratt’s (D., South Carolina) proposal would impose a 27.5 percent tariff on all Chinese imports if bilateral negotiations aimed at revaluing the *yuan* are not successful. These bills were the focus of a House Ways and Means Trade Subcommittee hearing on May 9.

● **China PNTR**—Sen. Byron Dorgan (D., North Dakota) and Rep. Marcy Kaptur (D., Ohio) introduced a bill that would withdraw China’s permanent normal trade relations (PNTR) status. Congress then would determine every year whether China would enjoy nondiscriminatory treatment in trade with the United States, a process that typically is highly politicized.

● **NMEs**—Rep. Artur Davis (D., Alabama) and Sen. Susan Collins (R., Maine) are seeking increased sanctions on China’s alleged industry subsidies via legislation that would clarify that U.S. countervailing duty laws may apply to nonmarket economies (NME) like China.

● **IPR**—Sen. Evan Bayh (D., Indiana) said April 12 that the Administration’s recent filing of World Trade Organization cases against China over Beijing’s failure to protect U.S. intellectual property rights (IPR) is a good first step (see article on page one). But Congress must do more to beef up U.S. government enforcement of IPR, he maintained. Bayh’s bill would consolidate U.S. government IPR enforcement functions and require the administration to develop a strategic plan for tackling piracy.

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China. According to Commerce Secretary Carlos Gutierrez, the department changed its policy because China’s nonmarket economy has evolved to the point where specific government subsidies can be identified. “China’s economy has developed to the point that we can add another trade remedy tool, such as the countervailing duty law,” Gutierrez said. “The China of today is not the China of years ago.”

The U.S. International Trade Commission now is in the process of making final decisions about whether the U.S. paper industry has been harmed by China’s subsidies. Commerce likely will make its final decision on the

countervailing duty action in mid-June.

Reps. Artur Davis (D., Alabama) and Phil English (R., Pennsylvania) have said they will continue to press for House action on their legislation so there is no doubt that Commerce may pursue China for alleged industry subsidies. The Davis/English bill would clarify that U.S. countervailing duty laws may apply to NMEs.

IPR Protection. On April 9, U.S. Trade Representative (USTR) Susan C. Schwab announced that the United States would file two cases against China in the World Trade Organization (WTO): one, over deficiencies in

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Hills: Yes, there are some trade barriers, the principal one being China's failure to adequately protect intellectual property. The Task Force was quite harsh in its evaluation of China's efforts to enforce the protection of intellectual property rights (IPR). We argued that China's poor enforcement record and nominal penalties for IPR infringement reflect a lack of political will as much as they reflect a lack of capacity.

The Task Force urged the U.S. government to develop a system based on one already used by the U.S. Chamber of Commerce, which rates how well provincial governments enforce IPR. The system would help guide U.S. companies toward provinces that do a better job of protecting intellectual property. But it is important to bear in mind that even if China dramatically improved enforcement of IPR rules, that, in and of itself, would not rectify the trade imbalance.

USAPC: With respect to IPR, the U.S. Trade Representative (USTR) announced April 9 that it had filed cases against China in the World Trade Organization (WTO) over (1) deficiencies in China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products and (2) China's barriers to trade in books, music, and films.

Some Members of Congress argued that USTR should have been more aggressive and taken China to the WTO much sooner. Do you agree?

Hills: No. I think USTR has done quite well. I applaud the bringing of IPR cases against China. It is much better to bring a case to the WTO where there is a violation than it is to haggle bilaterally. The WTO provides a system for resolving disputes. And if the complainant is correct, it is likely to prevail. The process eliminates a lot of potential hostility.

Under the WTO dispute settlement rules, the parties to a dispute are required to consult for 60 days, which USTR and its Chinese counterpart did. Unfortunately, they did not resolve the dispute through consultation. USTR therefore was correct to file the suits when it did.

USAPC: Concerning another important Asian economic relationship, on April 1 the United States and South Korea concluded a ground-breaking free trade agreement (FTA). Leading members of the U.S. business community applauded the accord, but key American lawmakers strongly opposed certain provisions. Some observers worry that Congress may not approve the agreement.

What effect would Congress' failure to approve the U.S.-Korea FTA have on American economic leadership in Asia?

Hills: First, let me say that I am very much in favor of the U.S.-Korea Free Trade Agreement. It is a good agreement that will make 95 percent of bilateral trade in consumer and industrial products duty-free within three years. Most of the remaining tariffs will be abolished within 10 years.

It also tackles sensitive sectors that Korea has protected for many years, like agriculture. More than \$1 billion worth of U.S. agricultural exports to South Korea will become duty-free immediately, with most of the remaining tariffs and quotas phased out over the first 10 years of the FTA. We also will realize improved IPR protection and expanded opportunities for U.S. service industries, including telecommunications and e-commerce.

In short, the U.S.-Korea FTA has few exemptions—unlike those that have been negotiated by other WTO members. It is one of the few efforts worthy of the name "free trade agreement." And it goes much further than the most fervent optimist's aspiration for the current WTO round of multilateral trade negotiations.

As a result, bilateral trade will expand and stimulate economic growth with little diversion. That experience should help persuade Koreans, who have taken a highly

The U.S.-Korea FTA effectively throws a rope across the Pacific

defensive position against agricultural liberalization in the WTO talks, of the benefits of even broader liberalization.

Politically, the U.S.-Korea FTA is equally important. Congress complains that the Asian nations have meetings that exclude the United States. An agreement with a major Asian nation like South Korea effectively throws a rope across the Pacific.

I remember when ex-Prime Minister of Malaysia Mahathir bin Mohamad said he wanted to draw a line down the Pacific and create an Asian economic caucus. Then Secretary of State James Baker said he did not want such a "line" because the United States has major interests in East Asia.

We cannot stop the Asian nations from talking to each other. We certainly talk to our friends in the Western Hemisphere. But I do think that if the Asian nations form an economic bloc or caucus that includes the ASEAN nations plus China, Japan, South Korea and possibly India, Australia, and New Zealand, the United States definitely will want to participate in that group.

One way for the United States to gain access to an emerging regional economic arrangement is to conclude a FTA with one or more of the major Asian economies. I think the U.S.-Korea FTA is a particularly good way to start.

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USAPC: As we speak, the outlook for the WTO round of multilateral trade negotiations remains uncertain owing, in part, to strong domestic opposition in South Korea and many WTO member countries to liberalizing agricultural trade. Do you think we have gone as far as we can *politically* in liberalizing the global trading system?

Hills: No, I do not. But we must make a greater effort to explain to the public why open markets and economic interdependence benefit all countries.

Certainly, industrialized countries have enjoyed enormous benefits from globalization. According to studies by the Peterson Institute for International Economics, since World War II the U.S. economy has gained an additional \$1 trillion per year as a result of globalization. That, in turn, has made every American household roughly \$9,000 per year richer.

Developing countries that have opened their markets also have gained. They have grown five times faster than those that have kept their markets closed. This is apparent if you compare China and India. In the 1980s, China began opening its markets. In the subsequent 20-odd years, it has enjoyed 10 percent annual growth, attracted a tremendous inflow of foreign investment, and raised 400 million people out of poverty.

India has been much slower in opening its markets. As a result, it has attracted on average only about \$7-\$8 billion worth of inward investment per year over the past decade. China has attracted nearly \$65 billion during the same period. That is quite a contrast. It shows how opening markets benefits rich and poor countries alike.

USAPC: Do you think it would be appropriate for American companies to launch campaigns aimed at educating the man-on-the-street about the benefits of trade and globalization?

Hills: Quite clearly, if American companies want to keep international markets open, they must play a bigger role in educating the American public about the benefits of trade. I often tell audiences of corporate executives that they should do everything they can to educate their employee populations, whether they have five or 50,000 on their payrolls.

Corporate management must explain to employees how trade benefits the company, what percentage of revenues comes from the company's international activity, what percentage of employees' paychecks can be attributed to trade, and why, therefore, the company needs open markets.

Employees should be informed that companies with international connections pay higher wages, offer more expansive benefits, and provide greater security than

businesses that are focused only on the domestic economy. In short, U.S. workers should understand fully why it is in their interest to support open trade.

Also, the average American is not likely to know about—but likely would oppose—the inequities created by certain U.S. trading practices. These practices have the effect of robbing developing countries of a chance to participate in the global marketplace.

For example, our subsidies to producers of cotton crops are higher than the cash value of that crop. The subsidies serve to rob the poor sub-Saharan African nations of potential export opportunities, even though they are more competitive in cotton production.

Similarly, Americans should know that we do a great disservice to global stability by our restrictions on the import of sugar. The U.S. system of quotas greatly limits sugar imports, thereby enabling inefficient American producers to block export opportunities of poor countries that produce this commodity far more competitively. Not only do these quotas hurt nations that produce sugar—and in some cases drive these producers to grow illegal

Corporate management must explain to employees how trade benefits the company

crops—but they also hurt the average American who must pay more for sugar.

If you examine the U.S. tariff schedule, you will see that tariffs are extremely regressive. They are much higher on ordinary goods than on luxury items. Tariffs on heavy glass are much higher than tariffs on Tiffany crystal. Tariffs on shoes are much higher than tariffs on leather luxury goods. The United States should be a leader in correcting these inequities.

USAPC: The President's authority to negotiate trade agreements expires on June 30. Congress must renew this authority. House Democrats, in particular, appear unlikely to approve renewal of Trade Promotion Authority (TPA) unless the Bush administration agrees to include labor and environmental standards in all trade agreements. Is this a reasonable demand? Will it make U.S. trade policy more ethical?

Hills: We have to be careful about what we insist other countries do. I have heard loose talk in Congress about including provisions in trade accords that would require the trading partner to enact laws that enforce International Labor Organization (ILO) standards.

The problem with that requirement is that the United States does not enforce every ILO standard. We

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do not permit agricultural workers to organize, for example. I do not know how the United States can insist that other countries adhere to a code that we have not adopted in full.

I believe in labor standards in the sense that we certainly want countries to upgrade their laws where they are deficient. But if we examine a trading partner's labor laws and they appear to be reasonable, what then becomes important to us is that the nation enforces those laws. USTR used this approach in FTAs it negotiated with the Andean nations, Colombia, Peru, and Panama.

It would be a mistake, in my view, to ask these Latin American nations to open up the FTAs for the purpose of adding labor and environmental provisions. If there are specific labor provisions that Congress would like included, perhaps this could be done via side letters.

U.S. lawmakers should be very careful of what they demand, lest the same be asked of our nation. If Congress insists on compliance with ILO standards, it then should be prepared to change U.S. labor laws, some of which involve state laws. But Congress always has harbored quite a lot of resentment toward countries that ask the United States to change its domestic laws. ♦

Ambassador Carla A. Hills is Chairman and Chief Executive Officer of Hills & Company, International Consultants, which advises companies on global trade and investment issues. She served as U.S. Trade Representative from 1989 to 1993. An expanded version of this interview is available at www.usapc.org/Resource-Blog/hills.pdf.

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China's Weak IPR

China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products, and another, over China's barriers to trade in books, music, videos, and movies. "Piracy and counterfeiting levels in China remain unacceptably high," USTR Schwab said. While acknowledging that Beijing has taken active steps to improve IPR protection and enforcement, Schwab said the two governments had been unable to agree on several important changes to China's legal regime that Washington believes are required by China's WTO commitments.

USTR further highlighted China's lax IPR enforcement in the so-called Special 301 report issued April 30. USTR must produce this report annually to identify countries that deny adequate and effective IPR protection. This year's report included an unprecedented review of IPR enforcement in provinces outside of Beijing where piracy is rampant. "By highlighting local problems and also giving credit where it is due, we encourage local leadership," Schwab said. ♦

Congress Reacts Coolly To U.S.-Korea FTA

Supporters of more expansive U.S.-Asia economic relations hailed the conclusion on April 1 of a free trade agreement (FTA) between the United States and South Korea. It is the first such accord between the United States and a major Asian economy and "underscore[s] the substantial U.S. engagement in and commitment to East Asia," according to the Bush administration.

Under the agreement, more than \$1 billion worth of U.S. farm exports to South Korea will become duty-free immediately; nearly 95 percent of consumer and industrial products will become duty-free within three years of the agreement's coming into force. Studies estimate annual bilateral trade could increase by as much as \$20 billion.

Despite this impressive potential for trade growth, the U.S.-Korea FTA landed with a thud on Capitol Hill. Key Members of Congress blasted U.S. negotiators for not driving a harder bargain on politically sensitive issues, particularly trade in automotive products, beef, and rice. At press time, the administration faced an uphill battle building support in Congress for the ground-breaking trade pact.

Beef Import Ban. The ink on the FTA was barely dry when Sen. Max Baucus (D., Montana), chairman of the Senate Finance Committee and a strong advocate for U.S. beef interests, threatened to block passage of legislation to implement the accord. "I will not allow [the U.S.-Korea FTA] to move through the Senate unless and until Korea completely lifts its ban on beef," Baucus declared.

Under the FTA, Seoul agreed to reduce its 40 percent tariff on imported beef over a fifteen year period. South Korea also agreed to resume U.S. beef imports, which have been banned from the Korean market for three years owing to concerns about mad cow disease and other safety issues—provided the World Organization for Animal Health determines in an upcoming ruling that U.S. beef is safe to consume. The latter proviso, in particular, proved "entirely unacceptable" to Baucus and other beef industry supporters on Capitol Hill.

Autos. Lawmakers representing auto-producing constituencies echoed Baucus' threat to oppose the FTA. In 2006, U.S. automakers sold about 4,000 cars in South Korea, while Korean companies sold 800,000 cars in the United States. Although South Korea agreed to remove an 8 percent tariff on imported cars and eliminate a discriminatory tax based on engine displacement, Rep. Sander Levin (D., Michigan), chairman of the House Ways and Means Trade Subcommittee, argued there was no guarantee those measures would rectify the gross imbalance in car sales. He said he would oppose the deal unless the administration renegotiates the auto provisions.

Rice Protection. Some U.S. lawmakers objected to the

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The United States-Korea Free Trade Agreement: Key Elements

Agriculture. Upon ratification, duties will be eliminated immediately on products such as cotton, feed corn, grape juice, hides and skins, orange juice, raisins, soybeans, and wheat. Tariffs on products such as avocados, lemons, and dried prunes will be phased out over two years. Tariffs on chocolate and chocolate confectionary, grapefruit, and sauces and preparations will be phased out over five years. Rice was not included in the FTA.

Autos. South Korea will eliminate immediately its eight percent tariff on U.S. auto imports and its tax based on engine displacement. In return, the United States will remove immediately its 2.5 percent tariff on autos with engine sizes of 3,000 cc or less. Washington also will phase out its 25 percent duty on light trucks over 20 years. In addition, the FTA (1) creates an Auto Working Group to review potentially discriminatory auto-related regulations and (2) establishes a special dispute settlement mechanism for auto-related measures that violate the FTA.

Beef. South Korea's 40 percent tariff on imported beef will be reduced over a 15-year period. Seoul also agreed to lift its three-year ban on U.S. beef imports over health and safety concerns, provided the World Organization of Animal Health declares that U.S. meat is safe to consume.

Intellectual Property Rights (IPR). The accord provides high-level standards for protection and enforcement of IPR, including trademarks, copyrights, and patents, consistent with U.S. standards.

Investor Protections. The FTA ensures that U.S. investors in South Korea will have the same rights and enjoy equal footing with South Korean investors.

Kaesong. Washington rejected Seoul's request that goods from the controversial Kaesong Industrial Complex in North Korea enter the United States duty-free. Ultimately, though, U.S. negotiators agreed to create a "Committee on Outward Processing Zones on North Korea," which would consider such requests at an unspecified future date.

Labor and Environment. The FTA requires both countries to enforce their own labor and environmental laws.

Services. South Korea agreed to open its market to U.S. legal consulting services. U.S. financial institutions will have the right to establish or acquire financial institutions in South Korea and may establish branches there of banks, insurance companies, and asset managers. U.S. telecommunications firms that establish a South Korean subsidiary will be able to secure 100 percent ownership of program providers after three years.

Textiles. Both sides immediately will provide reciprocal duty-free access for most textile and apparel products. The FTA includes a "yarn forward rule," which stipulates that fabric used in the manufacture of apparel for export must be from the country of origin to receive duty-free benefits. Further, the accord includes a textile safeguard provision that would allow the United States to impose tariffs on certain items if U.S. textile and apparel makers can prove they were injured by a surge of South Korean imports.

Pharmaceuticals. South Korea will establish and maintain an independent body to review recommendations and determinations regarding the pricing and reimbursement of pharmaceutical products. Seoul also will enhance the protection of U.S.-patented pharmaceuticals.

Sources: Sangarone, Troy. "Anatomy of a Deal: the KORUS FTA," *Korea Insight* 9, no. 4 (April 2007) and the Office of the U.S. Trade Representative, "United States and Korea Conclude Historic Trade Agreement," available at www.ustr.gov/.

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exclusion of South Korea's highly protected rice market from the FTA. They argued that the exclusion not only hurts American rice producers, but also risks undermining U.S. efforts to liberalize global agricultural trade in the World Trade Organization (WTO) talks. U.S. negotiators contended they fought nearly to the last minute to keep rice on the table. They ultimately acceded to Seoul's demand, apparently determining that the overall benefits of the FTA outweighed probable incremental increases in U.S. rice sales to South Korea.

Outlook. Technically, the administration notified Congress April 1 that it had concluded a FTA with South Korea. Under the president's trade promotion authority (TPA), following notification Washington and Seoul have

90 days to give the text a thorough legal scrub. Congress also is using this period to examine the new line-by-line tariff schedule and other details.

The two sides must sign the final FTA by June 30 in order to be considered by Congress under the TPA fast-track procedures. Fast-track prohibits deal-breaking amendments, allowing only an up or down vote on legislation to implement the accord. Insiders do not anticipate a vote on the U.S.-Korea FTA until September or October.

In the meantime, the administration will be working hard to build public support for the FTA, focusing on the the grass-roots as well as the corporate leadership level. Lawmakers ultimately will support the pact—if their constituents tell them to. ♦

Asia Pacific Dialogue

Important 'Track-Two' Meetings:

17th General Meeting of the Pacific Economic Cooperation Council (PECC), May 1–2, Sydney, Australia—The theme for the 2007 General Meeting was *Managing the Challenges of Growth*. Participants explored new developments in the state of the region, efforts to build relevant institutions to serve the region, the consequences of demographic change, the challenges posed by constraints in regional resources markets, and the impact of environmental concerns on sustaining growth.

Key Official Meetings, May–June 2007:

- **Japan's Foreign Minister Taro Aso and Japan's Defense Minister Fumio Kyuma meet Defense Secretary Robert Gates and Secretary of State**

Condoleezza Rice for the so-called Two-Plus-Two talks, May 1, Washington.

- **Prime Minister Lee Hsien Loong** of Singapore meets President Bush, May 4, Washington.

- **The Pacific Islands Conference of Leaders** convenes its eighth conference, May 6–9, Washington (see article below).

- **Chinese Vice Premier Wu Yi** leads a cabinet-level delegation to Washington for the second meeting of the U.S.-China Strategic Economic Dialogue, co-chaired by **U.S. Treasury Secretary Henry Paulson**, May 23–24.

- **Ministers from member nations of the Association of Southeast Asian Nations (ASEAN)** will meet their U.S. counterparts for the ASEAN-U.S. Dialogue, June 21, Washington.

PICL Aims To Broaden, Deepen Transpacific Ties

Leaders and senior officials of the 20 governments that comprise the Pacific Islands Conference of Leaders (PICL) convened their eighth conference in Washington D.C. on May 6–9. This was the first time the triennial PICL met in the U.S. capital. The conference featured a keynote address by Secretary of State Condoleezza Rice and unprecedented meetings with influential Members of Congress. The East-West Center, which has served as the PICL secretariat since 1980, organized the meeting.

The leaders chose Washington as the site for this year's PICL so as to "broaden and deepen the Pacific Islands region's engagement with the United States." The Bush Administration apparently agrees that transpacific ties should be enhanced. Secretary Rice told the group that in 2007 the United States will undertake various initiatives aimed at fostering increased stability, good governance, and economic development.

In particular, Washington plans to expand its public diplomacy efforts in the Pacific Islands by establishing a new public affairs office in Fiji and broadening educational exchange programs, Karen Hughes, under secretary of state for public diplomacy, told the leaders on May 8.

Other topics explored during the three-day conference included economic development, security, trade, aid, environmental protection, climate change, fisheries, and emergency responses to natural disasters.

The leaders discussed at length the economic, labor, and infrastructural implications of the planned U.S. mili-

tary expansion in Guam. Administration officials told the leaders that the United States wants to ensure that their nations benefit from the estimated \$14 billion construction program that will result from the relocation of about 8,000 troops from Okinawa to Guam.

Hon. Eni Faleomavaega (D., American Samoa) hosted a special Roundtable Pacific Policy Discussion on May 8 in the historic Henry Hyde Room in the U.S. Capitol. Fifteen U.S. lawmakers participated in the Roundtable, including House Majority Leader Steny Hoyer (D., Maryland) and House Ways and Means Committee Chairman Charles Rangel (D., New York). The leaders were especially moved by a U.S. House Resolution welcoming them and formally recognizing members of the PICL.

The leaders also were the guests of honor at the 2007 Pacific Night, an annual event hosted by the Pacific Island nations' embassies, Australia, New Zealand, the Office of Hawaiian Affairs, and the National Geographic Society. House Speaker Nancy Pelosi (D., California) attended the event for the express purpose of meeting the leaders.

Member nations of the PICL are American Samoa, Cook Islands, Federated States of Micronesia, Fiji Islands, French Polynesia, Guam, Hawaii, Kiribati, Republic of the Marshall Islands, Nauru, New Caledonia, Niue, Commonwealth of the Northern Marianas Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

At the Washington meeting, the leaders unanimously approved the appointment of President Kessai Note of the Republic of the Marshall Islands to serve as PICL chairman. Prime Minister Ham Lini of Vanuatu will serve as PICL vice chairman. ♦