

**AGREEMENT ON TRADE RELATIONS BETWEEN THE
UNITED STATES AND THE PEOPLE'S REPUBLIC
OF CHINA**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SIXTH CONGRESS
FIRST SESSION
ON
S. CON. RES. 47
CONCURRENT RESOLUTION TO APPROVE THE EXTENSION OF
NONDISCRIMINATORY TREATMENT WITH RESPECT TO THE
PRODUCTS OF CHINA

NOVEMBER 15, 1979



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**AGREEMENT ON TRADE RELATIONS BETWEEN
THE UNITED STATES AND THE PEOPLE'S RE-
PUBLIC OF CHINA**

THURSDAY, NOVEMBER 15, 1979

**U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
*Washington, D.C.***

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Hon. Abraham Ribicoff, chairman of the committee, presiding.

Present: Senators Ribicoff, Baucus, Bradley, Roth, Heinz, Danforth, and Chafee.

[The press releases announcing this hearing and S. Con. Res. 47 follow:]

Press Release #H-70

P R E S S R E L E A S EFOR IMMEDIATE RELEASE
October 25, 1979UNITED STATES SENATE
COMMITTEE ON FINANCE
Subcommittee on International Trade
2227 Dirksen Senate Office Bldg.FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARING ON
RESOLUTION TO APPROVE THE AGREEMENT ON TRADE RELATIONS BETWEEN
THE UNITED STATES AND THE PEOPLE'S REPUBLIC OF CHINA

The Honorable Abraham Ribicoff (D., Conn.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced the Subcommittee will hold a hearing on Senate Concurrent Resolution 47. Under section 405(c) of the Trade Act of 1974 (19 U.S.C. 2435), an agreement providing nondiscriminatory tariff treatment (Most-Favored-Nation treatment) to a nonmarket economy country takes affect only if a concurrent resolution of approval is adopted by the Congress within 60 working days after the President submits the agreement to the Congress. Special procedural rules for Congressional consideration of such a resolution are contained in section 151 of the Trade Act (19 U.S.C. 2191). On October 23, 1979, the President transmitted the Agreement on Trade Relations Between the United States and the People's Republic of China to the Congress. On October 24, 1979, Senate Concurrent Resolution 47 approving the Agreement was introduced.

The hearing will be held at 2:00 p.m., Tuesday, November 6, 1979, in Room 2221 of the Dirksen Senate Office Building.

Requests to testify.--Persons desiring to testify during this hearing must make their requests to testify to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D. C. 20510, not later than the close of business on Friday, November 2, 1979.

Witnesses will be notified as soon as possible after this date as to when they are scheduled to appear. If for some reason the witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.--The Subcommittee strongly urges all witnesses who have a common position or the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. Further, all witnesses should exert a maximum effort to coordinate their statements.

Legislative Reorganization Act.--The Legislative Reorganization Act of 1946 requires all witnesses appearing before the Committees of Congress to "file in advance written statement of their proposed testimony and to limit their oral presentations to brief summaries of their argument." In light of this statute, the number of witnesses who desire to appear before the Subcommittee, and the limited time available for the hearing, all witnesses who are scheduled to testify must comply with the following rules.

1. All witnesses must include with their written statement a summary of the principal points included in the statement.
2. The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered to Room 2227 Dirksen Senate Office Building not later than 5:00 p.m. on the day before the witness is scheduled to appear.

3. Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.
4. No more than 5 minutes will be allowed for any oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.--Persons not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510, not later than Friday, November 9, 1979.

P.R. #H-70

Press Release #H-71

P R E S S R E L E A S EFOR IMMEDIATE RELEASE
November 2, 1979UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
2227 Dirksen Senate Office BuildingFINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE POSTPONES HEARING
ON RESOLUTION TO APPROVE THE AGREEMENT ON TRADE BETWEEN THE
UNITED STATES AND THE PEOPLE'S REPUBLIC OF CHINA

The Honorable Abraham Ribicoff (D., Ct.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced that the hearing set for November 6, 1979, on S. Con. Res. 47, a resolution to approve the agreement on trade relations between the United States and the People's Republic of China, has been postponed due to scheduling difficulties. (See Press Release #H-70 for the earlier hearing announcement.)

A new hearing date will be announced for this month as soon as it is established.

P.R. #H-71

96TH CONGRESS
1ST SESSION

S. CON. RES. 47

To approve the extension of nondiscriminatory treatment with respect to the products of China.

IN THE SENATE OF THE UNITED STATES

OCTOBER 24 (legislative day, OCTOBER 15), 1979

Mr. RIBICOFF (by request) submitted the following concurrent resolution; which was referred to the Committee on Finance

CONCURRENT RESOLUTION

To approve the extension of nondiscriminatory treatment with respect to the products of China.

1 *Resolved by the Senate (the House of Representatives*
2 *concurring), That the Congress approves the extension of*
3 *nondiscriminatory treatment with respect to the products of*
4 *the People's Republic of China transmitted by the President*
5 *to the Congress on October 23, 1979.*

○

Senator RIBICOFF. The committee will be in order. This hearing is to consider the trade agreement entered into this July between the United States and the People's Republic of China. This agreement is the third such agreement entered into under title IV of the Trade Act of 1974. The trade agreement among other things provides for most-favored-nation treatment for the People's Republic of China.

The trade agreement was submitted for approval to the Congress on October 23 of this year. Before the agreement, and MFN treatment may enter into effect, the Congress must adopt a concurrent resolution approving the agreement and must do this within 60 working days of its submission.

The trade agreement with the People's Republic of China marks a substantial forward step in the normalizing of economic relations between the United States and the People's Republic of China. It is a step and only diligent cooperative effort on all sides will result in securing the benefits of this movement and lead to more movement in the future.

A number of issues are presented by and impinged upon this trade agreement. Persons who are unable to testify today may file written statements for the record and their views will be taken into account by the committee.

Senator Roth, do you have a comment?

Senator ROTH. Mr. Chairman, on balance I support the United States-China Trade Agreement as having economic and important policy benefits to the United States. However, I do believe that there are several issues to which we should give some attention.

First, I am concerned about the procedures by which the assurance on immigration required under the Jackson-Vanik amendment have been handled. These assurances are a requirement of U.S. law, therefore, the subcommittee and Congress need to be satisfied that appropriate assurances have been received.

Second, the agreement is vague in some areas, such as protection of patent and copyrights. This reflects our understanding that China is still in the process of developing laws and institutions which will enable it to engage more fully in international economic relationships with advanced countries. We should make it clear that patent and copyright protection is of importance to Congress. For example, it became a major issue in the extension of the Hungarian waiver earlier this year. I believe that progress in this area as well as on human rights issue is a matter the administration should closely monitor and the Congress review when future waiver extensions are considered.

Third, while I support a growing, mutually beneficial economic relationship with China, I think both countries should be realistic about this relationship. China must recognize that many of its exports, such as textiles, are trade sensitive and we will protect our domestic industry where needed. On our side, we must recognize that China is still a developing country whose economy and political system are in course of evolution.

We hope the present economic trends continue, but in formulating our own policies in such matters as Eximbank credits and OPEC investment insurance, we should account for the contingency that they will not.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you very much.

Our first witness is Senator Jackson.

You are welcome, Senator. You may proceed, sir.

Senator JACKSON. Thank you, Mr. Chairman and Senator Roth.

**STATEMENT OF HON. HENRY M. JACKSON, A U.S. SENATOR
FROM THE STATE OF WASHINGTON**

Senator JACKSON. I wish to express my appreciation for this opportunity to testify before your committee in strong support of the trade agreement between the United States and the People's Republic of China, which includes a provision for giving China most-favored-nation treatment and opening the way to the granting of credits.

This United States-China Trade Agreement lays the foundation for the expansion of trade and financial ties between our two countries, with major mutual benefits. China's pursuit of a long-term modernization program calls for ongoing high levels of imported capital goods and technology, and China's leaders are counting on placing substantial orders with firms in this country.

As many of us in the Congress see it, the United States has a significant stake in the continued existence of a strong, independent China. We share with China a common interest in key strategic areas. China's leaders explicitly recognize shared security interests with us, with Japan, and with our NATO allies in Europe. In fact, the People's Republic is playing a central role in the geopolitical balance of power in the world, including the struggle to deter Soviet aggression and expansionism in critical areas of tension. Efforts to aid China in its drive to become a modern industrial state, and to work with her where our strategic and bilateral concerns run parallel are in American as well as Chinese interests.

A basic difficulty in getting this trade agreement before the Congress in timely fashion has been the position of top administration officials favoring a policy of "even-handed treatment" of Russia and China. In fact, we find that administration officers—notably in the State and Commerce Departments—have not finally shaken themselves free of this misguided view.

According to this notion, if we give the benefits of MFN and credits to China, we must also give them to the Soviet Union. If China is in conformity with our law and the Soviets not in conformity, then it is argued, efforts must be made to interpret the law to accommodate the country that has chosen not to conform. In the present case, the country that has chosen not to conform is the Soviet Union and the law in question is section 402 of the Trade Act of 1974.

In fact, China and the Soviet Union are two very different countries at different stages of development, with different interests and ambitions, different associates and allies, and different relations with this country. They should be treated on separate tracks and, in our own national interest, they cannot be treated alike.

I have been told that this basic position was stated to the Chinese leaders by Vice President Mondale during his August visit to the People's Republic. I am fully aware, however, that the administration is not all of one mind on this matter.

As my colleagues know, section 402 of the Trade Act of 1974, the Jackson-Vanik amendment, prohibits the extension of most-favored-nation treatment and official credits, credit guarantees, or investment guarantees, to any nonmarket economy country which restricts the right of its citizens to emigrate freely. The President, however, may waive these prohibitions with respect to a particular country if he reports to the Congress that: one, he has determined that such waiver will substantially promote the objective of free emigration, and two, he has received assurances that the emigration practices of that country will henceforth lead substantially to the achievement of the objective of free emigration.

The President has determined that these requirements have been met by the People's Republic of China, and he has issued an Executive order waiving the application of section 402 (A) and (B).

I am pleased to see that the President has based his case for MFN to China both on official assurances regarding future emigration practices provided by Chinese leaders in diplomatic exchanges, and on official assurances publicly stated by senior Chinese leaders.

Administration spokesmen have informed us that before the trade agreement was signed this year on July 7, top U.S. Embassy officers discussed Chinese emigration policy and practice with the Ministry of Foreign Affairs in Beijing in light of the legal requirements of the Jackson-Vanik amendment.

The Chinese were fully apprised of these requirements, including the requirement that assurances regarding future emigration practices be given, and at that time senior Chinese officials provided the assurances the law requires. We are informed that there is a written record of these official exchanges which administration officials should certainly make available to this committee before it votes on Senate Concurrent Resolution 47.

On several recent occasions Chinese leaders have publicly given assurances regarding their government's future policies on emigration.

For example: in a Washington, D.C., speech before the National Association of Chinese-Americans and Overseas Chinese in the U.S.A. on January 30 of this year, Vice Premier Deng Xiaoping said:

Many of you may have relatives living on the mainland of China and wish that they may come over for a family reunion, and others may wish to go back to China to visit their relatives. This is quite natural and understandable. The Chinese Government will treat these legitimate wishes favorably and with sympathy and will adopt effective measures to satisfy these wishes. You may rest assured on this score.

For another example: on the occasion of the formal establishment of the Embassy of the People's Republic of China in the United States of America in March of this year, Ambassador Chai Zemin gave the following public pledge:

Among the Americans and overseas Chinese residing in the United States, who have relatives living in China, some may wish to have their relatives come to the United States for family reunion and some may wish to visit relatives in China. This is quite natural and understandable, and is in accord with the interest and desire of the two peoples and is also beneficial to the enhancement of mutual understanding and friendship. Now that relations between our two countries have been normalized, the movement of people between the two sides will certainly increase significantly. I avail myself of this opportunity to solemnly declare: our

Government will adopt positive and effective measures to satisfy the reasonable wishes of people who wish to visit their relatives or reunite with them.

Mr. Chairman, of all the individual liberties contained in the UN Declaration of Human Rights, none is more fundamental than the right to emigrate. We in the Congress have particularly emphasized that right because it is the touchstone of all human rights. And in this effort we have international law on our side. As co-sponsor with you of the Jackson-Vanik amendment, I believe, we—and the vast multitude of supporters of the Jackson-Vanik amendment—can take satisfaction from the way our amendment is encouraging greater respect for freer emigration.

In closing, let me just say that I appear here today to urge this committee and the Senate to move expeditiously to pass Senate Concurrent Resolution 47, the resolution to approve this promising agreement on trade with the People's Republic of China.

Senator RIBICOFF. Thank you, Senator Jackson.

I note that you conclude by asking the Senate to move expeditiously and on the previous page, you say:

We are informed that there is a written record of these official exchanges which administration officials should certainly make available to this committee before it votes on S. Con. Res. 47.

It is my understanding that the administration refused to turn these over to the House committee. We certainly are going to take a look at them, and suppose they refuse to turn them over to us. Then would you advocate that we hold up acting on this resolution?

Senator JACKSON. I would not advocate that, but I think that, in compliance with the law, the administration has an obligation to make those exchanges which are in writing available to the committee.

I think it is a bad and dangerous precedent, not to make those available. I am sure the Chinese have no objection.

I think I know what the real reason is for trying to withhold the information, and it relates to the problem of trying to work something out with the Soviet Union. But the law is explicit and there can be no justification for not making that information available to this committee.

Senator RIBICOFF. Now, I am just curious. Have you ever talked to your coauthor, Congressman Vanik? Because, as I read the press he indicated that he thought that the recognition—giving most-favored-nation status to the Soviet Union should have gone in tandem with that of China.

Can you explain the difference between your thinking and Congressman Vanik's?

Senator JACKSON. That was discussed at the recent meeting when I appeared at the House Ways and Means Committee and he chaired the subcommittee. He is not currently making that a condition as far as this resolution is concerned.

He had stated something like that previously, but he explained at the meeting that that was not his position, despite the stories that appeared in the press.

Senator RIBICOFF. Does it make any difference in your thinking that the projected emigration of Soviet Jews this year is somewhere in the neighborhood of 51,000 and 52,000?

I think that the year that Congress adopted the Jackson-Vanik the figure was 33,000-odd. I am just trying to figure why you think that the 50,000, 51,000 is not a considerable improvement.

Senator JACKSON. It is. I am not saying it is not.

Mr. Chairman, I would point out the Russians certainly know how to comply with our law. I would point out that since Jackson-Vanik two Warsaw Pact countries, as you know, have complied with the law, Romania and Hungary. If they can comply why cannot the Soviet Union comply?

Senator RIBICOFF. Do you have any questions?

Senator ROTH. Senator Jackson, in seeking assurances on emigration under the Jackson-Vanik amendment, do you believe that we should adopt the same standards and procedures for China and the Soviet Union, or do you think different ones can apply?

Senator JACKSON. The two conditions are the ones that I mentioned that are in the law and I think the fundamental standards obviously should apply equally to both countries, and that is that the President has to make the finding that the waiver will substantially promote the objective of free emigration and also report to the Congress that he has received assurances that the emigration practices of that country will lead henceforth substantially to the achievement of the objective of free emigration.

The second requirement relates in part to practices by which in the past people have been inhibited from applying. If you apply for a visa, you lose your job, and so on.

Those are the basic conditions that are set forth in the law and I think they are reasonable and sensible and it has had the effect of encouraging freer immigration.

The Chinese obviously have an advantage with almost 1 billion people in terms of the numbers that might leave the country, but the change that has taken place there is remarkable both from what I have observed in individual cases that have been presented, and in the Chinese attitude, which is the critical thing.

Senator ROTH. With respect to assurances, that I, like you, feel that the administration should make the information available, I am not entirely—even though I agree with you, I want to expedite trade relations with China. I do have concern that we let the administration set the precedent of not showing the information to the committee. That does bother me.

Senator JACKSON. Senator Roth, you should ask the administration what, if any, the Chinese objection is, what is the privilege here. What is the real reason?

Senator RIBICOFF. The administration is lined up in the first row. They will have an opportunity to respond.

Senator ROTH. We will not even have to ask the question.

Senator JACKSON. They are probably prepared now. They have been given ample notice.

Senator ROTH. There have been some suggestions that OPIC investment insurance be extended to companies investing in China. Have you looked into this? Would you support that?

Senator JACKSON. Yes. I would support Overseas Private Investment Corporation assistance to United States investors in China. I am very encouraged. There are risks, but I am very encouraged with the attitude of the Chinese Government.

I have made three trips to China, an extensive trip in August. I visited the remote areas of China, in some instances where no one from the West has visited before, way out in Xinjiang Province. I observed firsthand the evidence of American companies coming in and participating in the development of the country.

We have to recognize that a large part of China is undeveloped. If you look at Tibet, Xinjiang and Inner Mongolia, they represent 55 percent of the land area of China, 55 percent, and only 4 to 5 percent of the total population lives there.

In Xinjiang, you have this fantastic arid area, high mountains, snow-capped year round, over 20,000 feet high. Vast deserts that can be made to bloom. Minerals of all kinds. Timber.

The agricultural potential in terms of development, irrigation, reclamation, is just enormous and I find that the present leadership is truly desirous of bringing in private investment capital and they are permitting ownership for the first time.

This is an enormous departure for a Communist country. They are cooperating very closely with the American business community as well as with Western Europe.

All of this, I think, is for our mutual benefit.

As we think of the Iranian crisis today, I would point out that some of us feel that there is an enormous oil potential in China. It will take time to develop but, say, maybe 100 billion barrels of oil can be developed.

China really did not start drilling for oil until 1949 and the export of oil will be the means by which China can buy at least pieces of the 20th century more rapidly than they would otherwise be able to do.

That is their trump card in obtaining hard currency exchange, as I view it. I am conscious of the textile problem. The Chinese are conscious of it.

I would hasten to observe that they have this unique commodity, oil. When you look at the amount of it, and the role that it can play in bringing some stability in the foreign market, I think that it augurs well.

As we talk about the solution to our energy problem for the next 10 years, as far as the United States is concerned, how we manage our foreign policy will determine the reliability of the supply of oil and the price of oil.

All that we do in all the other programs, whether it is conservation to the maximum, whether it is solar, whether it is synthetic fuels, you put it all together and we will be about where we are now 10 years from now. We have to run to stand still. It is in the area of foreign policy, our ability, among other things, to diversify as to our source of supply, that will determine price and availability.

This fact has to be reckoned with.

Senator ROTH. You raise the question of foreign policy. My final question that I would like to ask, Senator Jackson—it is a question that this country will face in the near future—should the United States sell military equipment to China?

Senator JACKSON. No, I think that would be a mistake.

There are many things that the United States can do, especially to help modernize the industrial base and to help improve the technology.

One of the greatest challenges that this country faces in the area of foreign policy is how we manage the problems that arise, and will arise, between China and Russia. That is going to require the utmost diplomatic skill.

As I view the geopolitical situation, China, as I have said on many occasions, can be the linchpin in maintaining the geopolitical balance.

This is a matter of utmost sensitivity and it is going to require enormous skill and judgment on our part in making sure that the geopolitical balance is maintained.

I do not think we should create a state, should we say, of strategic instability.

Senator ROTH. Well, I would like to follow that up with one further question, speaking of the relationship between China and the Soviet Union and the one you raised in your opening statement about the implications of giving most-favored-nation treatment to China and not the Soviet Union.

I have heard some people say, if we turn down SALT and then do not give MFN to the Soviet Union but give it to China that that could be construed as a signal of this country's wanting to a cold war.

Senator JACKSON. I think that is nonsense. We have given it to Romania. Romania plays an independent role in many foreign policy areas. We have given it to Hungary; it plays an independent role in some matters.

Prior to the Jackson-Vanik amendment we gave it to Poland, and of course, Yugoslavia is not within the Warsaw Pact agreement.

You know, they can live up to the law as well as any other country. I think it would be a colossal mistake for the United States to make a special accommodation to a country just because we have to have some kind of theoretical balance. It is a question in the case of the Soviet Union of living up to their international commitments.

The Soviets have signed treaties—they are called conventions, but they are treaties—which include the commitment to respect the Universal Declaration of Human Rights, approved back in 1948. Article XIII of that declaration, which is reaffirmed in the treaties, stipulates that a person has the right to leave a country freely and return freely.

Second, I would point out that the Helsinki Final Act contains that requirement as it relates to emigration and the Helsinki Final Act has not been lived up to, and these are written agreements. China is not a party to any of those agreements, but in the case of the Soviet Union, those are solemn agreements that they signed on the dotted line.

Senator ROTH. I think I have used my 10 minutes. Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Heinz?

Senator HEINZ. Senator Ribicoff, I do not have any questions for Senator Jackson save one. It is not necessarily something on which

he may feel prepared, or that Senator Stevenson may be prepared to comment on.

If not, I would simply ask that they review a bill that Senator Roth and I recently introduced, S. 1966, that embodies some new approaches, that make some major changes in the Antidumping Act of 1921 and section 406 of the Trade Reform Act of 1974.

If you are familiar with the legislation, you are better prepared than most witnesses will be. If not—

Senator JACKSON. I am not prepared.

Senator HEINZ. You lose nothing in that statement. I would appreciate it if you could both, at your leisure, take a look at it.

Senator JACKSON. I will be glad to.

Senator HEINZ. Thank you.

Senator RIBICOFF. Senator Danforth?

Senator DANFORTH. I have no questions.

Senator RIBICOFF. Thank you very much, Senator Jackson.

Senator STEVENSON?

Senator JACKSON. Thank you very much, Mr. Chairman.

Senator STEVENSON. Are you sure you trust me here alone?

Senator JACKSON. I have given my temporary proxy to Adlai. I may want to revise the record afterward.

Senator RIBICOFF. I do not know. I have a hunch that is a very dangerous thing for you to do, Senator Jackson.

Senator JACKSON. I may want to revise the record.

Senator HEINZ. Mr. Chairman, may I make a request of Senator Stevenson and the committee?

I would like to make a brief opening statement and put it into the record and then I will have to go back to the Banking Committee where we have hearings on the Chrysler Corp.

Senator RIBICOFF. By all means.

Senator HEINZ. In addition, let me say that there are some questions that I want to submit for the record to the Special Trade Representative, Ambassador Askew.

Let me just briefly summarize my statement.

I do think the trade agreement that we have with China is important. I hope to be able to support it, just as I have supported diplomatic relations with China.

In my judgment, it is important that such relations be established.

There are a number of questions regarding trade that I want to examine in these hearings. There are some conceptual problems of fitting into various trade practices by nonmarket economies such as the People's Republic into the kind of legal framework we have established, Mr. Chairman, in the MFN implementation legislation.

To date, Treasury has basically sought to cope with the problem through regulation. We dealt with it through section 406 of the Trade Reform Act of 1974.

In my judgment, both approaches are inadequate and in need of overhaul. That is why Senator Roth and I introduced S. 1966 a few weeks ago. That bill does embody some very different approaches. I think some very sound approaches, to those two issues, 406 and the Antidumping Act of 1921 issues.

We introduced the bill, No. 1, out of concern, and No. 2, to highlight these issues. I think it is fair to say we are not wedded to

every period and comma in the bill. We want constructive comment and today's hearing is an opportunity, particularly on the part of the administration, to provide informed testimony on that.

My only regret is I do have a committee conflict and I am going to have to get some of that information on the record after the fact.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you. Your full statement will go into the record as if read and your questions will also be submitted and the answers will be included in the record.

[The material referred to follows:]

STATEMENT OF SENATOR JOHN HEINZ

TRADE AGREEMENT WITH THE PEOPLE'S REPUBLIC OF CHINA

This agreement is important not just because it represents improved relations with the People's Republic of China, but because it also represents a major turning point in the development of economic relations with Communist nations.

I hope to be able to support this agreement, just as I have supported establishment of diplomatic relations with the PRC, although I have consistently disagreed with the way this Administration has handled that action. It is important, however, that such relations be established. As we have learned throughout the post-war period, progress and changes comes through contact, through discussion and exchange of ideas, through exchange of products as a result of trade. To open such doors to the PRC is not only to accept present reality, it is to influence the future by bringing the Chinese into the marketplace—of ideas as well as commodities.

At the same time, however, opportunities bring both promises and problems. We have the promises of better political relations expanding trade to the mutual benefit of both nations. We have the problem of potential trade disruption through import surges from this new market source, and through artificial pricing by an economy controlled by the government, where prices can be set to achieve political goals as well as economic ones, and where both lead far away from a free market climate.

It is this program I want to examine more closely in this hearing. We have sought to meet this challenge in one very important area—textiles and apparel—through the imposition of quotas when bilateral negotiations did not produce the desired result, and I am confident my colleagues at this hearing will be pursuing that issue in some detail. There are also other specific areas, such as ceramics and glassware, and mushrooms, that we should discuss.

Beyond particular commodities, there is also the conceptual problem of fitting various possible trade practices by a nonmarket economy such as the People's Republic into the legal framework we have established for dealing with unfair practices by our traditional, free market trading partners. Application of our dumping and countervailing duty laws is difficult when prices and costs are set by the government, and where the amount of a subsidy in an economy where everything is owned by the state is impossible to determine.

The Treasury Department has sought to cope with the problem through regulations, and the Congress has dealt with it through section 406 of the Trade Reform Act of 1974. Both approaches, in my view, are inadequate and in need of overhaul.

To stimulate public debate on such an overhaul, Senator Roth and I recently introduced S. 1966, which embodies new approaches to the problem of nonmarket economies and makes major changes in section 406 and the Antidumping Act of 1921. We introduced this bill to bring this issue to public attention. We are not irrevocably attached to every detail. We are, however, determined to see the issue debated and discussed, precisely because of the problems posed by this agreement and others which might be waiting in the wings. Today's hearing is an initial opportunity to raise some of these questions.

QUESTIONS SUBMITTED BY SENATOR HEINZ TO THE SPECIAL TRADE REPRESENTATIVE AND HIS ANSWERS TO THEM

Question 1. Should there be a sudden surge of imports from the PRC in an area not specifically limited by quotas or a bilateral agreement, how would this be met by the Administration?

Answer. The Administration is confident that the provisions of Article VII of the Agreement on Trade Relations between the United States of America and the People's Republic of China, together with vigorous enforcement of existing U.S. trade laws, will provide American industry and labor adequate protection from any disruptive effects resulting from increased imports from the People's Republic of China.

In accordance with the requirements of Section 405(b)(8) of the Trade Act of 1974, Article VII of the Trade Agreement includes safeguards arrangements to protect domestic industry and labor. In the event of bilateral trade problems, such as market disruption, due to rapidly rising imports, Article VII provides for prompt consultations between the two parties. If such consultations do not lead to a satisfactory resolution in a reasonable period of time, either party may take whatever actions it considers necessary. In exceptional cases, either party may take unilateral action prior to entering into consultations.

In addition to the safeguards clause in the Agreement, Section 406 of the Trade Act of 1974 contains measures designed to protect specifically against market disruption resulting from increased imports from a Communist country which are deemed to be a significant cause of material injury to a domestic industry. Other available measures to protect domestic industries from problems arising from increased imports from Communist countries include the escape clause and adjustment provisions (Title II, Section 201) and the unfair trade practices provisions of the Trade Act of 1974.

Question 2. Is Section 406 of the Trade Act of 1974 adequate for this purpose? How many 406 cases have there been since 1974?

Answer. Section 406 of the Trade Act of 1974, as it is now formulated, is adequate for the purpose of protecting domestic industry and labor from market disruption resulting from increased imports from a Communist country. It enables the President to provide relief to a domestic industry in cases where the International Trade Commission (ITC) determines that imports of an article, like or directly competitive with an article produced by a domestic industry, are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat thereof, to the domestic industry. The injury test in this case—significant cause of material injury—is less stringent than that required under Section 201—substantial cause of serious injury—thus enabling the President to respond quickly to import injury resulting from Communist sources of supply.

Additionally, Section 406(c) empowers the President to take emergency action prior to the initiation of an investigation, if he believes that market disruption exists with respect to an article produced by a domestic industry.

Since enactment of the Trade Act on January 3, 1975, the ITC has initiated five investigations resulting from petitions for relief under Section 406.

Question 3. In the 406 cases where the ITC made a positive recommendation, the President has not approved what was recommended in any case. Isn't it fair to conclude that political/foreign policy considerations have prevailed in making the decisions on these cases rather than the merits of the particular case?

Answer. Of the five cases initiated under Section 406, investigations have resulted in affirmative determinations of market disruption by the ITC in only two instances. One of the two affirmative determinations pertains to imports of anhydrous ammonia from the Soviet Union (TA-406-5), and was announced on October 11, 1979. This case is currently under Presidential review.

The other affirmative determination of market disruption reached by the ITC pertained to imports of clothespins from the People's Republic of China (TA-406-2). The ITC concluded that imported clothespins from the PRC were disrupting the domestic market and recommended that the President impose a five year quota on imports from the PRC. At the same time, the ITC determined that market disruption did not exist, with respect to imports of clothespins from Poland (TA-406-3) and Romania (TA-406-4).

After reviewing the case, the President determined that the provision of import relief under Section 406 was not in the national economic interest for the following reason:

"The imposition of import relief would not be an effective means to promote adjustment in the domestic industry. While imports from the PRC have become an increasingly important component of U.S. imports, other sources still accounted for 73 percent of U.S. imports in 1977. Foreign sources, other than the PRC, are able to supply clothespins to the U.S. markets at prices significantly below the prices charged by U.S. producers. Moreover, existing foreign capacity would not be a limitation on foreign producer ability to increase shipments to the U.S. Thus, third country suppliers would likely fill any excess U.S. demand resulting from a limita-

tion of any kind of imports of clothespins from the PRC." Determination under Sections 406 and 202 of the Trade Act; Clothespins from the People's Republic of China. Published in the Federal Register, October 2, 1978.

Prior to the President's determination, the ITC initiated an investigation under Section 201 of the Trade Act of 1974 to determine whether clothespins from all foreign suppliers were being imported into the United States in such quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry. Subsequently, the ITC found that import injury did exist and recommended that the President impose a quota on imports of clothespins from all foreign suppliers. The President determined that such action was in the national economic interest, and a three year global quota was imposed on imports of clothespins from all foreign suppliers beginning January 1, 1979.

Given the case history to date under Section 406, it is not fair to conclude that political/foreign policy considerations have prevailed in the formulation of the President's decisions as to whether or not the provision of import relief has been in the national economic interest. In the one instance in which the President has been required to make a decision concerning the provision of import relief, he decided that relief was not in the national economic interest, because such relief would limit imports from only one country, when in fact the affected industry was being injured by imports from all foreign suppliers. Subsequent action under a broader statute resulted in import relief from all suppliers, which should enable the affected industry to better adjust to import competition.

More importantly, it should be emphasized that under Sections 406, 201 and 202 of the Trade Act, the ITC and the President are required to determine two different things based on two different sets of criteria. The ITC is required only to determine "with respect to imports of an article which is the product of a Communist country, whether market disruption exists with respect to an article produced by a domestic industry." (406(a)(1)). In the event the ITC finds that market disruption exists with respect to an article produced by a domestic industry, it must recommend to the President the amount of the increase is, or the imposition of, any duty or other import restriction on such article which is necessary to prevent or remedy such market disruption.

The President, on the other hand, is not required to determine if market disruption exists within a domestic industry. Instead, he must determine, on a broader scale, if the provision of import relief to remedy that market disruption, is in the national economic interest. He must base his decision on criteria which include not only considerations within the affected industry, but also national economic considerations as well as the international economic interests of the United States. Thus, because of the differing nature of the determinations required of the ITC and the President, and the differing nature of the respective criteria on which their respective determinations are based, it is quite possible that the President may decide that the provision of import relief resulting from an affirmative determination of market disruption by the ITC is not in the national economic interest.

Question 4. Why should Congress approve this trade agreement in the absence of an effective means of dealing with market disruption?

Answer. The provisions of Article VII of the U.S.-China Trade Agreement concerning market disruption fulfill the safeguards arrangements required under Section 405 of the Trade Act of 1974. As stated above in response to questions one and two, the Administration is confident that the provisions of Article VII, together with the vigorous enforcement of existing U.S. trade laws, particularly Section 406 of the Trade Act, will provide adequate means for dealing with market disruption resulting from increased imports from the People's Republic of China. As a result, the Administration does not believe that the Congress should withhold its approval of the Trade Agreement due to a concern over the availability of effective means for the Administration to use in dealing with market disruption.

ANSWERS TO HEINZ QUESTIONS ON A-D FROM NME

A number of the questions you have posed deal with the application of the antidumping laws to imports from nonmarket economy countries.

Full answers require detailed information from Treasury with regard to the exact nature of the practice in this area and the rationals underlying it. I would not want to risk misrepresenting the Treasury Department on either point.

However, I would like to comment on some of the broader policy issues which you have raised. Clearly a law which turns upon export sales at less than fair value is difficult to apply to exports from non-market economy countries. As you point out, price comparisons and cost of production computations are not reliable when the exporter is an enterprise that is part of a centrally planned economy.

I recognize that the practice of using costs or pricing of an enterprise in a free market economy country at a comparable stage of development to the non-market economy country in question has raised some problems. I think the issue merits careful study and debate.

As I understand it, your proposed legislation is designed to generate such debate. In this regard, I welcome it. However, I cannot endorse the substitute rule that you proposed. To say that the basis of comparison for determining fair value for exports from non-market economy countries should be whether the price of exports undercuts the lowest average price of the same goods produced by a free market producer is to rule out the possibility that a non-market economy enterprise can produce goods more efficiently than free market economy enterprises. I do not see how one can do this in a blanket fashion and claim to apply a law fairly.

I can offer no easy answers to the problem you have raised. This Office will be examining the issues involved in some depth over the coming weeks and I hope we can cooperate closely with you in our efforts.

MUSHROOMS

Question 1. In your written responses to my questions at your confirmation hearing, you indicate that our Embassy in Beijing is gathering information on the Chinese mushroom industry, particularly with respect to whether mushrooms exported from Hong Kong originated in the PRC. You also indicated in your response that you would keep in touch with interested Members of Congress. I haven't heard anything since then. What have you learned?

Answer. There is no doubt that mushrooms are being exported from the PRC to Hong Kong and are being further processed for shipment to the United States. In 1978, my predecessor, Ambassador Strauss, requested that the U.S. Customs Service investigate these shipments to determine whether or not they are being properly classified as shipments from Hong Kong. He was concerned that mushrooms were being transhipped from the PRC through Hong Kong to the United States receiving a lower column 1 rate of duty rather than the higher column 2 rate of duty which would have applied to shipments directly from the PRC.

Customs completed their investigation and concluded that: "On the basis of Hong Kong processing and canning, a new and different article of commerce was fashioned and in this respect a substantial transformation was effected. Accordingly, no 'transshipments' are here involved; the canned sliced mushrooms are regarded as products of Hong Kong."

As a result of this finding, no change has been made in the assessment of duties on imported canned mushrooms from Hong Kong. We would be pleased to make a copy of the Customs report available to you at your request.

Question 2. In the event of market disruption by PRC mushrooms, what "mechanisms for relief" are available to us, and which would you use?

Answer. There are two mechanisms to avoid market disruption as a result of increased imports of canned mushrooms from the PRC. First, under Section 406 of the Trade Act of 1974, the industry can petition for import relief if increased imports from the PRC disrupt the U.S. market. Secondly, in Article 6 of the Trade Agreement itself, the United States and the PRC are committed to consultations concerning problems of import disruption and are free to take unilateral emergency action to prevent the disruption of their markets.

Question 3. Your response to my question as to whether or not you indeed intend to ask Taiwan to express an intention for its mushroom exports in the next crop year was that you would consider this question on an interagency committee in October. What have you decided? Why?

Answer. The interagency committee is still reviewing the issue. There is more in question than the understanding with Taiwan. The interagency committee has undertaken an entire review of our canned mushroom import policy to decide what action should be taken with respect to all exporters of canned mushrooms to the United States, not just Taiwan.

Question 4. When I raised the issue of import diversion to the U.S. due to Common Market restrictions on mushrooms, you responded that the new import licensing code in the MTN and new unfair trade practice legislation of the Trade Agreements Act of 1979 would help deal with this problem. How?

Answer. Section 1102 of the Trade Agreements Act of 1979 lists the authorities under which import licensing can be used to administer quantitative restrictions. If, under Section 406 of the Trade Act of 1974, the decision were taken to impose quantitative restrictions on imports of canned mushrooms from the PRC, import licenses could be used to administer the new quotas.

Question 5. What is the status of the GSP petition for fresh mushrooms from the Dominican Republic? You will recall that I have expressed great concern about that. What have been the various agency recommendations on that petition?

Answer. The petition we have received from the Dominican Republic for GSP on fresh mushrooms is under formal consideration. The petition from the Dominican Republic was one of many such petitions, all of which are now being carefully and thoroughly reviewed. During recent hearings on these petitions, the American Mushroom Institute testified in opposition to granting GSP status to imported mushrooms. We are also aware of the Congressional interest in this matter. The interagency recommendations on these petitions will be made over the ensuing months and a final Presidential proclamation implementing the changes in the GSP program will be issued in April 1980.

Question 6. What discussions have you had with PRC officials concerning the potential mushroom problem? Specifically, when was this issue raised and with which Chinese officials? Who raised the issue for the United States? What was the Chinese response?

Answer. To my knowledge, the issue of canned mushroom imports was not specifically raised with the Chinese during the trade talks. Therefore, I have asked the State Department to express to appropriate Chinese officials our concern over the potential increase in imports.

Senator RIBICOFF. Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

**STATEMENT OF HON. ADLAI E. STEVENSON III, A U.S.
SENATOR FROM THE STATE OF ILLINOIS**

Senator STEVENSON. Thank you, Mr. Chairman.

I am grateful to you and your colleagues for the opportunity to appear here this morning and to disagree with my good friend and colleague from the State of Washington.

His proxy was temporary. He told me as he was leaving that it was so temporary that it already had expired.

The normalization of relations between the United States and the People's Republic of China offers potentially important economic opportunities for the United States. I support MFN and official credits for the People's Republic of China, but to grant these benefits to the People's Republic of China and not the U.S.S.R. risks a further deterioration of already strained relations with the Soviet Union.

Such a break with past policy implies that MFN is some act of grace to be bestowed by the United States on China as a reward for good behavior. Our policy has been to proceed cautiously and evenhandedly with respect to both the Communist superpowers. There is no reason for breaking with that policy.

The perceptions of our intentions are the realities in a world little understanding the nuances of American politics. To be perceived as playing favorites between China and the Soviet Union, whatever the intentions, risks making the United States a participant in the conflict between these Communist powers and with no assurance that either our political or economic interests will be served.

Indeed, whatever economic benefits are gained in China will be more than offset by losses in the larger Soviet market and elsewhere in a world that already looks upon the United States as an unreliable supplier of goods and credits.

I am not sure, Mr. Chairman, what the relevance of oil is in this context, but since the subject has been raised, I would point out that the U.S.S.R. is already the world's largest oil supplier and, not

withstanding the skepticism of the analysts, its' production of fossil fuels is in its infancy.

That is a subject that I have gone into as chairman of the Senate Subcommittee on the Collection and Production of foreign intelligence.

The nations of this competitive world depend upon the United States for little, except food. Products of comparable or superior quality are usually available from alternative sources. Paradoxically, the United States attaches no conditions to the purchase of food where the United States does have some leverage.

The People's Republic of China is already eligible for Commodity Credit Corporation credits for the purchase of food. The United States appears to look upon trade in everything else as a privilege to be denied nations in its disfavor—notwithstanding nonfood products are generally available elsewhere. The last nation to take such a quixotic approach to its economic interests may have been Japan—before the arrival of Commodore Perry in 1854.

The political and economic interests of the United States are better served by policies which enlarge our economic opportunities abroad, offer some assurance of continuity and permit the advancement of our political interests in the world with a minimum of congressional meddling.

The basis in the Trade Act for determining eligibility for MFN and Eximbank credits is confined to nonmarket economy countries and their policy on emigration. Section 402 of the act—the Jackson-Vanik amendment—prohibits the extension of MFN and credits to nonmarket countries that restrict free emigration.

By implication we are indifferent to the emigration policies of other nations and the policies of the nonmarket nations on other subjects. In its historical context, section 402 implies that if the Soviet Union permits the release of a sufficient number of Jews, its actions in the Middle East, or East Africa or Cuba are of relative unimportance—at least insofar as trade goes.

To proceed along the lines proposed, the United States must conclude that the People's Republic of China has satisfied the requirement for "assurances" of free emigration with unpublicized statements by unidentified officials and others about family reunion, not free emigration, and the sarcastic question of the Deputy Premier, "How many millions do you want?"

The Soviet Union is now permitting emigration of Soviet Jews at the annual rate of about 50,000, but it gives no such assurances. No great power will suffer the indignity of granting the required "assurances" as a price for trade. To find that Chinese assurances satisfy the law, the United States must bend it to its convenience at risk of being held to account by courts which attach more importance to the laws demands. Thus, the ignominy falls not on the People's Republic of China or U.S.S.R. They voice their contempt for this law. It falls on the United States. Failing to change our law, we ignore it.

Those who engage in selective moralizing forget the Chinese land reform of the 1950's and the excesses of the cultural revolution of the 1960's while remembering Stalin's reign of terror, or else their concerns have little to do with human rights including emigration.

This law reflects the caprice of congressional politics in foreign policy. The United States did not complain about the suppression of human rights in the Soviet Union until that nation had begun to respect them. The United States itself severely limits the entry of refugees.

It protests the failure of Vietnam to stop emigration. Great Britain is urging the People's Republic of China to stop the flow of refugees to Hong Kong. The United States does not want the People's Republic of China to let its people emigrate freely to Hong Kong. Hong Kong is already overwhelmed. The United States wants assurances of free emigration in order to comply with a law it cannot change. It wants free emigration in selected cases only.

United States policy on East-West trade lacks coherence; it also lacks integrity.

The People's Republic of China and U.S.S.R. are both authoritarian and committed to Marxist ideology. They both rely on elaborate security apparatuses to keep their populations within bounds. To argue that there is greater or less freedom in these societies, to rely on so-called assurances about emigration and finally to base important trade decisions on fictions give credence to the suspicion that U.S. interests are captive to U.S. politics, even to the extent of letting the Chinese play their American card.

The interests of the United States are best served by expanding trade wherever there are reasonable prospects of commercial and political advantage. The two go hand in hand.

Potentially large markets exist in Eastern Europe, and other nations are seizing them. Our policy forfeits economic opportunity and forces continued dependence by Eastern European countries on the Soviet Union for trade. Most governments represent the interests of their countries.

They enlarge their markets in all nations at our expense and are little impressed by our moral posturing and our self-inflicted wounds. It is no wonder the authority of the United States declines in the world like the dollar—that barometer of confidence in our ability to discipline ourselves and compete.

The supreme irony of this policy is that even the ostensible objects of our solicitude, the Russian Jews, pay a high price for it. Emigration from the Soviet Union fell off precipitously after approval by the House of the Jackson-Vanik amendment. It only recovers during the pendency of the SALT agreement.

To go ahead with MFN for China and not the U.S.S.R. will not improve the lot of persons seeking to escape repression in the Soviet Union. And if the Senate rejects SALT II their lot could become more desperate.

If the United States continues to act in such self-destructive ways, the world will pass it by. It is more realistic and certainly more hopeful to assume that our economic, moral, and political interests coincide. It would be best to let our economic and political relations with other countries evolve in harmony and subject to a continuing review of all our interests, implying that the benefits of continually expanding trade depend upon acceptable behavior across the entire range of U.S. interests.

The linkage to emigration should be replaced not by artifices which make the United States look silly—but by a straightforward change in the law.

As it is, trade and investment cannot go forward even with acceptable “assurances” because of the uncertainties inherent in annual review of waivers by Congress under the Trade Act. Foreign trade and investment require some confidence by business in the stability of the relationship between nations. The intrusion of congressional politics into foreign policy offers the reverse.

Unlike my friend, Senator Jackson, I urge the committee to move slowly. The Congress should consider this agreement with some deliberation and take time to reconstruct an evenhanded policy that enables the executive branch to move ahead with the Soviet Union and the People’s Republic of China.

In the interim there is no reason to neglect our economic and political interests in Eastern Europe which are ill-served by a policy which effectively prevents U.S. trade to the benefit of our competitors, and insures the continued subservience of those nations to the U.S.S.R.

Efforts should begin to negotiate trade agreements with Czechoslovakia, Bulgaria, and East Germany—and the Congress should replace the Trade Act formula for MFN and credits with one that serves U.S. interests.

Finally, Mr. Chairman, and in that connection, I ask that another statement of mine be entered in your record at this point. It describes a different formulation, and, while I dare say it could be improved upon, this formulation would condition MFN and credits upon periodic but continuing evaluations of our overall relationship with the Soviet Union and in a way that permitted the advancement of both our political and our economic interests in that country.

Senator RIBICOFF. Without objection, your formulation will go into the record.

[The material referred to follows:]

STATEMENT BY SENATOR STEVENSON, CHAIRMAN OF THE SUBCOMMITTEE ON INTERNATIONAL FINANCE, COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, ON THE INTRODUCTION OF AMENDMENTS TO THE EXPORT-IMPORT BANK ACT AND THE TRADE ACT

AMENDMENTS WOULD FACILITATE EXPANDED TRADE WITH U.S.S.R., P.R.C.

The normalization of relations with the People’s Republic of China offers new economic opportunity for the United States. But we are late. Other nations, notably Japan, are developing trading relationships with China at our expense. This competition will continue on an unequal footing until the United States develops a strong export policy and grants Most Favored Nation status and eligibility for Eximbank credits to the P.R.C. Eligibility for Commodity Corporation Credits has already been granted.

The U.S. market opportunities in China are often exaggerated, but, over time, political factors permitting, the opportunity to sell agricultural commodities, manufactured goods, technology and services in that country are large. The extent of those opportunities will depend on maintaining a mutually acceptable political relationship and opening our markets to the Chinese so they can earn hard currencies. But even with MFN, it will be a long time before the PRC can finance the external costs of its development with its own exports. Apparently ideology has given way to that practical necessity, and the P.R.C. is now interested in Eximbank as well as commercial credits. The availability of commercial credits will often depend on the availability of Exim credits, since they are frequently combined to

provide the necessary short and long term credit for the financing of large transactions. While the dimensions of this potentially valuable economic relationship will depend heavily on political factors, the reverse is also true: a mutually beneficial commercial relationship will facilitate the accommodation of outstanding political differences.

It would be a serious mistake for the United States to think that it could profit from an exacerbation of the tension which exists between the P.R.C. and the U.S.S.R. To grant credits for the one and not the other would give credibility to the suspicion that the United States is playing a China Card and with some risk of heightening anxieties of the Russians which are already bringing pressures on their allies and causing a build-up of forces in both the Russian East and West. We would more wisely put such fears to rest as best we can and seek to compose our differences with both these powers. The world will be better served by whatever relaxation of tension and cooperation can be achieved between all three powers.

Having said that, I hasten to add that the United States should proceed cautiously. The prospect of one billion armed, resourceful and disciplined Chinese is for me no greater cause of sanguinity than a nuclear and territorially ambitious Russia. This legislation does not grant MFN and credits without qualification or condition. It replaces an explicit linkage to emigration policy with a procedural formulation which implies that the continued availability of credits and MFN will be subject to periodic review and an evaluation of Chinese and Russian conduct across the entire range of U.S. interests, including emigration policies. I treats all non-market countries alike and cannot, therefore, be said to single out any for special or discriminatory treatment.

The United States ran a trade deficit of almost \$30 billion last year. The dollar declined, causing a crisis in the international monetary system and inflation at home. This measure is by no means a purely political proposal. It is one of many measures I will be proposing to improve the economic position of the United States in a highly competitive global marketplace.

This legislation amends the Export-Import Bank Act of 1945 and the Trade Act of 1974 to provide identical requirements for determining the eligibility of any Communist state of MFN and Eximbank Credit, and for reviewing and limiting such credits. Provisions in both Acts which single out the U.S.S.R. for special treatment would be repealed.

Before any Communist country not already eligible for MFN and Exim credit can become eligible, the President would have to determine that the country's emigration practices will lead substantially to achievement of the free emigration objectives of the Trade Act, and that Eximbank credit for exports to such country would be in the national interest taking all the appropriate political and economic factors into account.

Two changes would be made in the emigration clauses of the Trade Act: the President, when initiating a waiver under the Trade Act, would make a determination regarding the emigration practices of Communist countries rather than relying upon "assurances" from such countries, and the waiver period would be fixed at five years instead of one year. Thus, Communist countries would be encouraged to liberalize emigration practices, and the frequency and formality with which such countries are now expected to proclaim liberalization of emigration practices would be reduced. Countries may do quietly that which they are reluctant to announce formally in response to threats of demands. And trade could proceed satisfactorily, as it cannot on a spasmodic, interruptible basis.

Provisions in the Export-Import Bank Act and Trade Act which would restrict Eximbank credits to the U.S.S.R. once eligibility is established would also be changed to place all Communist countries on the same footing. Both Acts limit new credit to the U.S.S.R. (but not to other Communist countries) to \$300 million unless Congress approves a higher level. Instead of an open ended authorization, as for other countries, I propose a limit of \$2 billion on outstanding Eximbank credits—old as well as new credits—for exports to any Communist state. The limitation could be increased or decreased by Congress at any time, of course, if developments warrant.

This bill would also remove restrictions in the Export-Import Bank Act on financing of exports to the U.S.S.R. for the purpose of developing fossil fuel energy resources. The restrictions were imposed at a time when there was concern in this country over possible shortages of energy equipment. It was also assumed that all large energy-related exports to the U.S.S.R. would need Eximbank financing. Those assumptions have proved wrong, and energy equipment and technology exports to the U.S.S.R. are now controlled under the Export Administration Act. I will propose legislation separately to amend that Act, which expires this year. To the extent controls on energy equipment and technology exports to Communist countries are

desirable, the Export Administration Act is an appropriate and effective vehicle for such control.

The legislation I proposed today can facilitate U.S. exports and improve relations with both the P.R.C. and U.S.S.R. The President will be able to place expanded trade on the agenda of subjects to be discussed with both countries. Congress will retain authority to periodically review both MFN status and Eximbank credits to Communist countries, each time a waiver provided under the Trade Act is to be extended, and each time the Export-Import Bank Act is renewed, or whenever a credit over \$100 million is proposed. All such credits must be sent to Congress 25 days prior to final approval by the Bank, and in the case of credits for exports to Communist countries, must be accompanied by a specific Presidential determination that such credit is in the national interest. These provisions assure a continuing Congressional review of trade relations with all Communist countries, but without putting a straitjacket on the conduct of U.S. commercial and foreign policy objectives.

SUMMARY OF THE STEVENSON AMENDMENTS TO THE EXPORT-IMPORT ACT AND THE TRADE ACT

The amendments would (1) delete provisions in the Export-Import Bank Act and the Trade Act which single out the U.S.S.R. for discriminatory treatment with respect to credits, (2) establish a new limitation on Bank support of U.S. exports to any single Communist country, and (3) revise the "waiver" provisions concerning emigration practices and eligibility for MFN treatment and Eximbank credits.

Under the Export-Import Bank Act the President of the United States must determine that it is in the national interest for the Bank to support U.S. exports to each Communist country before the Bank may support such exports. The President must make a separate national interest determination with respect to each Bank credit of \$50 million or more for exports to a Communist country.

Other present provisions restrict Bank loans or financial guarantees to the U.S.S.R. made after January 4, 1975: (1) such support may not exceed \$300 million in addition to outstanding credits or \$40 million for exports related to fossil fuel energy research or exploration; (2) such support is prohibited for U.S. exports which could assist fossil fuel energy production (including processing and distribution); and (3) each loan or financial guarantee of \$25 million or more for exports involving research, exploration or production of fossil fuel energy resources must lay before Congress for 25 days of continuous sessions before receiving final Bank approval.

The amendments would delete provisions placing limitations on Bank support for exports to the U.S.S.R. and substitute a limitation of \$2 billion on the aggregate amount of loans and financial guarantees the Bank may have outstanding at one time to each Communist country. The level for transactions with a Communist country, which must be accompanied by a separate determination by the President of the United States that such transaction is in the national interest, would be raised from \$50 million to \$100 million, the same transaction level which is already required to be submitted to the Congress for a 25-day review period.

The amendments to the Trade Act would require the President to determine that the emigration practices of any non-market economy (Communist) country will henceforth lead substantially to the achievement of the free emigration objectives of section 402 of the Act, before such country shall be made eligible for nondiscriminatory tariff treatment and U.S. Government credits. The Act presently requires the President to report that he has "received assurances" regarding such practices. The amendments further provide that waivers under the Trade Act shall be for five-years rather than one year and delete a provision restricting U.S. Government support for exports to the U.S.S.R., other than by the Commodity Credit Corporation, to \$300 million.

Senator RIBICOFF. Let me ask you, Senator Stevenson, why do you think that the administration refused to move in tandem on both the People's Republic of China and the Soviet Union?

Senator STEVENSON. It did not refuse, Mr. Chairman. It drifted.

Senator RIBICOFF. Why did it drift?

Senator STEVENSON. For reasons of division within the administration and politics in the Congress and against the advice of the wisest and those in charge of our foreign policy, ostensibly in charge.

Senator RIBICOFF. You think that it is self-defeating for our basic foreign policy and basic American interests to move the way they have?

Senator STEVENSON. Yes, sir, I do, for the reasons stated. I believe MFN credits to both of these countries and with others, as well as Mr. Vanik, that we should defer action on this agreement until it is possible, probably after the Senate's action on SALT, to act on agreements with both these countries.

As I have mentioned, I see no reason for delaying action on the remaining noneligible Eastern European countries.

I have held hearings on this subject, too. I have visited every one of these nonmarket countries with the exception of Albania, which I suspect I never will get to, and I have as yet to discover any sound reason not to move ahead with these small countries which offer no threat to the United States. In certain instances there are asset problems and others that need to be negotiated. In one of these, Bulgaria, there are no such problems.

And why, even within the confines of this act, we cannot move ahead I fail to see, but as I tried to indicate, even where we do move ahead, as in the case of Hungary and Romania, we resort to artificialities. We stretch the law, and only to establish a relationship that cannot be developed to our advantage because of the annual reviews in the Congress and the uncertainties that inhibit the development of trade and investment with these countries.

We will grant MFN and credits, 1 year, for example, to Hungary and the next, come within an inch of withdrawing eligibility, and why?

Only because a few naturalized Hungarians, or Americans of Hungarian origin, call the attention of a few Members of Congress to the plight of ethnic Germans in Transylvania. That is the sort of politicalization of the economic relationship and, therefore, the political relationship between ourselves and these countries that has brought us to this pass and even within the Jackson-Vanik formulation prevents us from moving ahead.

Senator RIBICOFF. Senator Stevenson, you have spent considerable time and depth on the trade implications and economic implications of our relationship with all nations of the world. Let us assume that the U.S. Senate rejects SALT and Jackson-Vanik prevents our foreign trade relationship with the Soviet Union.

What do you think will happen to that so-called 51,000 or 52,000 figure of Russian Jews being allowed to emigrate from the Soviet Union?

Senator STEVENSON. Mr. Chairman, the opinion which I have expressed is not alone mine. It has been expressed in hearings that I have held in my Subcommittee on International Finance by all the Russian scholars who appeared and I believe all the representatives of Jewish organizations and those organizations most committed to the rights of Soviet Jewry.

The scenario you postulate is the worst, and the opinion is that human rights generally, emigration specifically, and especially emigration for Soviet Jews, will drop precipitously.

Senator RIBICOFF. Do you see any significance in the fact that from 1973 when there was 33,500 Jews emigrating in 1974, 20,700; 1975, 13,003; 1976, 14,003; 1977, 16,700; 1978, 28,900; 1979, projected

between 51,000 and 52,000—do you see any significance in that figure for 1979 and the implications?

Senator STEVENSON. Yes, sir.

We have a record in our subcommittee which I would be happy to share with you which parallels the emigration rate from the Soviet Union with various political events in the United States.

The initial approval, for example, of Jackson-Vanik by the House of Representatives is followed immediately by a precipitous decline of emigration. It jumps up every once in a while when something comes along to tempt, whet the appetite, of the Soviet Union.

The significance of the 1979 figure is SALT, its pendency of SALT II, and the willingness of the Soviet Union, owing to your efforts and the efforts of many of us, to improve the climate in which the Senate will act on the SALT II agreement.

Senator RIBICOFF. The failure to approve SALT and the failure to do anything on MFN for the Soviet Union would probably signal the full fury of a cold war between the United States and the Soviet Union?

Senator STEVENSON. I hesitate to use that expression, the full fury. I am not sure what it means, but it certainly does signify tension increased and across the board with diminished possibilities for effective efforts to control the race in strategic arms and by diplomatic means to take the pressure off our relations in such sensitive areas as the Caribbean and certainly a disinclination on the part of the Soviet Union to respect our own feelings and those of the world about human rights, including the rights of Jews to emigrate from that country.

Yes. It certainly would be a move in that direction toward the full fury of the cold war.

Senator RIBICOFF. Senator Roth?

Senator ROTH. Senator Stevenson makes certain—let me fully understand.

Under the law, I take we have 60 days to approve or not approve so what you are really urging is nonapproval at this time?

Senator STEVENSON. That is correct, unless it is possible, and I do not think it is, to move within the time frame on the Soviet Union, and not, as I tried to indicate, Senator Roth, because I do not want to go ahead.

Senator ROTH. I understand that.

Senator STEVENSON. I do.

Senator ROTH. I would ask you if you see any risk from the standpoint of our relationship with China from not proceeding?

Senator STEVENSON. Yes, I do. I think it is unfortunate that the risks are of our own making and the making of certain representatives of this country. They have indicated to representatives of the People's Republic of China that there is, in our thinking, no relationship between trade with the People's Republic of China and trade with the Soviet Union.

We would be, in effect, reestablishing the policy of this and prior administrations which goes ahead evenhandedly and cautiously.

I dare say that there would be some disappointment in China over evidence of continuation of an old and proven policy but I think that the risk of abandoning that policy and going ahead with the U.S.S.R. are far greater and that the disappointments in the

PRC would be more than overcome by their own interests in continuing to move ahead for both political and economic reasons.

Maybe the Chinese would be more impressed by a United States that moved affirmatively to represent its own interests and did not go along with their efforts to play us off against the U.S.S.R.

I do not think the world is much impressed by the drift which now implies that the United States is willing to let the PRC play its America card.

Senator ROTH. You also mentioned that we are letting politics prevent us from selling manufactured and other goods that are available elsewhere. Again, from the point of being certain that I understand what you are saying, are there certain areas—I assume that you still would not sell highly technical equipment that could be used for military or other purposes?

Senator STEVENSON. We rely on COCON in cooperation with our allies to control exports, as you well know, of high technology products which could enhance the military capabilities and the national security interests of the Soviet Union and I think we should continue to do so, and to strengthen that process, as we are attempting to do through the recently enacted extension of the Export Administration Act. What I meant to suggest here was that trade is a two-way street, that by denying most-favored-nation and also credits, we effectively deny ourselves an opportunity to sell in the Soviet market, which I point out is far larger than the Chinese market and will remain much larger for the foreseeable future.

Senator ROTH. Assuming that somewhere down the road we do move ahead, I wonder what steps do you think might be taken to avert a credit war, or extending credits to China, for example. I understand Japan is very eager to be generous in this area.

Would you care to comment on that?

Senator STEVENSON. I think you raise an extremely important subject and one that this committee and the Banking Committee, which I represent, could profitably cooperate on.

As a result of the approval of the Tokyo round—assuming that it is approved by all countries; it has been by ours—and the consequent reduction of tariff and nontariff barriers, the shift away from import protection to export subsidization, especially through credits, will accelerate.

We have been losing that war, although we have joined the battle under the leadership of John Moore in the Eximbank, but we still are not as well armed to win it as are other countries. With tight money and high interest rates and pressure to subsidize exports in order to buy oil, we will be disadvantaged, and so will all the major exporting countries. None of them benefit from a credit war.

So I should think that we ought to arm ourselves, which means more authority for the Eximbank, especially if the administration goes ahead with as much as \$2 billion in credits for China, which is what is proposed here, and use that armament, not only to subsidize and support our own exports, but for effective negotiations and at a high level with other exporting countries in order to work out an agreement that is more effective than the so-called gentleman's agreement.

That agreement has not been effective.

In addition—and this is something of a digression—but the efforts of countries to attract money for investment and also for exchange rate stabilization purposes is creating an interest-rate war. As soon as the Fed raises the discount rate, the Germans and other countries follow, and we are left in the same relative position, with the Japanese, a little more intelligent than the rest of us, lagging behind.

I believe there should be a cooperative effort among the central banks to bring this competition for some \$1 trillion in xenocurrencies now sloshing around the world in mysterious, destabilizing, sometimes inflationary ways under some kind of control. We do not benefit from that kind of competition.

Senator ROTH. I think that probably I am taking more time than I should, but I think this is an area that I agree that our two subcommittees should cooperate in working on.

Thank you for your very informative testimony.

Senator STEVENSON. Thank you, sir.

Senator ROTH. Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Danforth?

Senator DANFORTH. No questions.

Senator RIBICOFF. Senator Baucus?

Senator BAUCUS. No questions.

Senator RIBICOFF. Senator Chafee?

Senator CHAFEE. I apologize for being late. I have read Senator Stevenson's statement and I think it makes a great deal of sense.

Certainly, he has given much careful attention and thought to this matter and has pointed out anomalies that I had not previously realized existed. I look forward to hearing from the next witnesses, Mr. Christopher and others, and asking them their views on some of these points. I feel Senator Stevenson has provided a real service by going to this effort and am grateful to him for it.

I have no other comments, Mr. Chairman.

Senator RIBICOFF. Thank you very much, Senator Stevenson.

Senator STEVENSON. Thank you, sir.

Senator RIBICOFF. Thank you.

The administration will be represented by a panel consisting of Warren Christopher, Deputy Secretary, Department of State; Mr. C. L. Haslam, General Counsel, Department of Commerce; Robert Cassidy, General Counsel, Office of the Special Representative for Trade Negotiations; Mr. Gary Hufbauer, Deputy Assistant Secretary for Trade and Investment Policy, Department of the Treasury.

Mr. Christopher, you all have statements here. Would you want to present the administration's case and then have all the other statements go into the record as if read and then give us an opportunity to question?

Does everybody here have a separate statement of special import that is not repetitive and feel a compulsion to read your statements?

Mr. CHRISTOPHER. Mr. Chairman, I think that I can speak for the group by saying the following: I will shorten an already full statement, asking that the entire statement be put into the record, and I think the others will be prepared simply to have theirs put into the record so that the committee can conserve its time and you can commence your questioning.

Senator RIBICOFF. If there is no objection from the committee, we will proceed accordingly.

Mr. CHRISTOPHER. Thank you, Mr. Chairman.

STATEMENTS OF HON. WARREN CHRISTOPHER, DEPUTY SECRETARY, DEPARTMENT OF STATE; C. L. HASLAM, GENERAL COUNSEL, DEPARTMENT OF COMMERCE; ROBERT C. CASIDY, JR., GENERAL COUNSEL, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; AND GARY HUFBAUER, DEPUTY ASSISTANT SECRETARY FOR TRADE AND INVESTMENT POLICY, DEPARTMENT OF THE TREASURY

Mr. CHRISTOPHER. Mr. Chairman and members of the committee, the establishment of diplomatic relations with the PRC on January 1 opens a new era for United States-China relations based on equality, mutual interest, and respect. However, diplomatic relations alone do not automatically insure the development of a normal and mutually beneficial relationship. Thus, our task is clear: We must find new ways to build a new relationship in tangible and practical ways.

Barriers to trade pose one hindrance to a useful relationship with the People's Republic of China. The trade agreement you have before you, by reducing these barriers and creating incentives to trade, will go a long way toward cementing the bonds between China and the United States.

Nondiscriminatory treatment, credits, insurance, a favorable investment climate, and business facilitation are the lifeblood of trade. Without them, trade with China would wither. With them, we can forge the stable and constructive ties with China that we seek, and that will guide us into the 1980's and beyond.

Our new ties with China are of fundamental importance to the United States and to the prospects for a peaceful and prosperous world. We want to encourage China to play a constructive and stabilization role in Asia. We want to see a prosperous China, a China that can feed and fuel itself.

Failure to approve this agreement would unfortunately be viewed as a sign that the United States is not interested in moving toward such a constructive, mutually beneficial relationship with the Chinese. It is in our interest for China's next generation of leaders to look back in 1990 upon the relationship we are now building with a sense of satisfaction and to view the United States as a reliable partner in development.

Although small in world terms, our trade with China is expanding rapidly this year after more than tripling in 1978 to \$1.1 billion. Our trade balance with China continues to weigh heavily in our favor.

Trade with the West is critical to China's modernization. Its imports of capital equipment and industrial materials are expected to continue increasing faster than its export earnings. For China, the trade equation is simple: It must sell more in order to buy more. Extending most-favored-nation trading status to China is fundamental to this equation.

Of course, this agreement will benefit the United States as well as China. The foreign exchange that China earns from sales to the United States will allow it to purchase more goods from us, thereby

benefiting U.S. exporters, helping our balance of payments, and reducing, through competition, inflationary pressures.

Without this agreement, the United States penalizes its exporters, who will have to face their European and Japanese competitors supported by governments that have already extended lines of credit and most-favored-nation to China. In a market with limited foreign exchange, this represents an appreciable advantage for our competition and disadvantage to us.

Mr. Chairman, in the few more minutes I would take, I would like to focus on the political perspective with which this agreement should be viewed.

I know that questions have been raised about the implications that submission of this agreement may have for our policy toward the Soviet Union. I want to be clear on this matter. We want to improve economic relations with both countries, but we do not feel that we should make every move with one country dependent on making the same move at precisely the same time with the other.

Such a rigid policy would fail to recognize relevant differences in the factual situation with respect to the two nations as well as relevant matters of timing.

We signed a trade agreement with the Soviet Union in 1972. We have not yet submitted it to Congress. When we do—which I hope will be soon—it will be because it is warranted by the factual situation, because it is consistent with our policy toward the Soviet Union, and because the timing is right—and not because of our policy toward China or some other third country.

In the last 3 years, China's economic, political, and cultural policies have undergone substantial change. There is greater diversity in almost all aspects of Chinese life. Economic decentralization, interaction with the West, and experimentation with new ideas and concepts have been matched by an increased openness and a willingness to admit problems. The Chinese leadership publicly has committed itself to raising the living standards of the people.

However, these new developments should be kept in perspective. We cannot ignore China's long authoritarian tradition. But neither should we turn our back on what is beginning to happen. It should be a source of satisfaction to us that the Chinese Government is determined to develop a legal system that would prevent the unchecked exercise of official authority.

China's emigration policies, which have undergone substantial change in the last 3 years, are of particular importance to this subcommittee. Under the provisions of the Jackson-Vanik amendment, most-favored-nation treatment of Communist nations that restrict emigration is prohibited.

That prohibition, however, may be waived if the President concludes and reports to Congress that the amendment's requirements pertaining to a country's emigration practices have been satisfied. The Trade Act vests in the President the responsibility to determine whether these requirements have been met.

In his report to the Congress, the President set forth his conclusion that in the case of the People's Republic, these requirements have indeed been met.

I want to briefly indicate to the committee that the President's conclusion was based upon an analysis and weighing of three fac-

tors. These include first, China's current emigration performance; public statements by Chinese officials; and third, our confidential diplomatic discussions with Chinese officials.

On the first element, emigration from China has increased dramatically over the past 2 years. In 1978, 71,000 persons emigrated from Hong Kong, the major exit point from the PRC. This figure is three times the number who emigrated in 1977.

This trend has continued in 1979 with 28,000 emigrants entering Hong Kong in the first 3 months alone. The number has slowed somewhat since April due primarily to protests by the Hong Kong government. Nevertheless, 4,000 to 5,000 emigrants continue to enter Hong Kong each month.

The U.S. Consulate General in Hong Kong has received over 10,000 applications from PRC emigrants between November 1978 and April 1979. Chinese emigrants and visa applicants now far exceed the available immigrant visa numbers chargeable to China.

Therefore, several thousand have been obliged to wait in China and in Hong Kong until visa numbers become available.

That the PRC has liberalized its emigration policy is confirmed by public statements of Chinese officials. I have set forth these, Mr. Chairman, in my written statement. I will only say that not only do we have the statements of the officials who are involved in these matters in China, but during his visit to the United States in January 1979, Vice Premier Deng reiterated this policy publicly before the U.S. China People's Friendship Association. Adding weight to the Vice Premier remarks, the Consular agreement concluded during his visit here contains a commitment by China to "facilitate the reunion of families and to process all applications as quickly as possible."

On the third element, U.S and Chinese officials conducted confidential conversations in which the Trade Act's emigration requirements and Chinese emigration policy came to be mutually understood. The conversations indicate that the PRC is liberalizing its emigration rules and intends to continue this policy.

We have examined China's emigration record. We have studied their public statements made by their officials, and we have had discussions with the Chinese on their emigration policy. Based upon all of these factors, we are confident, as the President has reported, that the requirements of section 402 of the Trade Act have been satisfied.

In closing, I seek your support and urge that you give this agreement speedy approval. We are now building the structure of our relationship with China for the 1980's. This relationship is and will continue to be very important to us. Your approval of this Trade Agreement is a critical step in the process. I am confident of your support.

Senator RIBICOFF. We will confine ourselves, in the first go-round, to 10 minutes for each member.

Let me ask you, Secretary Christopher, let me read from Senator Jackson's testimony. The Chinese were fully apprised of these requirements, including the requirement that assurances regarding future emigration practices be given. At that time, senior Chinese officials provided the assurances that the law requires.

We are informed that there is a written record of these official exchanges which administration officials should certainly make available to this committee before it votes on Senate Concurrent Resolution 47.

Is there an intention or willingness of the administration to make that written record available to this committee?

Mr. CHRISTOPHER. Mr. Chairman, without assuming the premise of the question, let me say that there is a longstanding tradition that diplomatic exchanges between countries will be kept confidential.

This tradition is designed, as you know, to encourage open and frank discussions between countries.

I think if those diplomatic changes are made public, you are going to deter the kind of candid discussion that is essential. I think a departure from that principle would be very unfortunate and would have a chilling effect on the diplomatic exchanges.

I would go on beyond that and indicate that I believe these diplomatic exchanges not be made public by saying that the principle of confidentiality is particularly important in the context of the Trade Act.

As you know, many of the countries with which we must deal in connection with emigration requirements regard our inquiries about emigration practices as an unwarranted interference into their internal affairs.

We may disagree with that, but nevertheless, that is a fact of life.

While some of these countries may be prepared to give us assurances in confidence that would enable the President of the United States the opportunity to consider their actions, he might not be able to do so if the assurances were disclosed.

I would urge the committee to respect the confidentiality of diplomatic exchanges. That seems to me to be particularly appropriate in this situation where the President's recommendation of the waiver is based not only on diplomatic exchanges but upon the statistical performance and upon public statements of the Chinese officials.

Senator RIBICOFF. We did not say anything about making it public. We talked about making them available to this committee.

Mr. CHRISTOPHER. I understood that Senator Jackson's suggestion was that they be made available to the committee and be publicized.

Senator RIBICOFF. No. I do not think that there is anybody on this committee who asked that they be made public. I think the question is whether it would be made available to this committee. In other words, there is some question of giving MFN to China without giving MFN to the Soviet Union, and you are trying to make that because to give it to China, because their emigration policies comply with Jackson-Vanik.

Nobody knows whether you actually have complied and what that emigration policy is. You point out that in 1977 to 1979 emigration from mainland China has increased three times. I just looked at my figures for the Soviet Union. In 1977, it was 16,700; in 1979, it is projected 51,000 which is practically exactly three times.

You have an increase of three times from the Soviet Union and three times from China.

If the Chinese are entitled to MFN because they have increased their emigration three times, why is not the Soviet Union entitled to MFN if they have increased it three times?

Mr. CHRISTOPHER. Mr. Chairman, it is our position that the Trade Act gives to the President the responsibility for determining whether or not the requirements for the waiver have been met. After all, the act places that responsibility on the President. He makes his determination based upon public statements, upon performance and upon diplomatic exchanges.

I would think that the position that I have stated on the confidentiality of the exchanges ought to remain, whether it is by way of making them available to the committee, or, as I understood the suggestion, that they be made available in public testimony.

Senator RIBICOFF. Let us get down to specifics. Are they going to be made available to the committee?

Mr. CHRISTOPHER. Mr. Chairman, my present instructions are that the diplomatic exchanges should remain confidential.

Senator RIBICOFF. All right. We can assume that at the present the administration position is to refuse to make them available to this committee.

Mr. CHRISTOPHER. Mr. Chairman, we have told you what the substance of the exchanges are. The question is whether or not the confidential diplomatic cables are going to be made available.

On that point, I would respectfully ask the committee to take the word of the President in summarizing those diplomatic exchanges.

Senator RIBICOFF. It is not a question of doubting the President's word. I look around this table and the caliber of the men sitting here, I would say, that they could be trusted to take a look at them without jeopardizing the interests of our country.

Mr. CHRISTOPHER. Certainly.

My comments, Mr. Chairman, as I hope you would know, are not a commentary or a reflection on the caliber of the committee, which obviously is very distinguished and outstanding.

Senator RIBICOFF. What do you think is going to happen if MFN is granted to China and the Senate turns down SALT? What do you think the rate of emigration will be from the Soviet Union? Will it stay at 52,000 or will it sink down to what it was in 1973 or 1974?

Mr. CHRISTOPHER. There has been a progressive increase in the emigration from the Soviet Union since 1975. I know the chairman is familiar with those figures. I hope that this reflects a long-term trend. I hope that it will not be dependent upon or closely related to other factors.

The trend has continued all during the course of 1978 and 1979 and I would not be overstating the matter to say that our relationships with the Soviet Union during that period have gone up and down.

Nevertheless, fortunately the emigration pattern has continued positively.

Senator RIBICOFF. Mr. Christopher, I have the highest respect for you personally and your intellectual integrity, but I think it is very naive to think that the Soviet Union will not turn the spigot off

completely if this is granted to China and SALT is rejected by the U.S. Senate.

Now, tell me, Mr. Christopher—I think I have time for one more question—what benefit is the United States receiving in reciprocity for granting MFN to the PRC? What specific aspects of the U.S.-PRC trade agreement will benefit the United States' ability to export to the PRC and what are the principal factors which will limit U.S. exports to the PRC?

Mr. CHRISTOPHER. The benefits, Mr. Chairman, are built into the agreement. The expansion of trade with the People's Republic is the positive benefit in and of itself.

It is an advantage to our companies who seek to do business with China so that they are not at a disadvantage with their tough and vigorous competitors from other countries which have nondiscriminatory trade agreements.

It enables those companies to seek business within China on an advantageous basis rather than with one hand tied behind them. So I would say that it is very important to review the agreement as not something that we are giving the People's Republic of China, but rather something that we are doing for our mutual benefit, and particularly for the benefit of the U.S. businesses who seek to trade with China.

Senator RIBICOFF. I think that while the bell has rung, you have failed to answer one phase of the question: What are the principal factors that will limit U.S. exports to the PRC?

Mr. CHRISTOPHER. A principal factor at the present time is the lack of the balance of payments or the lack of funds within the PRC. Unquestionably there is not an unlimited source of funds in the PRC to undertake business, or to undertake trade with the United States.

It may be that the General Counsel of the Department of Commerce would want to add to that.

Mr. HASLAM. I think that is absolutely correct, Mr. Chairman. The principal factor that would limit U.S. exports is the ability of China to pay for foreign imports into its country. There are no limitations on U.S. exports to the Chinese side except for the modernization plan and its assignment to some sectors of their economy of a higher priority than others.

Senator RIBICOFF. Senator Roth?

Senator ROTH. Mr. Secretary, with respect to these assurances, have the Chinese asked—or have you asked the Chinese—as to whether they have any objection to the information made available to Congress on any confidential basis?

Mr. CHRISTOPHER. Senator, we have not asked about this particular subject. Let me put it in a little broader perspective.

These assurances are based upon conversations held between our Ambassador in Peking and the highest levels of the People's Republic of China. They are part of conversations which may touch on a number of subjects in addition to this subject. What is called for, as I understand it, is the making available of cables from our Embassy reporting on conversations with the highest level of the People's Republic of China. Although we have not inquired about this one particular event, I would take the view, with some confidence, that the People's Republic of China does not expect us to

make available reports and cables on conversations between our Ambassadors and their officials.

Senator ROTH. I would also think that the Chinese officials would expect the results of those negotiations, discussions, to be made available. While there may be some tradition, particularly when you are negotiating a matter, that those negotiations are not always disclosed, that Congress does have a right to know the results specifically.

Mr. CHRISTOPHER. Senator Roth, the results are—

Senator ROTH. I am not asking you to tell us what the President is saying, but to say in some measure what the parties have agreed to.

Mr. CHRISTOPHER [continuing]. The Chinese have told us that they are liberalizing their emigration practices and intend to continue to do so. As I have said in my statement, I think that is a fair assumption.

Senator ROTH. I understand your statement. I am saying I think it is a very important point at stake and could raise a very serious question as to whether or not Congress will act.

What I am saying is that Congress in executive session is entitled to know specifically the results and I do not think merely giving an assurance—we went through about 5 years where the executive branch and the White House asserted executive privilege, and this is a form of it.

So that I think that you are raising a very important issue that not only has implications for this particular agreement, legislation, but for the future. And I would urge you to go back and try to take whatever steps are necessary to permit this subcommittee to have the right to see this in executive session.

Mr. CHRISTOPHER. Senator Roth, we will, of course, do exactly what you have requested. I want to make it clear that I am not here claiming executive privilege. I could do that only on explicit instructions from the President.

What I am saying is that it is important to maintain the confidentiality of the explicit diplomatic discussions. There is a certain irony in the fact, if I may say so, Senator Roth, that as far as I know, nobody is questioning whether or not the President's waiver was justified or whether the emigration practices of China do not warrant that waiver.

The discussions seem to have a certain either academic or precedential quality.

Senator ROTH. I think it is a very important precedent that is being pushed here, and I think that is the reason that both the chairman and myself—

Senator RIBICOFF. If the Senator would yield, I ask the indulgence of the committee not to charge it to Senator Roth's time or mine.

During the negotiations with the Soviet Union, Secretary Kissinger urged upon Senator Jackson and Senator Javits and myself that he be allowed to negotiate with the Soviet Union on a basis of confidentiality and get assurances and he felt that he could get these assurances.

Senator Jackson, if my memory serves me right, insisted that these assurances were not sufficient and should be made in writing

and so publicly stated. This was done at a press conference which caused the complete disintegration of the negotiations that Secretary Kissinger was trying to carry out at that time.

Looking at this historically, you are in practically the same position. You are having two separate standards for the Soviet Union and PRC and if there is one road that we are going to get into all kinds of trouble diplomatically, and we have enough problems in the world, is having two separate standards between the Soviet Union and China, and how we approach our problem of exactly the same magnitude.

I apologize for taking your time, but I think for the record that that point should be made.

Senator ROTH [continuing]. I thank the Chairman for your contribution.

I would hope, Mr. Secretary, that you would go back and review the matter because I do not think any of us want to have a confrontation over this. It is a matter of great importance as President. Technically you are right. It is not executive privilege. I think we all know what we are speaking of, and I would hope that, at a subsequent time, you could make the assurances available.

I would like to ask a somewhat similar question about our relationship with the Soviet Union. If we do proceed, as you propose, with China, and it turns out that SALT is not ratified and we do not extend our most-favored-nation treatment to the Soviet Union, what do you think that does to our relationship? Does that move us back seriously in the direction of cold war?

Mr. CHRISTOPHER. Senator Roth, I think if the SALT agreement is not ratified by the Senate it will be a serious blow to United States-Soviet relations. The treaty was negotiated over a long period of time in good faith. I think the failure to ratify it would be a very adverse development.

If, on top of that, we feel unable to go ahead with seeking nondiscriminatory trade treatment for the Soviet Union, I think that would be an added factor of an adverse nature in the relationship between the two countries.

If I can respond to your question, and in part to Chairman Ribicoff, what we desire to do is treat the two countries equally, to apply the same standards to both of them. I can assure you that that is our determination and resolve.

I would hope that emigration practices——

Senator ROTH. You have not sent up the Russian?

Mr. CHRISTOPHER [continuing]. We have not sent up the Russian trade agreement for reasons that I have referred to in my statement. The factual situations are not parallel at the present time.

Senator ROTH. Well, Senator Stevenson asked in his statement, he recommended that we delay because of the risk inherent in this approach.

Mr. CHRISTOPHER. Senator Roth, of course, the Congress will work its will in that matter. There is a very precise timetable that you are under when the agreement has been sent out. All I can say to you is we desire to apply the same standards to both countries and we hope that you will move forward to the consideration of this trade agreement in a timely and appropriate way.

Senator ROTH. Has the United States entered into discussions with other OECD countries involving export credits to China? If so, with whom, and what objectives are you seeking in these discussions?

Mr. CHRISTOPHER. Mr. Hufbauer?

Mr. HUFBAUER. I am Gary Hufbauer of the Treasury Department.

Yes, we have had extensive discussions with the leading European countries and Japan on export credits to China. The principal focus of these discussions has been with Japanese practices.

The Japanese have extended two credits to the Chinese which concern us. One is the so-called resource development loan which the Japanese do not believe falls in the category of a normal export credit. We have our differences with Japan on that point.

Be that as it may, the Japanese have announced that the resource development is to be untied and, of course, if it is untied then to be sure it would not be an export credit. We have told the Japanese that the proof of untying lies in open tendering.

The second large Japanese extension of credit to the Chinese involves an aid package which has been mentioned in the approximate amount of \$3.5 billion. This is clearly not a normal export credit because it includes a large grant element, in the range of 35 percent to 50 percent. We are not sure exactly what the figure will be, but clearly a grant element of this magnitude would take it out of the export credit realm.

We have nonetheless pressed upon the Japanese the importance of untying the aid package as well.

I was heartened to see that the Japanese Foreign Trade Minister did say, a day or so ago, that he thought it should be untied. We would think that untying would be a very constructive development.

With respect to the export credits of other major nations—the French, the United Kingdom, the Germans—all of those are consistent with the terms of the International Arrangement on Export Credits. The interest rates are in accordance with the arrangement. There is no question of derogation of this time.

Senator?

Senator ROTH. My time has expired. Thank you.

Senator RIBICOFF. Senator Danforth?

Senator DANFORTH. Mr. Secretary, I would like to ask you a question in regard to the broad philosophy of the administration in respect to trade. In answering the question, leave out sales of military equipment or technology which has military significance because I take it that that is a separate case, or can be a separate case.

The question is this: To what extent in the view of the administration, to what extent should trade policy be used as an instrument of foreign policy?

Mr. CHRISTOPHER. Very rarely and very carefully. There is a heavy presumption in favor of trade. There is a heavy burden of proof for any restriction on trade from the standpoint of foreign policy. There are a very limited number of cases, in my judgment, where trade should be restricted because of foreign policy considerations.

You have excluded by your question the one area which accounts for a very high percentage of restrictions on trade, military or military related items. There are a few other areas where foreign policy considerations do, in fact, in some limited instances justify a restriction on trade.

The efforts to combat terrorism are one that comes to mind. We have approved, in connection with the Commerce Department, a very high percentage of all export licenses outside the military field. I believe that figure is in the high-90 percentile of export licenses.

To repeat, I think the burden of proof is a very heavy one and control for foreign policy should be exercised rarely.

Senator DANFORTH. Is it the position of the administration that trade policy should be used as a means of enforcing human rights policy?

Mr. CHRISTOPHER. Senator, in a very limited number of circumstances, I think it might be justified. I think that the Congress took a strong action with respect to coffee exports from Uganda as an example of a situation where human rights considerations played a role in trade policy.

There are a number of other statutes which we try to faithfully carry out which prevent certain kinds of trade, or trade facilitation, in countries which are gross and consistent violators of human rights standards.

But I think that that is not a weapon of first choice, but is a sanction that should be used carefully and sparingly.

Senator DANFORTH. It certainly is not used evenly, is it?

Mr. CHRISTOPHER. Senator, the world is certainly not even in that regard. I hope our policy is coherent, if it does not always seem consistent.

I would be glad to either now, or at any other time, discuss any particular instance. I would hope that I could at least give you a rational basis for what you have done in that field.

Senator DANFORTH. You would not argue that neither China or the Soviet Union meets our standard of human rights, would you?

Mr. CHRISTOPHER. No, I certainly would not. I think it is important to recognize that there are some improvements in the People's Republic of China. Trends are very important. But the act that we are talking about here, most favored nation, nondiscriminatory treatment, does not depend upon the human rights performance of the country in question.

Under the Jackson-Vanik amendment it is focused narrowly on the question of migration rather than broadly on the question of human rights.

Senator DANFORTH. I understand that, but I am asking you, really, a philosophical question.

Does the administration agree with Jackson-Vanik?

Mr. CHRISTOPHER. Certainly we agree with the underlying premise of Jackson-Vanik.

Senator DANFORTH. That trade should be used as an instrument of achieving emigration of Soviet Jews?

Mr. CHRISTOPHER. Yes.

We think that it reflects an important philosophical basis, an important concern in the country as a whole.

Senator DANFORTH. Which is what?

Mr. CHRISTOPHER. Which is that we should try to encourage countries to liberalize their emigration policies.

Senator DANFORTH. Does it work?

Mr. CHRISTOPHER. One does not know what is cause and effect, Senator.

Senator DANFORTH. What is your best judgment as to Jackson-Vanik serves the purpose of liberalizing emigration of Soviet Jews?

Mr. CHRISTOPHER. I can only point to the facts that in the last 4 years there has been liberalization within the Soviet Union and also liberalization in the People's Republic of China. As to a cause and effect relationship, I simply do not know.

Senator DANFORTH. Do you think—this is really not related, but it is the same. We are pursuing the same philosophical question.

Do you think that food should be used as an instrument of foreign policy, trade and food, agricultural exports? I am not talking about you. I am talking about the administration.

Mr. CHRISTOPHER. Well, neither I nor the administration think that in any but the rarest instance should food be used as an instrument of foreign policy. There are very few absolutes in this world, Senator, but that comes close to one for me personally and I think for the administration as a whole.

When we begin to use food as an instrument of foreign policy we run into an even more basic American ideal—that is, a commitment to humanitarian concerns.

Senator DANFORTH. Father Hessberg has suggested that exports of food to the Soviet Union be conditioned somehow on the Soviet Union's using its offices to open up additional routes of getting food into Cambodia. That is, he views that as a humanitarian concern—feeding the people who are dying in Cambodia.

Does the administration favor the use of food as an instrument of that policy?

Mr. CHRISTOPHER. I have only the greatest respect for Father Hessberg and all that he has done in the humanitarian field but I think that that particular equation is so complex that I would not favor it. I do not know that there is an administration position on it.

Among other things, the use of food as a tool is generally ineffective. A country like the Soviet Union can probably obtain the food it needs from other sources, so we end up penalizing ourselves and not achieving the end.

Senator DANFORTH. How about cutting oil shipments from Iran? That was using trade—in this case import policy—as an appendage to foreign policy, was it not?

Mr. CHRISTOPHER. The reason we cut off oil shipments from Iran was to try to make it clear to them that they did not have any economic leverage over us. We are in a very delicate, dangerous situation and we wanted to make sure that there were not any extraneous factors that they thought might be pressing on us.

Senator DANFORTH. Let me ask you this, Mr. Christopher. It has been said that the best explanation for the really pitiful job that the Treasury Department has done in enforcing antidumping and countervailing duty laws is that if we do not let other countries take advantage of us, it affects our foreign policy.

Is that so?

Mr. CHRISTOPHER. That question has a premise in it that I do not want to acknowledge.

Senator DANFORTH. It is manifestly true.

Mr. CHRISTOPHER. We certainly do not think, as a matter of foreign policy, that we ought to let other countries take advantage of us. We will be glad to cooperate, and have cooperated, in anti-dumping procedures, but as you know, there are always difficult and factual inquiries to make in antidumping cases.

Senator DANFORTH. Exhaustive inquiries.

Mr. CHRISTOPHER. I understand there may be legislation introduced to clarify that which we will be very glad to study.

Senator DANFORTH. My time has expired. Thank you.

Senator RIBICOFF. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. I only have one question of the Secretary. That goes to the availability of the diplomatic cables concerning these exchanges. It is not your position, is it, that in no instance should the members of a relevant committee have access to such information, is it?

Mr. CHRISTOPHER. No. I can imagine instances in which some committees and some members ought to receive summaries. This is a particular situation where the Congress has made it the responsibility of the President to determine whether or not the waiver was justified and, in my view, it would not create a desirable precedent for the Congress, or for the public, to be able to view the diplomatic exchanges upon which the President reaches his judgment.

Senator BAUCUS. I ask the question because I personally have seen cables—of not these particular conversations, but of other conversations—and I am sure that many other Senators have, too. I generally agree with your basic position that probably it is not a good idea that summaries of these conversations be made public for the reasons that you mentioned, but based upon those cables that I have seen, and which are classified summaries of conversations between Government officials generally in these situations, they are not all that earth-shattering.

I do not think our country will fall or any other country rise or fall as to whether or not those cables are released. It seems to me in this particular case, where we are being asked to approve or disapprove a trade agreement, it bears very directly on the subject of these conversations, that the administration should, at the very least, reconsider and hopefully under some arrangement, to support a goal that is reasonable to both the administration and the committee and make those cables available.

In my personal judgment, I do not see—this seems to me to be an exception to the general rule.

Mr. CHRISTOPHER. As I said to the chairman, we will certainly consider our position in light of what has been said here today. Without wanting to repeat myself further, I just have to emphasize the chilling effect that I think the revelation of such cables would have particularly on those countries that regard conversations about their emigration practices as being an invasion of their internal affairs.

If these cables become public, or are made available widely, I think we are going to have less satisfactory conversations and the

President is going to have less to go on in reaching his decision than I think this committee would want him to have as to whether or not a waiver is justified.

Senator BAUCUS. I understand. I do not want to belabor this. I think more and more countries around the world are beginning to realize, much to their frustration, that it is not only the executive branch that is concerned with foreign policy but, to some degree, the Congress, and I think that certainly China, which is considerable in sophistication, would understand that and realize making it available only to the appropriate committees and not made available publicly certainly would be agreeable to them.

Senator RIBICOFF. Again, the weakness of your position, Senator Jackson's proposal gives that waiver privilege to the President but now you have to come back to Congress to gain MFN and can you imagine the President coming back and saying he has that assurance from the Soviet Union and he waives MFN and waives the Jackson-Vanik for the Soviet Union and you tell Senator Jackson you are not going to show him what the agreement is between you and the Soviet Union.

Do you think you could get that through Congress and get Senator Jackson's approval on that?

Mr. CHRISTOPHER. That may not be precisely equivalent.

Senator RIBICOFF. I mean Senator Jackson who came here strongly for us and who strongly opposes the Soviet Union made the statement in his testimony that there is a written record of these official exchanges which administration officials should certainly make available to this committee.

And I am sure that is what Senator Jackson had in mind. That is the only way you are going to be able to comply with 402 (a) and (b) which is the Jackson-Vanik proposal.

So you are in this dilemma because I think you have a matter of policy and I am sure that the person who would object the most strenuously would be Senator Jackson who wrote this Jackson-Vanik amendment.

Senator Chafee?

Senator CHAFEE. Mr. Secretary, do you agree with the point that Senator Stevenson made in his testimony on page 3 where he says, "No great power will suffer the indignity of granting the required assurances as a price for trade"?

Mr. CHRISTOPHER. Senator Chafee, I came in in the middle of Senator Stevenson's testimony. I did not hear that portion of it.

I think that many great powers find it offensive to have to give the kind of assurances that he describes. On the other hand, we have had negotiations with a number of countries. They have been prepared to show us their factual record and they are prepared to tell us that they are going to try to continue whatever trends toward liberalization exist.

To put it as broadly as he states it is probably correct. On the other hand, I think there can be a negotiation between countries where we are satisfied there is a basis for the President's exercise of his authority under the Jackson-Vanik amendment.

Senator CHAFEE. Am I correct in believing that the Commodity Credit Corporation provides credit for food purchases regardless of whether the nation is an MFN nation? Am I not?

Mr. CHRISTOPHER. I wonder if I could ask one of my colleagues—

Senator CHAFEE. Credit is provided for the sale of food to both Russia and China.

Mr. HASLAM. That is correct.

Senator CHAFEE. Am I also correct in believing that if a market country, as opposed to a nonmarket country, restricted emigration, would MFN status be withdrawn or not apply?

Take Great Britain, for example, which is considered a market country. We do not require most-favored-nation status. Suppose Great Britain suddenly decided not to permit any emigration. What would happen?

Mr. CHRISTOPHER. I think that the Jackson-Vanik amendment applies only to nonmarket countries.

Senator CHAFEE. It would not apply to Great Britain?

Mr. CHRISTOPHER. That is correct.

Senator CHAFEE. Which is a market country. Does that make sense?

Mr. CHRISTOPHER. The basis of the amendment restriction is for nonmarket countries. I think that there is a discrimination involved in that judgment.

Senator CHAFEE. Senator Stevenson's testimony seemed to me to go to a very important point. What we are doing under the Jackson-Vanik amendment is to prohibit ourselves from selling products which are available throughout the rest of the world that a potentially purchasing nation might buy elsewhere. It does not prohibit their getting the one thing they really want from us—that is food. I would respectfully differ with your statement that the Soviet Union can get their food elsewhere around the world. Yes, the Soviets can get some of it from Canada. I suspect that they are coming here and buying it in these great quantities because we've got it.

Is this not an odd situation where a nation that will not comply with the Jackson-Vanik amendment can get all of the food they want from us but we are restricted from selling them products that they might buy elsewhere in the world.

Thus, we are cutting off ourselves unilaterally. What is the sense to that?

Mr. CHRISTOPHER. Well, Senator, I hope that there will come a time when we can recommend MFN for the Soviet Union precisely for the reason that you state. Trade would be desirable because it is good for our foreign policy and because it is good for our exporters.

We live with a particular piece of legislation whose objectives we endorse unquestionably. The legislation is unpopular with a number of countries because they regard it as discriminatory.

I do not sense in Congress consensus for a change in Jackson-Vanik. I know Senator Stevenson would like to see it repealed or modified, but we do not find that the view of Congress is for repeal or overturn of Jackson-Vanik.

Senator CHAFEE. The administration is a leader in its own right. I do not suspect you merely react to what seems to be within the Congress. You come forward with your own proposals, some which

have been controversial; some we have seen you battle very vigorously to achieve against great odds, and you have achieved them.

If the administration thought this was not a good measure, I suppose you would be here to do something about it.

Mr. CHRISTOPHER. Senator, we try to walk the line between being courageous but not foolhardy.

Senator CHAFEE. That is the way you envision this?

Mr. CHRISTOPHER. I doubt that there is a consensus, or even substantial support, for overturning Jackson-Vanik at the present time. With the number of things that we have on our plate, the number of things that we are trying to accomplish, I do not think that it would be an effort that we ought to undertake especially since there is the waiver authority which we are using in this presentation to the committee and to the Congress.

Senator CHAFEE. I have great difficulty in following the consistency of your views because you indicated that you thought the Nation supported Jackson-Vanik and that the administration supports the the philosophy underlying it.

But if you really wanted to turn up the screws on the Soviet Union to achieve what Jackson-Vanik seeks to do, cut off the food sales. You indicated that they could go elsewhere to buy food. They could go elsewhere to buy all the other items on the list, too.

Mr. CHRISTOPHER. If I could correct my comment with respect to food, I was speaking generally. Among the reasons I do not think food is a very good weapon, is that it is usually available elsewhere. It may not be available at the same prices and the same quantities or in the same quality, but I think the Soviet Union would be able to get an adequate amount of food to feed its citizens. I doubt if it would be a useful tactic to try to cut off their food in order to improve their emigration.

Senator CHAFEE. Just as a general philosophical question, from your considerable experience in diplomacy, do you find that by putting ultimatums, or demands on other nations, that they conform to some policy we believe in? Do you think those generally work?

I know you have been here frequently on the Turkish arms embargo. It was clearly your view that the Turkish arms embargo was unproductive as far as Cyprus was concerned. It put the Turks in a situation where they could not conform with what the views of the United States were; namely, that there be greater concessions in Cyprus. Yet we have this amendment, this position incorporated in the Jackson-Vanik.

Do you think it has been successful, or has it been counterproductive?

Mr. CHRISTOPHER. As a generalization, I think ultimata or demands on countries are not the best way to achieve results. In the human rights field where I am involved almost daily, I find that diplomatic conversations, gentle persuasion, gentle pressure of the quiet kind are likely to be much more effective. Sanctions of a harsh kind are not the best opportunity to get results.

In this particular situation, we are dealing with an act of Congress. We are trying to administer it in a way that will have the best long-term effect. We will, however, continue to consult with

the Congress on Jackson-Vanik to determine whether or not there is sentiment that it could be modified.

Speaking precisely to your last point, the fact is that over the last 4 or 5 years, there has been a substantial increase in emigration. I do not know what the causes are.

Others, with great experience, indicate that the causes may be unrelated to Jackson-Vanik, as I heard some Senators saying earlier they reflected on the ups and downs in United States-Soviet Union relations and particularly on their concerns about SALT. We simply do not have enough evidence on how their system works to know what caused the improvement in emigration over the last 4 years, since 1975.

Senator CHAFFEE. Thank you.

Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Bradley?

Senator BRADLEY. Thank you, Mr. Chairman.

Mr. Christopher, what are the broader goals, if any, that the administration hopes to achieve by increasing commercial relations with the People's Republic of China?

Mr. CHRISTOPHER. Well, I suppose the most important goal is our concept, Senator Bradley, that trade is a civilizing and important foreign policy tool in and of itself. The relations that are created between countries when their businessmen have interchange are valuable in creating a relationship between the two countries.

Second, there is no question that trade with China offers a new outlet for our industries, gives us an opportunity to improve our balance-of-payments picture, gives us a new and gigantic market, at least potentially gigantic market.

Third, we have a stake in China being a successful power in its part of the world and in its ability to defend itself. I think we look forward to the modernization of China because we think that improvement in their economy and their commitment to improve the living standards of their people, are desirable things from the standpoint of stability and world peace.

Those are the things that come first to mind.

Senator BRADLEY. Do you feel that increased trade will affect the political system of China in any way?

Mr. CHRISTOPHER. In the long term, I think increased trade does have positive effects. I am a great believer in the fact that other countries are influenced when they come into contact with our system and our people.

I do not mean they are going to change from an autocratic Communist society overnight because they meet 100 U.S. businessmen. I think it is good for the United States and I think it is good for the world when countries which have been as isolated as China come into contact with our society and our civilization and the way we live.

Senator BRADLEY. Judging from the arguments that were offered by a former administration about the benefits of trade with the Soviet Union, do you not feel that there is a danger of overselling the political potential of this trade with the People's Republic of China, of raising expectations about its meaning for Sino-American political relations in the future?

Mr. CHRISTOPHER. I am not sure what arguments you are speaking of, but I think enhanced trade with the Soviet Union would be desirable. We are doing a goodly amount of trade with the Soviet Union under present circumstances. We would do more if we were able to extend nondiscriminatory treatment to them.

I do not think it is a panacea to have nondiscriminatory trade treatment for the People's Republic of China, but I do think it is one very important step in the normalization of our relations. We have done the easy things. We have an embassy in Peking. They have one here. We now have to do the tangible, practical things that would bring the countries closer together.

Senator BRADLEY. I am trying to develop a distinction between trade for trade's sake, and trade for the sake of expecting improvements in the climate of relations between the two countries or in the expectation that China will refrain from certain political actions in the world, for instance, in Vietnam, Cambodia, or wherever in the United States has an interest. What are the administration's expectation for this trade relationship?

Mr. CHRISTOPHER. I think the trade relationship will tend to enable us to have more contacts with the Chinese, trying to build an enduring relationship in the economic and scientific realm.

I am not suggesting that we are going to build an alliance with China that will include a military relationship or that will have a decisive effect on her foreign policy in Southeast Asia. I am not holding out that prospect from the presentation of this trade agreement, or even from the great enhancement of trade.

Senator BRADLEY. What product, or commodity, do you think that China has that would be the greatest benefit to this country?

Mr. CHRISTOPHER. Oil.

Senator BRADLEY. In 1978, we imported no oil from China. In 1979, we imported over \$42 million worth of oil. Do you agree with Senator Jackson about the potential and what do you assume about China's need for that oil as it is developing?

Mr. CHRISTOPHER. I unfortunately did not hear Senator Jackson.

Senator BRADLEY. Senator Jackson said that China could have 100 billion barrels of oil reserves. That is a lot of oil.

Mr. CHRISTOPHER. My understanding is that China has great prospects for oil and that its development can provide good opportunities for our businesses.

I wonder if I could ask whether one of my colleagues from the Department of Commerce could be more precise as to whether they agree with Senator Jackson's evidence.

Mr. JENKINS. Senator Bradley, I am Captain Jenkins, Assistant Secretary for East-West Trade, Commerce.

We do agree with Senator Jackson's optimistic estimates. The figures are that China has 100 billion barrels of petroleum deposits, roughly half and half, offshore and onshore.

The oil company officials who are negotiating with the Chinese tell us that the Chinese have as much as probably Iran and maybe more.

Senator BRADLEY. It also has a few more people than either of those states.

Mr. JENKINS. They will have petroleum needs of their own, but I think it is fairly clear in the given state of their economy today and for the foreseeable future they will be in an exporting posture.

They also have tremendous coal deposits. In their own economic plan, they are intending to depend principally upon coal for their own energy requirements so that they can export the petroleum.

I might add one of the things, Senator, in addition to oil—would like to broaden that and say that mineral metals and oil are the—here is a tremendous range of resources in China which will enable them to support their own development plans.

Senator BRADLEY. What do you feel we could do to help improve that development, specifically to increase it? Are you supportive of the hydrocarbon fund at the World Bank? Could that fund be used to develop China's oil reserves?

Mr. JENKINS. I would have to beg off on that one, Senator, and pass it to the Department of Energy, but we can get a response for you and submit it for the record.

Senator BRADLEY. I assume you are in favor of diversifying oil reserves?

Mr. JENKINS. Obviously.

Senator BRADLEY. I assume you recognize the importance of the World Bank in that process.

Mr. JENKINS. We understand that.

I should add, Senator, what we would like to see done to handle this is rapid approval of the trade agreement with China so American corporations can more effectively engage in development with the Chinese. That is precisely what we are here to promote today, sir.

Mr. HUFBAUER. There should be no doubt that the administration is supportive of the Banks, energy lending program.

Senator BRADLEY. What is the administration doing to make sure that the World Bank will be funded at its maximum level?

Mr. HUFBAUER. Can I respond to that question in writing, Senator? The Bank is not specifically within my domain.

[The following was subsequently supplied for the record:]

For fiscal year 1980, the Administration requested an appropriation of \$1,026 million for U.S. capital subscriptions to the World Bank Selective Capital increase. Of this amount, \$102.6 million would be paid-in capital and \$923.2 million would be callable capital and not result in any actual budgetary outlays.

In detailed testimony and in very extensive contacts and consultations with the Congress, we have emphasized the importance of U.S. participation in the Bank and the substantial national security, political, and economic advantages that accrue to us as a result of our participation. Certainly, the World Bank's energy program is one of those advantages because it will help greatly to achieve a better balance in the world supply and demand for energy. Over the next five years, World Bank lending for energy development is projected to reach \$4.5 billion to \$5.0 billion and to support projects totalling \$18.0 billion. This volume of lending is expected to result in the production of energy equivalent to two million barrels of oil per day.

Nevertheless the Foreign Assistance Appropriations bill as passed by the House of Representatives this year provided only \$163 million for the World Bank, or less than 16 percent of what we had asked for. The Senate version of the bill provided \$826 million and, as you have indicated, the matter is now in Conference. We have set out to the best of our ability the arguments which we believe strongly support full funding of the request. Clearly, given the amounts in the Senate and the House bills, it will not be possible to do so this year. Nevertheless, we have urged the Conference Committee members to approve as much as possible for the Bank and we are hopeful that that amount will be sufficient to maintain our influence within the Bank and to permit continuation of its lending programs, including those for

expansion and diversification of energy sources which so directly support our own national interests and well-being.

As you know, China is not a member of the Bank at this time, so there are other complications to your question.

Senator BRADLEY. Let me ask one other question, assuming the agreement is made and trade relations increased, and assuming that we have underestimated the export potential of China and the country will be flooded with textiles, apparel, household goods, furniture, and assuming that creates a rather large amount of unemployment in those industries, industries that are heavily labor-intensive, employing the least employable people in our society, what remedy is available? What if the trade in those products turns into an avalanche?

Mr. HASLAM. The trade agreement includes an article devoted to safeguards for the American economy. It is a provision that was thoroughly discussed with the Chinese during the negotiations. Both parties are committed to consult on any trade problems that may develop. In exceptional or emergency cases, we may take unilateral action without consultations.

We have, even without the trade agreement, imposed unilateral quotas on several textile products coming from China. The administration has, within the trade agreement itself, safeguard provisions to protect against market disruptions.

Senator BRADLEY. It is your intention to invoke section 406 in the event of that kind of avalanche?

Mr. HASLAM. If there is a surge of imports that is regarded as creating market disruption and warrants action by the United States, we have authority to take that action. We also have other authorities in antidumping, countervailing duty, and various unfair competition laws that also can be used.

I believe our markets are protected as required by the Trade Act of 1974. This is well understood by the Chinese.

Senator BRADLEY. Would you care to speculate about what would the administration consider to be a market disruption?

Mr. HASLAM. A market disruption is normally regarded as a surge of imports that meets various injury tests applied under applicable statutes. This requires investigation of the impact upon domestic industries and a determination of the issue of injury. This is a factual determination and there is an established jurisprudence as to how the test is interpreted and applied to any particular case.

Senator BRADLEY. It sounds familiar, Mr. Chairman.

Senator RIBICOFF. Thank you very much, Mr. Christopher. Senator Roth and I have a series of questions that we will submit to you and we would like your response, or the group, so that we can make it a part of the permanent record.

[The following was subsequently supplied for the record:]

DEPARTMENT OF STATE,
Washington, D.C., December 5, 1979.

Mr. MICHAEL STERN,
Staff Director, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. STERN: Enclosed are answers to the supplemental questions submitted by Senators Ribicoff and Roth, as a follow-up to the hearings on the China Trade Act.

Please let me know if we can supply any additional information.

Sincerely,

J. BRIAN ATWOOD,
Assistant Secretary for
Congressional Relations.

Enclosures.

By Senator Ribicoff

Question 1. What does the trade agreement provide regarding the facilitation of U.S. businesses in marketing products in the PRC? Will travel throughout the PRC be permitted, and will contact with actual users of products be generally permitted, or just contact with a general purchasing agency?

Answer. In recent years many Chinese business and trade practices have differed markedly from customary international practice. This has meant that American businessmen of necessity proceeded cautiously in their business dealings and tolerated uncertainties in many areas. Businessmen in China have also coped with such extremely limited facilities as office space, housing, telex lines, secretarial help, and copy machines. Specific features of the Agreement which will assist U.S. business in these areas include: Patent, trademark, and copyright protection; procedures for the settlement of contract disputes; assurance of treatment no less favorable than that granted other foreign businessmen; a commitment to allow the opening of business offices and to provide all necessary support for those offices and for business activities, (such as physical facilities, financial transactions, visa issuance, telecommunications, etc.) a commitment to look favorably on requests from U.S. financial institutions to open offices in China and to engage in banking activities related to international trade and finance; a commitment that payments for transactions may be effected in convertible currency.

As a result of the Trade Agreement American businessmen should have improved access in many parts of China. American business representatives in some cases have been able to transact business not only with Foreign Trade Corporations (FTCs) and their branches but also with ministries, enterprises and even communes. End-users in China do on occasion contact U.S. firms directly. However, businessmen will still be subject to legal restrictions on travel, which include the necessity of obtaining travel permission from the appropriate authorities. Contact with actual end-users of products is possible in many instances, but as a practical matter trade decisions will be made for the most part by the Ministry of Foreign Trade through its network of Foreign Trade Corporations.

By Senators Roth and Ribicoff

Question 2. The trade agreement provides for reciprocal equivalent protection of patents, copyrights, and trademarks. The PRC does not yet have laws protecting these property rights. I also understand that there are difficulties in providing PRC property rights of this type with protection under U.S. law. What are these difficulties, and given these facts, precisely what assurances does a U.S. owner of these property rights have that his rights will be protected?

Is the Administration seeking Chinese adherence to the Paris Convention for Protection of Industrial Property and the Universal Copyright Convention? What other steps is the Administration pursuing to assure protection of U.S. patents, trademarks, and copyrights in the absence of Chinese legislation on some of these matters?

Answer. We believe that the trade agreement marks a substantial forward step by the Chinese in the area of patents, copyrights and trademarks. The People's Republic of China has never had a national copyright or patent law although the Chinese have agreed to, and have observed a variety of protective licensing and similar arrangements in contracts with U.S. and other foreign firms. In the Agreement the Chinese agreed to provide copyright, patent and trademark protection equivalent to the protection afforded the Chinese by the United States. Implementation of protection for the Chinese under U.S. law will trigger reciprocal treatment for U.S. nationals in China. This will ensure reciprocal standards of protection equivalent to those provided under international copyright and patent conventions.

At present, there are a number of technical issues which must be dealt with before Chinese copyrights and industrial property are effectively protected in the United States. At the same time, China is working on national copyright and patent legislation. Thus American and Chinese officials will work together to develop an effective system of reciprocal protection of copyrights and industrial property to ensure U.S. nationals copyright and patent protection in China equivalent to that provided under relevant international conventions. In the meantime, firms should

include provisions for such protection in their individual contracts, and we recommend that firms interested in such contracts contact the Department of Commerce.

We have pointed out to the Chinese the advantages of becoming parties to the Paris Convention for Protection of Industrial Property and the Universal Copyright Convention. We have suggested they take such a step and understand they are now contemplating adherence to the Paris Convention in the reasonably near future.

The concept of trademark protection is well established in China, since the Chinese also seek to protect their trademarks in other countries, including the United States.

The recently signed trade agreement between the United States and China recognizes the rights of nationals of each country to apply for trademark registrations in the territory of the other on the basis of reciprocity. Since China's foreign trade corporations are permitted to apply for and register trademarks in the U.S., the PRC considers the reciprocity requirement of its law to be met by the United States. Thus, U.S. nationals have been permitted to register their trademarks in the PRC since January 1, 1978.

Question. The PRC has recently promulgated a new direct investment law. What does this law provide regarding foreign participation in ownership and management of production facilities in the PRC? Is the PRC actively seeking direct investment, and if so, for what sectors of the economy?

Answer. The Chinese have embarked upon a major effort to attract foreign investment as part of their modernization program. They have chosen to do this through joint ventures of Chinese government agencies or corporations with foreign investors. The PRC's law authorizing such joint ventures sets forth some of the basic principles that will govern their establishment and operation.

The Law encourages the formation of limited liability companies in which the foreign partner contributes at least 25 percent of the capital. Chinese leaders recently have indicated that 100 percent foreign-owned projects are acceptable. The profits, risks, and losses of joint ventures are to be shared between the participants in proportion to their equity. The Chinese are drafting companion regulations to the new law which will govern the management of joint venture enterprise in the PRC. The composition of the board of directors will be stipulated by individual contracts. The Chairman will be chosen by the Chinese, while the one or two vice-chairman will be appointed by the foreign participant(s). Management personnel will be selected by all parties to the joint ventures.

To demonstrate its commitment to joint ventures, China has established at least two new organizations to aid in the formation of these enterprises. The Foreign Investment Control Commission, headed by Vice Premier Gu Mu, has authority to approve foreign investments in China. The China International Trust and Investment Company (CITIC) was created to promote joint ventures by finding appropriate Chinese partners for potential foreign investors and working out contractual details with foreign firms. Both organizations are subordinate to the State Council.

Mr. Rong Yiren, General Manager of CITIC was in the United States for a month this fall to meet with US Government officials and business leaders to promote US investment and joint ventures in the PRC. Mr. Rong indicated Chinese interest in joint ventures for all economic sectors—especially hotels, light industry, textiles, non-ferrous metals, coal, and machine building.

By Senator Ribicoff

Question 4. What does the trade agreement provide with respect to services related to trade, such as shipping, insurance, and financing? What are the current practices relating to such matters, e.g., are there requirements for using PRC shipping or insurance facilities in US-PRC trade?

Answer. The Trade Agreement does not specifically address how services related to trade are to be carried out although the Agreement's general provisions apply equally to the service sector. However there are provisions in the agreement related to financial institutions and transactions. Article 5 stipulates that "Each Contracting Party shall provide on the basis of most-favored-nation treatment and subject to its respective laws and regulations all the necessary facilities for financial, currency and banking transactions by nationals, firms, companies and corporations, and trading organizations of the other contracting party on terms as favorable as possible" and "Each Contracting Party will look with favor towards participation by financial institutions of the other country in appropriate aspects of banking services related to international trade and financial relations. Each Contracting Party will permit those financial institutions of the other country established in its territory to provide such services on a basis no less favorable than that accorded to financial institutions of other countries."

In trade with China, financing, shipping, and insurance services are determined by negotiation between the two parties involved in each transaction. Most trade deals call for payment by irrevocable letter of credit denominated in Chinese Renminbi or foreign currency. In most cases the Chinese prefer to buy goods on an f.o.b. basis and sell goods on a c&f or c.i.f. basis. However, while this is Chinese preference there is no legal requirement that Chinese insurance and shipping facilities be used. In fact, when exporting, the Chinese prefer that the foreign importer handle the insurance.

We intend to monitor carefully this particular aspect of our trading relationship to ensure that U.S. firms are allowed full and fair opportunity to provide such services.

Question. In negotiating and entering into the trade agreement, is the President required, or does he contemplate, taking any additional actions vis-a-vis U.S. agreements with Taiwan? Will the trade agreement affect our trade with Taiwan?

Answer. The President would not be required to take any actions vis-a-vis U.S. agreements with Taiwan as a result of the Trade Agreement, and he does not contemplate taking any actions. We would not anticipate any adverse effect on U.S.-Taiwan trade. Taiwan's exports to the U.S. are manufactured goods—many from technology intensive plants—and we doubt that PRC exports will be competitive in these lines.

Question. There have been several recent press reports concerning trials of dissidents in the PRC. Are these cases in response to signs of increasing public dissent in the PRC? What is your assessment of the state of civil rights in the PRC, and what trends, if any, have you identified?

Answer. The Chinese Government is an authoritarian regime which attaches much greater importance to meeting the basic human needs of its huge populace—food, clothing, shelter, security—than it attaches to individual civil liberties.

Nonetheless, in recent years, China seems to have been demonstrating somewhat greater respect for individual rights. Evidence of this is the approval of a new legal code, including guidelines for criminal justice, the effort to build an independent judiciary, and the widespread public condemnations of gross miscarriages of justice during the Cultural Revolution.

There are other positive signs of change. Thousands who were disgraced and vilified during the last 20 years have reacquired their previous positions. The media—the press, theatre, movies—are less restricted and more varied. Hundreds of Chinese scholars and students are going overseas. Emigration controls have loosened significantly in the past two years. Chinese with overseas family connections are now being given permission to visit or permanently join their relatives and many privately sponsored students (as well as hundreds of official exchange students) are receiving permission to study in Western universities.

The PRC Government's willingness to permit expression of opinion has varied over the last few years. In November 1978 the so-called "democracy movement" first flourished. Wall posters appeared criticizing certain high level government and party officials. These activities were followed by demonstrations and activities which led the government to crack down on the movement. The Government declared that non-party activities should uphold socialism, party leadership, the "dictatorship of the proletariat," and Marxism-Leninism-Mao Tse-tung thought.

In August a resurgence of the "democratic movement" began. This recent period has been marked by the appearance of controversial wall posters, increased contact with foreign journalists and diplomats, and the publication of dissident publications. Also, thousands of petitioners have come to Beijing to complain about lack of jobs or other local problems. The government has generally been sensitive to their complaints and established procedures for reviewing them.

The recent surge of open complaints should be viewed as a positive development in the sense that limited freedom to express feelings of dissatisfaction now exists where it did not before. Nonetheless, civil and political rights in China continue to be restricted by Western standards. We strongly hope that the favorable trends continue.

Question. Do the Chinese have a published tariff and tax code and commercial laws to govern trade: Is Chinese practice controlling imports governed by laws or administrative decision-making?

Answer. China has published a tariff system. It is currently in the process of formulating tax and commercial codes to supplement the joint venture law published last July. However, tariffs and other pricing factors do not affect commercial flows in China in the same way as they do in a market economy. This is because the tariffs do not affect decisions to source purchases at home or abroad. In China, as in

most nonmarket economies, the government directs trade on the basis of central plans and central allocation of foreign exchange.

The Trade Agreement takes these differences into account, by including provisions which can assist U.S. firms to compete in the Chinese market. Among these provisions are those for the facilitation of commercial and financial activities, measures for dispute settlement, safeguards against market disruption, and patent and copyright protection. We think these provisions will enhance the prospects for U.S. exports and investment in China.

Moreover, the Trade Agreement commits both Parties to make purchases on the basis of "customary international trade practice and commercial considerations such as price, quality, delivery and terms of payment." This represents a step toward a more market-oriented economic relationship and a step away from political decisions governing trade. Prior to diplomatic normalization, the Chinese often told us that the absence of diplomatic relations influenced their trade decisions. As a result, from time to time, orders were placed with other Western countries when economic considerations would have pointed to American products. The agreement commits the Chinese to make their trade decisions on economic terms.

Question 8. In recent years, have Chinese representatives participated in international trade negotiations such as the MTN?

Answer. The PRC has not participated in international trade negotiations such as the MTN.

Question. What is the relationship between China's foreign trade and GNP? What is the involvement of the Soviet Union and Eastern European countries in China's development plans?

Answer. Foreign trade has never accounted for more than 5 percent of China's Gross National Product (GNP). Although this proportion might rise slightly over time, it is unlikely that foreign trade will ever make up a very large share of China's GNP.

The Soviet Union and Eastern Europe are not expected to play a major role in China's development, as evidenced by the fact that trade between China and these countries is small and is likely to remain small. (Together, all Eastern European countries account for about 8 percent of China's trade. The Soviet Union accounts for about 2 percent.) While China is looking toward all countries for ideas on development, the vast majority of the PRC's technology and equipment imports will come from the West and Japan.

By Senator Roth

Question 1. It is my understanding the United States has something like \$37 million in claims against China for old Eximbank loans. We did not seek repayment for Taiwan because these loans involved projects on the mainland. Will we not seek repayment from the mainland government, or is the position of the Administration not to press for repayment? What about other outstanding claims against China?

Answer. In 1946, Eximbank made four loans to China in order to finance the export of cargo vessels, and railway, coal mining and power equipment. In 1949, when the Government of the Republic of China moved to Taiwan, payments ceased to be made on the loans. In 1961, Eximbank entered into an arrangement in which Taiwan agreed to pay \$2,587,147.36 plus interest which represents the portion of the loans been fully paid. The remainder of the principal—approximately, \$26.4 million—plus accrued interest of about \$9.3 million has not been repaid. We have been unable to reach agreement with the Chinese on their responsibility for payment of these loans. However, since availability of export credits is important for enhancing the competitiveness of US exports China is an important element in moving toward a more normal economic relationship, Eximbank is prepared to set aside the matter at this time without prejudice to future consideration of the question.

Claims arising from postal relations since 1949 were settled earlier this year. In addition questions concerning U.S. diplomatic and consular property and issues relating to other possible claims remain under consideration.

Questions 3 and 6. Some Asian countries have reportedly expressed concern that credit financing available for China will come at their expense. Can the Administration assure us that in the event credit financing is made available to China, it will not come at the expense of credit financing available to other Asian countries, such as South Korea or the ASEAN countries?

The Administration has proposed a ceiling of \$4.1 billion on Eximbank loan commitments for fiscal year 1980, and opposes the Senate figure of \$6 billion. Since the Eximbank has already committed \$1.5 billion for fiscal year 1980 and faces the prospect of being forced to turn away billions of dollars in loan applications before the end of the year, how can the Bank provide any substantial loan commitments for exports to the PRC without denying other, equally meritorious applications

without a large increase in the ceiling for fiscal year 1980? Has the Administration taken into account the possibility of loans for China, as mentioned by Vice President Mondale, in its position supporting the \$4.1 billion ceiling?

Answer: Eximbank does not allocate any of its financing on a country basis. Rather, it examines the merits of each transaction for which its financing is requested in order to determine whether there is a reasonable assurance of repayment, and if there is, to provide the maximum amount of financing needed to enable the transaction to go forward. Any financing extended in support of U.S. exports to the PRC, therefore, would not be made at the expense of financing for U.S. exports to any other country.

During his visit to the PRC in August, the Vice President indicated that Eximbank foresaw approval of transactions involving financing of up to \$2 billion over the next five years. While it is impossible to make predictions with any certainty, it is likely that only a very small portion of that financing will be used during the current fiscal year. No Eximbank financing will be extended before Congressional approval of the U.S.-PRC Trade Agreement. Moreover, operating arrangements will have to be worked out with the Chinese before Eximbank financing can be made available.

The Administration believes that the \$4.1 billion ceiling on Eximbank loan commitments adequately addresses Eximbank's projected needs for fiscal year 1980. In the event that actual program use exceeds projections, Eximbank will have a number of ways of maximizing its financial resources.

Question 4. Is the Administration encouraging China to join the IMF or World Bank? Has the Administration made a study of the implications of China's joining the World Bank on Bank operations and assets, and the availability of capital for other recipients of Bank loans?

Answer. The PRC has expressed an interest in eventual participation in International Financial Institutions (IFI's) such as the World Bank and the IMF. They are not actively pursuing this objective now but have indicated they are likely to do so before long. There are a number of complex questions to be resolved, such as membership obligations, outstanding Chinese financial obligations to the institutions, and effects on other members. Satisfactory resolution of these questions will take time.

At this appropriate time the U.S. in principle would support participation by the PRC in these international financial institutions provided the PRC is willing to accept the obligations of membership.

Question 5. What studies, if any, have been made within the Executive Branch of the potential expansion of exports from China to the United States in the next few years and in the long-term? What are the conclusions of any such studies on the trade impact of China's exports on U.S. domestic industries and on the competitiveness and magnitude of exports to the United States of other developing countries?

Answer. The Department of State has not done any study of the potential expansion of exports from China. Studies have been done by the Departments of Labor and Commerce and the International Trade Commission. We have asked them to reply directly to the Committee concerning their studies.

Senator RIBICOFF. Senator Danforth?

Senator Chafee?

Senator Bradley? Any more questions?

Senator CHAFEE. I suppose somebody from the Department of Commerce at the table would answer this question. The textile negotiations between the United States and China have broken down. Do you believe that granting the most-favored-nation status to China would improve the chances of those textile negotiations going forward?

Mr. CHRISTOPHER. We have a representative from the office of the Special Trade Representative.

Mr. CASSIDY. Senator, at least since the last session of the negotiations on the trade agreement, we have dealt with the textile issue separately from the issue of MFN. We hope that the adoption of the trade agreement will improve the climate for rapid conclusion of a bilateral textile agreement with China. We will continue to

seek rapid negotiation of a satisfactory bilateral textile agreement, which is our objective.

Senator CHAFEE. The adoption of this will not set it back it will foster it?

Mr. CASSIDY. We have no reason to believe it will set it back. We hope it will forward it. But it is a separate issue.

Senator CHAFEE. What about on the copyright laws? What specific assurances do we have that American technology will not be pirated in the absence of any copyright laws in the People's Republic of China?

Mr. HASLAM. The Chinese have committed, within the trade agreement, to extend to U.S. copyrights equivalent protection within China as we would extend to their copyrights in this country, reciprocal equivalent protection.

They do not have a copyright regime in place now and they are in the process of examining how best to implement one. There have been consultations between our two countries in this regard.

But we have within the trade agreement an obligation by the People's Republic of China to extend to U.S. copyrights the equivalent protection that we would extend to Chinese copyrights. The United States would extend protection under the universal copyright convention, the international standard.

We feel that we have the necessary assurances by the Chinese to protect U.S. copyrights.

Senator CHAFEE. The same for patents.

Mr. HASLAM. The same for patents.

Senator CHAFEE. Fine.

Thank you.

Thank you very much, Mr. Chairman.

Senator RIBICOFF. Thank you.

Thank you, gentlemen.

[The prepared statements of the preceding panel follow:]

STATEMENT BY DEPUTY SECRETARY OF STATE WARREN CHRISTOPHER

I am pleased to have this opportunity to testify on behalf of the Agreement on Trade Relations that we signed with the People's Republic of China July 7 and which the President transmitted to the Congress for approval October 23.

The establishment of diplomatic relations January 1 opened a new era for United States-China relations, based on equality, mutual interest and respect. Diplomatic recognition alone, however, does not automatically ensure the development of a normal and mutually beneficial relationship. Thus our task is clear: to build a new relationship in tangible and practical ways.

Barriers to trade pose one hindrance to a fruitful relationship with the People's Republic. The Trade Agreement you have before you, by reducing these barriers and creating incentives to trade, will go a long way toward cementing the bonds between China and the United States. Non-discriminatory treatment, credits, insurance, a favorable investment climate, and business facilitation are the lifeblood of trade. Without them, trade with China would wither. With them, we can forge the stable and constructive ties with China that we seek, and that will guide us into the 1980's and beyond.

Our new ties with China are of fundamental importance to the United States, and to the prospects for a peaceful and prosperous world. We want to encourage China to play a constructive and stabilizing role in Asia. We want to see a prosperous China, a China that can feed and fuel itself.

Every long-term global problem—of economic development, population, food, natural resources or the environment, to cite just a few examples—can benefit from positive contributions from both China and the United States. The trade agreement not only symbolizes our mutuality of interest in promoting closer ties, but also our

support for a modern China, secure and outward-looking, which will be part of the solution to such problems.

Failure to approve this agreement would unfortunately be viewed as a sign that the United States is not interested in moving toward such a constructive, mutually beneficial relationship with the Chinese. It is in our interest for China's next generation of leaders to look back in 1990 upon the relationship we are now building with a sense of satisfaction and to view the United States as a reliable partner in development.

Beginning with the January visit here by Vice Premier Deng, we began building the framework of our new relationship. We signed agreements in science and technology, cultural, and consular affairs.

In March, former Secretary Blumenthal initialed a claims/assets agreement, which removed a significant obstacle to the development of economic and commercial relations between the United States and China. We also established a joint economic committee with China to help coordinate the development of our economic activities. This committee will hold its first meeting early next year under Secretary Miller.

In May, Secretary Kreps signed the claims/assets agreement and initialed the Trade Agreement. During this same period, high-ranking Chinese officials visited this country at the invitations of the Departments of Energy and Commerce in cooperation with private industry. And a number of U.S. oil companies signed contracts to assist China's offshore oil development.

In August, Vice President Mondale capped this extraordinary period by signing a hydropower and water conservation agreement, by opening the first U.S. Consulate General on the Chinese mainland in 30 years, and by stating our readiness to extend EximBank credits and Overseas Private Investment Corporation guarantees to China, as well as giving a boost to bilateral civil aviation and maritime discussions.

Clearly, we have come far in the past year in developing our ties with China. Until this Agreement is approved, however, we will remain the only major trading partner that does not have some form of trade agreement with China, and that suffers from the competitive disadvantage that lack of non-discriminatory treatment of commerce entails.

Although small in world terms, our trade with China is expanding rapidly again this year after more than tripling in 1978 to \$1.1 billion. Our trade balance with China continues to weigh heavily in our favor.

Trade with the West is critical to China's modernization. Its imports of capital equipment and industrial materials are expected to continue increasing faster than its export earnings. For China the trade equation is simple: it must sell more in order to buy more. Extending most-favored-nation trading status to China is fundamental to this equation.

Of course, this Agreement will benefit the United States as well as China. The foreign exchange that China earns from sales to the U.S. will allow it to purchase more goods from us, thereby benefiting U.S. exporters, helping our balance of payments, and reducing, through competition, inflationary pressures. Without this Agreement, the U.S. penalizes its exporters, who will have to face their European and Japanese competitors supported by Governments that have already extended lines of credit and MFN to China. In a market with limited foreign exchange, this represents an appreciable advantage for our competition, and disadvantage to us.

I would now like to focus the remainder of my remarks on the political perspective with which this Agreement should be viewed.

I know that questions have been raised about the implications that submission of this agreement may have for our policy toward the Soviet Union. I want to be clear on this matter. We want to improve economic relations with both countries. But we do not feel that we should make every move with one country dependent on making the same move at precisely the same time with the other. Such a rigid policy would fail to recognize relevant differences in the factual situation with respect to the two nations as well as relevant matters of timing.

We signed a Trade Agreement with the Soviet Union in 1972. We have not yet submitted it to Congress. When we do—which I hope will be soon—it will be because it is warranted by the factual situation, because it is consistent with our policy toward the Soviet Union, and because the timing is right—and not because of our policy toward China or some other third country.

In the last three years China's economic, political, and cultural policies have undergone substantial change. There is greater diversity in almost all aspects of Chinese life. Economic decentralization, interaction with the West, and experimentation with new ideas and concepts have been matched by an increased openness

and a willingness to admit problems. The Chinese leadership publicly has committed itself to raising the living standards of the people.

These new developments should be kept in perspective. We cannot ignore China's long authoritarian tradition. But neither should we turn our back on what is beginning to happen. It should be a source of satisfaction to us that the Chinese Government is determined to develop a legal system that would prevent the unchecked exercise of official authority.

China's emigration policies, which have undergone substantial change in the last three years, are of particular importance to this Subcommittee. Under the provisions of the Jackson-Vanik Amendment, most-favored-nation treatment of communist nations that restrict emigration is prohibited. That prohibition, however, may be waived if the President concludes and reports to Congress that the Amendment's requirements pertaining to a country's emigration practices have been satisfied. The Trade Act vests in the President the responsibility to determine whether these requirements have been met. In his report to the Congress the President set forth his conclusion that in the case of the People's Republic, these requirements have indeed been met.

The President's conclusion was based upon an analysis and weighing of three factors. These include China's current emigration performance; public statements by Chinese officials; and our confidential diplomatic discussions with Chinese officials.

On the first element, emigration from China has increased dramatically over the past two years. In 1978, 71,000 persons emigrated from Hong Kong, the major exit point from the PRC. This figure is three times the number who emigrated in 1977. This trend continued in 1979 with 28,000 emigrants entering Hong Kong in the first three months alone. The number has slowed somewhat since April due primarily to protests by the Hong Kong Government. Nevertheless, 4,000 to 5,000 emigrants continue to enter Hong Kong each month.

The U.S. Consulate General in Hong Kong received over 10,000 applications from PRC emigrants between November 1978 and April 1979. Chinese emigrants and visa applicants now far exceed the available immigrant visa numbers chargeable to China. Therefore, several thousand have been obliged to wait in China and in Hong Kong until visa numbers become available.

That the PRC has liberalized its emigration policy is confirmed by public statements of Chinese officials. Mr. Liao ("Lee-ow"), the Director of the Office of Overseas Chinese Affairs, stated on January 4, 1978: "We should provide . . . for foreign nationals of Chinese descent to visit their relatives in China or make a tour of the country as well as for Chinese citizens to go abroad for reunion with their kinfolk of foreign nationality, simplify the procedure for getting permission to enter or leave China, give warm reception to those entering China, and improve our service." China has followed this theme consistently since this instruction was issued. Mr. Liao elaborated on this policy in December 1978 when he stated that Chinese who had received visas from other countries should be granted exit permits "immediately." During his visit to the United States in January 1979, Vice Premier Deng Xiaoping reiterated this policy publicly before the United States-China People's Friendship Association. Adding weight to the Vice Premier's remarks, the consular agreement concluded during his visit contains a commitment by China to "facilitate the reunion of families and to process all applications as quickly as possible."

On the final element, United States and Chinese officials conducted confidential conversations in which the Trade Act's emigration requirements and Chinese emigration policy came to be mutually understood. The conversations indicate that the PRC is liberalizing its emigration rules and intends to continue this policy.

We have examined China's emigration record, we have studied the public statements made by their officials, and we have had discussions with the Chinese on their emigration policy. Based upon all of these factors, we are confident, as the President has reported, that the requirements of Section 402 of the Trade Act have been satisfied.

In closing, I seek your support and urge that you give this Agreement speedy approval. We are now building the structure of our relationship with China for the 1980's. This relationship is and will continue to be very important to us. Your approval of this Trade Agreement is a critical step in the process. I am confident of your support.

STATEMENT OF HON. C. L. HASLAM, GENERAL COUNSEL OF THE DEPARTMENT OF
COMMERCE

Mr. Chairman, I am pleased to have this opportunity to appear before your Subcommittee to urge Congressional approval of the Agreement on Trade Relations between the United States and the People's Republic of China.

Trade agreements between nations are positive steps toward more open international relations. This agreement is especially important because it comes to your consideration so soon after the establishment of full diplomatic relations between the United States and the People's Republic of China. It is a step of major importance in our development of a more normal relationship with that country. The full possibilities created by our diplomatic initiative will remain unrealized without such an agreement. It offers vital substance and sustenance to the understandings we are building with the most populous nation of the world. I feel privileged to have been part of the team that negotiated this agreement.

When diplomatic relations were established between the United States and the People's Republic of China, there existed a modest amount of bilateral trade, some outstanding problems, but no agreements to guide commercial relations between the two countries. Absent also were common undertakings through multilateral arrangements such as the GATT.

Since then, we have made considerable progress toward removing the impediments built up over thirty years and developing a framework for the constructive trade ties we seek with China for the 1980's and beyond. An agreement settling issues of private claims and assets has already been concluded. Based on the understanding reached in the trade agreement negotiations, we were able to conclude an Agreement on Trade Exhibitions, and are now in the process of planning for our first national exhibition in Beijing in 1980. It promises to be one of the largest exhibitions ever sponsored by the Commerce Department. The hydroelectric protocol signed by Vice President Mondale paves the way for participation, on a compensated basis, by American government agencies and private companies in the development of China's great hydroelectric potential. Bilateral discussions concerning textiles, shipping, and civil aviation are in progress.

One by one, we are forging the elements needed for an expanded and mutually beneficial commercial relationship. The Trade Agreement now before you is consistent with and fundamental to this process. Its enactment will lay the foundation and sustain the momentum needed for successfully proceeding with other steps. This agreement also promises to benefit our political relations with China and the objectives of our overall foreign policy. Above all, it is a balanced document which promotes our economic interests and deserves to be considered on its own merits.

THE AGREEMENT

This is the third agreement that we have concluded under the provisions of Title IV of the Trade Act of 1974. It adheres to the requirements of that Act and shares many of the elements contained in our trade agreements with Romania and Hungary. At the same time, it takes into account Chinese laws, practices, and preferences, and accordingly stands on its own individual character and purpose.

The provisions of the agreement can be considered in three groups: (1) those removing barriers to trade; (2) those creating facilities for the expansion of trade; and (3) those safeguarding markets from disruption by increased imports.

In addressing the current barriers to trade, the agreement provides for reciprocal non-discriminatory treatment of each country's imports and exports. We are at present the only major trading partner with which China does not have a trade agreement providing for non-discriminatory treatment. The Trade Agreement will rectify this situation. China's commitment, in this context, to base its purchasing decisions on customary international trade practice and on commercial considerations such as price, quality, delivery and terms of payment is particularly important and should assure that U.S. firms are in position to compete effectively with the firms of other countries.

Considerable benefits will be derived from the Agreement's trade facilitation measures. These provisions are particularly important since it is in these areas that American and Chinese business and trade practices have differed most. We found the Chinese side willing to accommodate our needs, even where these constituted a departure from their customary practices. Of particular note are the provisions concerning patent and copyright protection, third country arbitration of commercial disputes, business offices, and financial transactions. Articles covering government trade offices and trade promotion activities will improve our ability to assist American firms to compete in this market. Inclusion of all these provisions in the agree-

ment should enable American companies to do business in China with added ease and confidence.

In accordance with the requirements of the Trade Act, the agreement includes provisions assuring that our trade with China will expand in a manner which does not subject American industry and labor to sudden, unfair or injurious import competition. Under these safeguard arrangements, any bilateral trade problem, including market disruption due to rapidly rising imports, will be subject to consultations. Should such consultations not result in a satisfactory resolution within a reasonable period of time, either party may take whatever measure it deems appropriate. In an emergency, either party may take action before consultations are held.

The document before you represents the sincere effort of two giant countries on either rim of the Pacific basin to bridge the differences between their political, economic, legal, and cultural systems and to reach an agreement under which their bilateral commercial relations could develop on a more cooperative basis. Its achievement required of each side a willingness to learn about the other's system and appreciate the other's central concerns.

TRADE PROSPECTS

Having discussed the agreement, I would like briefly to review the development of U.S.-PRC trade to date and examine prospects for its expansion under this agreement.

Direct trade between the United States and China resumed in 1972 and grew steadily despite the absence of normalized political and economic relations. Between 1972 and 1978, over \$4 billion of goods were traded between the United States and China. Just under \$2 billion of U.S. agricultural commodities and over \$750 million of American manufactured goods were sold to China during those seven years. Our surplus from that trade totaled almost \$2 billion.

The most successful area of U.S. manufactured exports to China has been petroleum exploration, drilling, and production equipment. Sales of these goods and technologies to date exceed \$500 million. Other leading manufactured exports included fertilizer plants, aircraft, trucks, synthetic fibers and staples, machine tools, diesel engines, fertilizers, agricultural machinery, herbicides and pesticides, construction equipment, measuring instruments and apparatus, and computers.

Since the normalization of relations in January, 1979, U.S.-China trade has increased markedly. The volume of trade in 1979 has already far exceeded total 1978 trade. U.S. exports through September were valued at somewhat over \$1 billion and the annual total is expected to reach \$1.4 billion. Increased sales of wheat, cotton, corn, soybeans, and soybean oil are in part responsible for the overall growth. Sales of manufactured goods, especially machinery and transport equipment, also have shown significant gains. Detailed information on our trade is appended to this statement.

U.S. products accounted for 8 percent of China's imports in 1978 and should gain a larger share this year. With normalized commercial relations, the U.S. share of China's market could grow to 14 percent and total about \$4 billion in 1985. These projections are based on China's development and foreign trade plans and our own increased competitiveness expected with the approval of this agreement. China's development program, even as currently scaled down, coupled with its clear turn to imports for modernizing technology leads us to believe that Chinese imports from the world could well total \$150 billion between now and 1985, of which we estimate 10% will come from the U.S.

Since the middle of last year, American companies have contracted to sell trucks, construction and roadbuilding equipment, mining equipment, machine tools, and aircraft to the People's Republic of China. They also have been awarded contracts and letters of intent for iron ore, copper and aluminum mines and processing facilities, hotels and trade centers, and chemical installations. For the future, we see good prospects not only in these areas and currently leading items, but also in hydroelectric power facilities, transport and communications equipment, and electronics and instrumentation.

Expansion of our exports will not come without effort. We started far behind our competitors. In 1977, the last year for which world trade data are available, the United States supplied only 2.9 percent of the manufactured goods China imported from the industrialized West, while Japan secured 61.5 percent, and the Federal Republic of Germany gained 15.8 percent. We are encouraged, however, by the trend which began to emerge last year. U.S. exports of manufactured goods to the PRC in 1978 more than doubled the value of 1977 exports, rising from \$87 million to \$193 million. We expect these exports to nearly double again this year. Nevertheless, American exporters will have to continue vigorous efforts to catch up and

establish a better position for the future. The provisions of this agreement and the commercial relationship it helps establish are essential for their success.

On the other side of the coin, Chinese exports to the U.S. also will be expanding as a result of this Agreement. In 1978, U.S. imports from China totaled \$324 million. In 1979, through September, they were \$410 million and are projected to run just over \$500 million for the year. Crude petroleum, a new entrant this year, is the top import in 1979. Other leading products include such traditional items as textiles, fireworks, antiques, carpets, and basketwork. Based on the experience of other industrial countries that have extended MFN status to China, China's exports to us can be expected to increase moderately following the extension of MFN.

This improvement in Sino-American relations comes at a time when China has shown renewed interest in using foreign trade to promote its own modernization. The long-range development program adopted last year calls for modernization of China's agriculture and industry. The plan calls for an increase in the share of state investment in both agricultural and light industry. The goal is eventually to create a domestic production capacity in a wide range of industries, a goal which we consider realistic in light of China's varied and abundant natural resources. In the immediate future, however, high priority will continue to be given to coal, oil, electric power, transport, communications, and building materials, since the slow progress of these sectors has acted as a brake on China's industrial growth. Nonferrous metals also will be allocated considerable resources as they will not only meet growing domestic demand but also serve as a major source of export income.

Even the moderated development program will require large imports of capital goods and technology. China's imports are likely to grow by 65 percent this year to about \$17 billion, one-fifth of which will be for imports of technology and complete plants. Over the course of the 1979-85 plan period, Chinese imports of technology and capital equipment and machinery should exceed \$40 billion. In addition, China in the coming years will be purchasing increased quantities of industrial consumables and agricultural commodities. Total Chinese imports in the 7-year period between 1979 and 1985 could amount to some \$175 billion.

In large part, these expanded imports will have to be paid for through expanded earnings. About 85 percent of China's trade is with the non-communist countries. In addition to Japan and Hong Kong, the dynamic, modernizing nations on the rim of Asia—countries such as Singapore, Malaysia, the Philippines, Indonesia, and Thailand—serve as her principal markets. Demand for many of her principal exports—food products, crude materials, minerals, fossil fuels, and light industrial products will continue to grow. Tourism, overseas remittances, and PRC business activities in Hong Kong also will contribute to hard-currency earnings. Nevertheless, efforts to increase earnings will not be sufficient to cover costs in the short run, since a large quantity of capital goods required to implement the modernization plan must be imported over the next several years.

In light of this, China has begun to seek both official and private lines of credit. As of mid-1979, Beijing had reached major credit agreements with Western government credit agencies and private banks totalling some \$23 billion. It should be noted that almost none of this total has been drawn upon. Private credits, primarily syndicated Eurodollar loans, account for 20-30 percent of the total. The focus of China's efforts to secure lines of credit, however, has been directed toward official government sources. China has negotiated officially supported export credits with France for \$7 billion, Great Britain for \$5 billion, Canada for \$1.9 billion, and Italy for \$1 billion. In addition, Japan and China have agreed to an untied \$2 billion resource development loan, and most recently, China has approached Japan for \$3.5 billion in aid loans to finance nine development projects.

If U.S. exporters are to be competitive with foreign exporters who have access to these credits, then it is vital that the U.S. Government also provide appropriate export financing support. To meet this challenge, Vice President Mondale during his visit to China in August advised the Chinese that we are prepared to make available Eximbank credit arrangements up to a total of \$2 billion over a 5-year period on a case-by-case basis, and are willing to consider additional credit arrangements as developments warrant. The importance of such Eximbank credits to the competitiveness of American products cannot be overstated.

China recently also has opened herself to new types of commercial undertakings such as joint ventures. With the adoption this past July of a law on joint ventures, negotiations on a variety of projects, involving from 25 percent to 100 percent foreign investment, have gained momentum. The China International Trust and Investment Company, which was recently established, is actively promoting and seeking to facilitate investment in China's economy.

Another program we want to activate in support of our business opportunities in China is the guarantee system of the Overseas Private Investment Corporation. Availability of OPIC's programs to American investors in China is consistent with our intentions to improve bilateral economic relations and will enhance both American competitiveness and security in such business ventures.

The agreement before you is the key to expansion of our commercial and financial ties in a manner that best serves our national interest, and I urge your approval of this Agreement on Trade Relations between the United States and the People's Republic of China.

TABLE 1.—VOLUME AND COMPOSITION OF UNITED STATES AND THE PEOPLE'S REPUBLIC OF CHINA TRADE, JANUARY—JUNE 1979

[In millions of dollars]

	1976	1977	1978	January to June 1978	January to June 1979
U.S. exports:					
Manufactured goods ¹	\$122.2	\$86.9	\$192.5	\$54.0	\$242.5
Machinery and instrumentation ²	66.9	55.6	93.0	31.0	102.4
Other manufactured goods ³	55.3	31.3	99.5	23.0	140.2
Agricultural commodities.....	(*)	64.0	573.3	134.8	429.5
Other.....	13.2	20.4	52.4	21.7	31.9
Total.....	135.4	171.3	818.2	210.5	703.9
U.S. imports:					
Manufactured goods ¹	130.4	123.2	225.0	113.3	142.6
Agricultural commodities.....	56.4	67.8	84.7	46.6	41.7
Other.....	15.1	11.7	14.3	6.1	61.7
Total.....	201.9	202.7	324.0	166.0	246.0
Trade turnover.....	337.3	374.0	1,142.2	376.6	949.9
Trade balance.....	-66.5	-31.3	+494.3	+44.5	+457.9

¹ SITC 5-8, except for U.S. imports of essential oils and inedible gelatin from the PRC which are here classified as agricultural products.

² SITC 7 (machinery and transport equipment) and 86 (scientific and professional instruments).

³ SITC 5 (chemicals), 6 (manufactured goods classified chiefly by material), and 8 (miscellaneous manufactured goods) minus 86.

⁴ Negligible.

Source: U.S. Census Bureau, EM-522 and IM-145, magnetic tapes.

TABLE 2.—U.S. EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA, JANUARY TO JUNE 1979 ¹

[In millions of dollars]

	1976	1977	1978	January to June 1978	January to June 1979
SITC:					
0. Food and live animals.....	\$0.0	\$0.0	\$362.3	\$30.9	\$243.0
1. Beverages and tobacco.....	.0	.0	.0	.0	.1
2. Crude materials, inedible, except fuels.....	13.0	52.4	223.9	101.8	182.0
3. Mineral fuels, lubricants and related products....	.1	.1	1.8	.1	.2
4. Animal and vegetable oils and fats.....	.0	32.0	37.8	23.8	35.9
5. Chemicals.....	10.4	19.6	60.5	15.9	55.6
6. Manufactured goods by chief material.....	43.3	10.8	25.3	4.7	64.0
7. Machinery and transport equipment.....	65.1	51.9	93.0	31.0	102.4
8. Miscellaneous manufactured articles.....	3.4	4.5	13.7	2.4	20.6
9. Items and transactions not classified.....	.0	.0	.0	.0	.2
Total.....	135.4	171.3	818.2	210.5	703.9

¹ Due to commodity schedule changes affecting all data except SITC 0, 1, and 4, data for 1978 and 1979 are not directly comparable with previous years' figures.

Source: U.S. Census Bureau, EM-522, magnetic tape.

TABLE 3.—LEADING 1979 U.S. MANUFACTURED GOODS EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA

(In millions of dollars)

	1976	1977	1978	January to June 1978	January to June 1979
Rank:					
1. Parts for drilling and mining machinery.....	\$1.1	\$1.4	\$33.0	\$2.4	\$28.4
2. Pipes, tubes and fittings.....	10.9	.4	.6	.1	22.8
3. Urea.....	0	8.1	15.2	3.5	16.7
4. Measuring instruments and apparatus, including parts and accessories.....	2.4	4.5	11.7	1.8	16.3
5. Trucks.....	1.9	0	5.9	1.5	15.4
6. Rotary rock drills, core bits and reamers.....	0	.9	13.5	4.1	13.1
7. Herbicides and pesticides.....	1.7	0	10.3	3.2	13.1
8. Mining equipment.....	1.3	0	.5	0	10.1
9. Resins (synthetic).....	1.7	1.7	2.0	1.0	9.1
10. Copper, unwrought.....	0	0	4.4	0	6.5
Subtotal.....	21.0	17.0	97.1	17.6	151.5
All other manufactured goods.....	101.2	69.9	95.4	36.4	91.0
Total manufactured goods (SITC 5-8).....	122.2	86.9	192.5	54.0	242.5

Source: U.S. Census Bureau, EM-522, magnetic tape.

TABLE 4.—LEADING 1979 U.S. EXPORTS OF AGRICULTURAL PRODUCTS TO THE PEOPLE'S REPUBLIC OF CHINA

(In millions of dollars)

	1976	1977	1978	January to June 1978	January to June 1979
Rank:					
1. Corn.....	\$0.0	\$0.0	\$111.7	\$0.0	\$175.5
2. Cotton.....	0	17.5	157.3	79.9	133.0
3. Wheat.....	0	0	250.2	30.9	62.3
4. Soybean oil.....	0	28.3	26.1	17.5	35.9
5. Soybeans.....	0	14.4	15.3	0	22.5
Subtotal.....	0	60.2	560.6	128.3	429.2
Other agricultural exports.....	(¹)	3.8	12.7	6.5	.3
Total agricultural exports.....	(¹)	64.0	573.3	134.8	429.5

¹ Negligible.

Source: U.S. Census Bureau, EM-522, magnetic tape.

TABLE 5.—U.S. GENERAL IMPORTS FROM THE PEOPLE'S REPUBLIC OF CHINA, JANUARY TO JUNE 1979 ¹

(In millions of dollars)

	1976	1977	1978	January to June 1978	January to June 1979
SITC:					
0. Food and live animals.....	\$23.8	\$25.7	\$26.0	\$11.5	\$23.5
1. Beverages and tobacco.....	.4	.3	.6	.5	.3
2. Crude materials, inedible, except fuels.....	38.5	44.1	58.0	33.7	29.6
3. Mineral fuels, lubricants and related products.....	(²)	1.0	(²)	0	42.7
4. Animal and vegetable oils and fats.....	2.4	.1	3.3	2.0	2.9
5. Chemicals.....	18.0	21.8	34.2	15.9	24.7

TABLE 5.—U.S. GENERAL IMPORTS FROM THE PEOPLE'S REPUBLIC OF CHINA, JANUARY TO JUNE
1979 ¹—Continued

[In millions of dollars]

	1976	1977	1978	January to June 1978	January to June 1979
6. Manufactured goods by chief material.....	68.3	49.6	95.1	53.7	40.6
7. Machinery and transport equipment.....	1.3	.6	.5	.3	.5
8. Miscellaneous manufactured articles.....	47.5	58.0	105.4	48.2	80.5
9. Items and transactions not classified.....	1.6	1.7	.9	.4	.8
Total.....	201.9	202.7	323.9	166.0	246.0

¹ Due to commodity schedule changes affecting all data except SITC 0, 1 and 4, data for 1978 and 1979 are not directly comparable with previous years' figures.

² Negligible.

Source: U.S. Census Bureau, IM-145, magnetic tape.

TABLE 6.—LEADING 1979 U.S. MANUFACTURED GOODS IMPORTS FROM THE PEOPLE'S REPUBLIC OF
CHINA

[In millions of dollars]

	1976	1977	1978	January to June 1978	January to June 1979
1979 Rank:					
1. Women's, girls', infants' wearing apparel.....	\$3.2	\$6.1	\$16.3	\$6.9	\$14.7
2. Cotton fabrics, unbleached.....	32.4	17.3	37.9	20.7	11.4
3. Fireworks.....	6.6	10.0	12.1	6.9	10.2
4. Men's and boys' cotton trousers.....	1.5	4.7	9.5	4.0	9.3
5. Basketwork.....	9.3	9.0	15.2	6.9	9.0
6. Carpets.....	4.3	7.3	10.4	5.2	8.3
7. Knitted wearing apparel.....	0.7	2.4	9.4	4.8	8.2
8. Antiques.....	9.9	8.1	11.5	6.5	6.5
9. Footwear.....	3.4	3.5	3.4	1.6	6.2
Subtotal.....	71.3	68.4	125.7	70.4	83.8
All other manufactured goods.....	59.1	54.8	99.3	42.9	58.8
Total manufactured goods ¹	130.4	123.2	225.0	113.3	142.6

¹ SITC 5-8, except for U.S. imports of essential oils and inedible gelatin from the PRC which are classified as agricultural products.

Source: U.S. Census Bureau, IM-145, magnetic tape.

TABLE 7.—LEADING 1979 U.S. IMPORTS OF AGRICULTURAL PRODUCTS FROM THE PEOPLE'S
REPUBLIC OF CHINA

[In millions of dollars]

	1976	1977	1978	January to June 1978	January to June 1979
1979 Rank:					
1. Feathers and down.....	\$14.3	\$19.0	\$25.4	\$19.3	\$4.9
2. Licorice root and other extracts.....	1.4	1.7	2.7	.8	4.8
3. Bristles.....	8.1	8.7	7.0	2.8	4.8
4. Tea.....	2.9	5.2	4.8	1.8	3.4
5. Tung oil.....	2.2	0	2.9	1.7	2.8
6. Essential oils.....	3.6	5.4	7.0	3.3	2.6
7. Raw silk.....	3.9	2.3	4.5	1.3	2.4
8. Cashews and other nuts.....	3.7	5.4	7.5	2.6	2.8

TABLE 7.—LEADING 1979 U.S. IMPORTS OF AGRICULTURAL PRODUCTS FROM THE PEOPLE'S
REPUBLIC OF CHINA—Continued

(In millions of dollars)

	1976	1977	1978	January to June 1978	January to June 1979
9. Honey.....	.2	.2	.2	.1	1.7
10. Animal hair.....	3.2	4.0	4.0	3.2	1.7
Subtotal.....	43.5	51.9	66.0	36.9	31.9
Other agricultural imports.....	12.9	15.9	18.7	9.7	9.8
Total agricultural imports.....	56.4	67.8	84.7	46.6	41.7

Source: U.S. Census Bureau, IM-145, magnetic tape.

STATEMENT OF ROBERT C. CASSIDY, JR., GENERAL COUNSEL, OFFICE OF THE SPECIAL
REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. chairman and members of the subcommittee, it is a pleasure for me to submit this statement on behalf of the Office of the Special Representative for Trade Negotiations, in favor of the Agreement on Trade Relations between the United States of America and the People's Republic of China. STR supports this Agreement because it meets the requirements of Title IV of the Trade Act of 1974 as well as the objectives of Section 2 of the Trade Act by opening up opportunities for U.S. commerce in a nonmarket economy, while providing adequate import safeguards for American industry and labor.

I would like to take this opportunity to reiterate what my colleagues from the Department of State and Commerce have stated this morning. The conclusion and implementation of the Trade Agreement with the People's Republic is of both economic and political importance to the United States. The Agreement represents an integral step in the process of normalization of our relations with the People's Republic. At the same time the Agreement represents the cornerstone for an expanded, mutually beneficial commercial relationship between the United States and China in the future.

STR Shares the view of the Department of Commerce that with the implementation of the Agreement, trade between the United States and the People's Republic should grow significantly. The Trade Agreement provides for the extension of non-discriminatory treatment to American companies and goods by the Chinese. It also includes a commitment on the part of the Chinese to bases import decisions on commercial considerations in accordance with customary international trade practice. As a result, U.S. firms should no longer be at a disadvantage in the Chinese market.

With the extension of most favored nation (MTN) status to the People's Republic, imports from China should be expected to increase as well. However, STR strongly believes that the provisions of the Agreement contained in Article VII together with vigorous enforcement of our trade laws, such as Section 406 of the Trade Act of 1974, will insure that the expansion of our trade with the Chinese will be orderly and will not subject American industry and labor to sudden, unfair or disruptive import competition.

When Reorganization Plan #3 becomes effective, the Office of the United States Trade Representative (USTR) will play a central role in the future development of economic relations between the United States and the People's Republic of China. Too often in the past, U.S. trade policy has suffered from a lack of effective coordination in both its formulation and implementation. The President's Reorganization Plan addresses these problems by establishing USTR as the office with the primary responsibility for coordinating the development and implementation of East-West trade policy and conducting East-West trade negotiations.

In order for economic relations between the United States and the People's Republic of China to grow and develop as we desire, future U.S. trade policy vis-a-vis China must be thoughtfully conceived and well coordinated. The implementation of the U.S.-China Trade Agreement is the first step in this process, and once in which USTR in its new role in East-West trade policy, will actively participate.

I would like to turn to an issue, which though not directly related to the Trade Agreement affects the totality of U.S.-Chinese economic relations and accordingly is of concern to STR. I refer to U.S.-China textile trade.

First, I would like to present a brief history of the Administration's efforts to resolve the problem of increased textile imports from the People's Republic. The

Administration initiated informal textile consultations with Chinese officials in the late summer and fall of 1978. At that time, we pointed out the rapid rate of growth of textile imports from China and expressed our concern that these imports were shifting to some of the most import sensitive apparel product categories. Consequently, we alerted the Chinese that should this trade continue to develop unabated, we would have to take action either through negotiation of a bilateral agreement or through unilateral measures to prevent disruption of our market.

The Chinese responded that our relatively high non-MFN duty rates were an adequate restraint of their textile trade. They also stated that, considering the size of their domestic textile industry and the short period in which their textile trade with the United States had been allowed to develop, the market share of Chinese textile imports in the United States is relatively small.

With the normalization of relations, the United States and China entered into formal negotiations on a bilateral textile agreement. During these negotiations, the United States requested specific limits, that is quotas, on a number of product categories and the creation of a consultative mechanism to address future problems should disruptive trade develop in other product categories. The Chinese objected both to the number of specific limits we were seeking and to the proposed levels of these limits. After four unsuccessful rounds of formal negotiations, twice in Washington and twice in Beijing, the United States on May 31, 1979, imposed unilateral restraints, under Section 204 of the Agricultural Act, on five apparel product categories—cotton gloves, cotton knit blouses, cotton knit shirts, cotton trousers, and man-made fiber sweaters. At that time, we expressed to the Chinese our wish to continue to seek a mutually satisfactory solution. However, in the absence of a bilateral agreement, we were compelled to take unilateral action to prevent market disruption in the United States.

Since May, the United States and China have held two informal rounds of discussions. The purpose of these discussions was to determine if the substantial differences between the two sides, particularly with regard to levels in some of the most sensitive product categories, could be narrowed enough to resume formal negotiations with the expectation of reaching an agreement. Unfortunately, while there was some movement, there remained no realistic possibility of achieving a mutually satisfactory agreement.

In the interim, Chinese imports in two additional sensitive product categories—woven cotton blouses and coats of man-made fibers—have developed to the point of causing or threatening market disruption in the United States. Consequently, on October 29 the United States announced unilateral restraints limiting imports from China in these two categories.

Currently, we do not have any further consultations scheduled with the Chinese. However, we seek a bilateral agreement and would be prepared to resume negotiations if there appears reasonable expectations of success—expectations which are not apparent at present.

This completes the historical record of our textile discussions with China. I believe that this record demonstrates our serious efforts to achieve a bilateral agreement. Until we reach agreement with the Chinese, we will continue to take firm action, consistent with the Administration's Textile Program.

When it became apparent that a bilateral agreement on satisfactory terms was not possible, we took effective unilateral action to prevent market disruption. This option has always been available to us and was discussed as such with industry/labor advisors. Unilateral action is, of course, an effective way of addressing the problem of market disruption, as the support of industry and labor for this action demonstrates.

Prior to sending the Trade Agreement to Congress, this Administration made a commitment to take further appropriate measures consistent with the Textile Program to prevent disruption in the U.S. market in the absence of a textile agreement with the Chinese. The actions taken on October 29 clearly demonstrate our resolve to honor this commitment.

It is the Administration's view, supported by industry and labor leaders, that this policy is in the best interest of the United States.

In sum, STR sees no need to delay passage of the Trade Agreement. The Agreement clearly advances the mutual goals of the Congress and the Administration as spelled out in the Trade Act of 1974, and STR urges the Subcommittee to give this Agreement its approval.

STATEMENT FOR THE RECORD BY GARY C. HUFBAUER, TREASURY DEPUTY ASSISTANT
SECRETARY FOR TRADE AND INVESTMENT POLICY

Mr. Chairman, I am honored to join in support of the U.S.-China Trade Agreement. Approval of this Agreement will lay the basis for the expansion of our commercial ties with China and will allow us to build upon the important political foundations laid in the past ten months.

During former Secretary Blumenthal's visit to China we established a U.S.-China Joint Economic Committee to oversee the orderly development of our economic relations. This Committee will meet in 1980 under the chairmanship of Secretary Miller and Chinese Vice Premier Yu Qiuli. Treasury also led the negotiations which resulted in the claims/assets agreement. In accordance with this agreement the Chinese made their first payment of \$30 million to the U.S. on October 1, and vouchers were sent out to certified U.S. claimants two weeks ago.

Regarding the Trade Agreement, the U.S. has negotiated one of the most comprehensive trade agreements China has yet signed. It provisions for trade promotion, business facilitation, patents and copyrights, and resolution of bilateral trade problems, provide the critical legal framework for expanding our commercial ties. Passage of this Agreement is crucial to the completion of economic normalization.

Since the political and economic aspects of this Agreement are being discussed by Deputy Secretary Christopher and General Counsel Haslam, I will briefly address China's foreign trade and external financial position.

China's pursuit of ambitious modernization goals, even amid recent scaled-back targets, relies heavily on imported capital goods and technology. Reflecting this trend, China's total foreign trade has greatly increased during the 1970s, from approximately \$6 billion in 1972 to more than \$20 billion in 1978. We expect China's foreign trade in the next few years to continue to grow rapidly. Imports for 1979 are expected to approach the \$15 billion mark, up from \$11 billion in 1978, and annual imports could rise to \$40 billion by 1985. U.S.-China trade, however, accounted for only 6 percent of China's total two-way trade in 1978. Japan leads as China's main trading partner, accounting for 25 percent of China's foreign trade, followed by Hong Kong with 11 percent and West Germany at 6 percent. Long-term trade agreements and other commercial agreements with the United Kingdom, France, Japan, Canada, Italy and Germany should ensure a continued expansion of China's foreign trade.

In the past, China's foreign trade, although significantly less than it is today, has remained approximately in balance. The recent surge in imports, however, has swung China's trade balance from a \$1.5 billion surplus in 1977 to a \$255 million deficit last year. To pay for the expansion of imports China will need to increase its hard currency earnings. Over the long run, China hopes to finance its import needs by expanding exports. To achieve this the Chinese are focusing on increasing the production of exports and improving their quality and competitiveness in Western markets. In the interim, however, China is turning to foreign borrowing.

In recent months China has negotiated between \$23 and \$30 billion in credit lines. Although 20-30 percent of these credits are from private sources, China has concentrated primarily on obtaining official government financing. To date China has negotiated officially supported export credits with France for \$7 billion, Great Britain for \$5 billion, Canada for \$1.9 billion and Italy for \$1 billion. Other export credit loans are currently under discussion. In addition, Japan and China have agreed on an untied \$2 billion resource development loan, to be financed by Japan's Export-Import Bank and, most recently, China has approached Japan for approximately \$3½ billion in aid loans to finance nine development projects. In order to avoid excessive official credit competition, we remain insistent that all official export loans offered to China as well as to other countries, should meet the terms and spirit of the International Arrangement on Export Credits.

U.S. financing in China's trade has in the past been relatively insignificant. In the private sector, many foreign competitors preceded U.S. banks in the China market. Nonetheless, we have moved quickly to make up for lost time in this market. In the past year over 30 U.S. banks have established full correspondent relations with the Bank of China and at least \$28 million in U.S. private credits has been made available to China. In addition, we are pleased to learn that the Bank of China, which currently has branches in London, Singapore, Hong Kong and Luxembourg, is considering opening an office in New York.

In terms of official export credit financing, the U.S. lags considerably behind other countries. If U.S. exporters are to be competitive with foreign exporters in this extremely important market for Western goods, then it is imperative that the U.S. Government also make available appropriate export financing. To meet this need, we must offer competitive export financing from the Export-Import Bank. As you

are aware, the Vice President recently advised the Chinese that we are prepared to make available a credit arrangement up to a total of \$2 billion over a 5-year period on a case-by-case basis, and will consider additional credits as developments warrant them. The terms and conditions of these credits will, of course, be competitive, and consistent with the International Arrangement on Exports Credits. Since approval of the U.S.-China Trade Agreement is a prerequisite for Eximbank financing it is also necessary to ensure effective competition for American exporters in the China market.

China's use of foreign borrowing to finance its imports of capital goods and technology will undoubtedly increase its hard currency debt. We are confident, however, that with prudent financing and a continued export push, China will be able to finance its import requirements. China has traditionally pursued a course of cautious and prudent financial management and we expect this to continue. We also have noticed that China's current debt service ratio is very low, approximately six percent, and that China has drawn very little on its recently negotiated lines of credit.

In closing, I would like to emphasize that we believe the Trade Agreement will mark a most important step forward in the normalization of our economic relations with China. The Treasury Department therefore strongly urges approval of this Agreement which will provide the basis for expanded commercial and financial relations with China so that the interests of both countries will be better served.

Senator RIBICOFF. Our next witness is Mr. Cord Hansen-Sturm, Chairman of the China Committee, National Foreign Trade Council, Inc.

Mr. Sturm, you may proceed.

STATEMENT OF CORD HANSEN-STURM, CHAIRMAN, CHINA COMMITTEE, NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. HANSEN-STURM. Thank you, Mr. Chairman and members of the subcommittee.

My name is Cord Hansen-Sturm, Vice President of the American Express Company and I am appearing here in my capacity as Chairman of the China Committee of the National Foreign Trade Council.

The membership of the National Foreign Trade Council which was founded in 1914, comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment including manufacturers banks and services.

The National Foreign Trade Council welcomes the conclusion of an Agreement on Trade Relations between the United States of America and the People's Republic of China. It regards the signing of such Agreement on July 7th as an essential factor in the normalization of commercial relations between the two countries.

The council urges approval of this agreement, article 2 of which grants the extension of nondiscriminatory treatment to the products of the PRC, in accordance with section 405(c) and the procedure set forth in section 151 of the Trade Act of 1974.

The council also welcomes the procedures agreed upon in this agreement to facilitate and promote trade between the two countries, exchange of information, the settlement of disputes, and the protection of patents, trademarks and copyrights.

We hope that the implementation of this agreement will lead to the availability of export-import credits to finance export sales, thus making American companies more competitive with Japanese and West European industries where comparable institutions assist their exporters in the financing of large sales. There is growing evidence that U.S. firms are unable to secure domestic financing for such sales.

There is a wide gap between current restrictive trade policies of the United States, vis-a-vis the PRC, and those of other leading industrial countries; they extend MFN and export credits in trade relations with the PRC. Consequently, the United States is at a trading disadvantage.

If the United States is to reduce the trade deficit, it is essential that the flow of exports of U.S. goods and services be increased. In our opinion, this agreement will open up a substantial new market for exports of U.S. goods and services at a time when continued trade deficits have made export expansion a necessity.

Senator RIBICOFF. Thank you very much.

Our next witness is Ms. Amy Young-Anawaty, Executive Director, International Human Rights Law Group.

**STATEMENT OF AMY YOUNG-ANAWATY, EXECUTIVE DIRECTOR,
INTERNATIONAL HUMAN RIGHTS LAW GROUP**

Ms. YOUNG-ANAWATY. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate the opportunity to appear today before you. I am testifying on behalf of the International Human Rights Law Group, a nonprofit, public interest law firm established by the Procedural Aspects of International Law Institute in September 1978 with the assistance of grants by the Ford Foundation and the Rockefeller Brothers Fund.

The Law Group, assisted by its Advisory Board of distinguished international lawyers and scholars, as well as by concerned lawyers from the D.C. Bar, seeks to promote international human rights law and procedures. A full statement of our purposes and programs can be found in previous testimony before this subcommittee on the subject of most-favored-nation trading status for Romania, and will be submitted to the subcommittee on request.

One of the fundamental concerns of the Law Group is the international observance of human rights norms. Thus, we cooperate with and assist other nongovernmental organizations such as Amnesty International in monitoring human rights violations and utilizing national and international legal procedures for their redress.

In prior testimony, the Law Group has urged suspending trade benefits accorded to Romania until that country improved its record of observing the human rights of its Hungarian minority. This position is based on our belief that the actions of the Romanian Government breach the spirit of United States human rights policy as embodied in the Jackson-Vanik amendment.

Today, our message is different. Today we concur with the administration that nondiscriminatory treatment for the People's Republic of China would be desirable and beneficial for both the United States and China. We urge the Senate, however, to proceed with the caution in granting most-favored-nation trading status to China until assurances have been received that China's observance of human rights comports with international norms.

The United States often has used its trade relationships to accomplish foreign policy objectives: witness the trade embargoes imposed upon Cuba, Rhodesia, Uganda and more recently the oil embargo with Iran.

In enacting the Jackson-Vanik amendment the Congress has sought to withhold beneficial trade relations until it has evidence

of increased respect for human rights and in particular the freedom to emigrate, within Eastern bloc countries.

We wish to emphasize the fact that the United States is still in a position to use special trade relations as a bargaining device to ensure respect for human rights. Clearly, the time to insist on respect for human rights in China as a quid pro quo for trade benefits is before the bargain is sealed and the trade agreement is implemented.

The reason for our concern is that so little is really known about the situation of human rights in China. Although the President in his letter to the Congress suggests that he has received assurances from senior Chinese officials with regard to freer emigration and the reunification of families, these assurances as yet lack specificity.

Assistant Secretary of State for Human Rights, Patricia Derian, in a speech before the American Branch of the International Law Association on November 10th remarked that our relations with China were so new that the United States simply did not have enough indicators to be able to judge China's adherence to international human rights norms.

We do know that on 29 September 1972 the People's Republic of China stated in a letter to the United Nations Secretary-General that all human rights treaties signed and ratified by the government on Taiwan would not be recognized until they were examined by the government in Beijing.

As of August 1979, China has not officially recognized any of those agreements. Surely, at a minimum, the stipulation could be made that the present government honor international human rights obligations and consider, as the United States currently is considering, ratification of those international human rights treaties already signed.

Although the United States has no clear picture of the human rights situation in China, news reports have given some indication of their precarious state. While from May to September, news accounts touted the new surge of liberalization in China as evidenced in demonstrations, attacks on the government in the Chinese press and the famous poster appearing on "democracy wall," recent setbacks appear to undermine those gains.

Human Rights violations as reported in Amnesty International's 1978 report on "Political Imprisonment in the People's Republic of China," as well as reports of the infamous torture prison at Qin Cheng and most recently the closed trial of dissident leader Wei Jingsheng raise serious questions about China's commitment to human rights.

In conclusion, while we essentially favor trade connections with China, we urge the Senate to seek assurances that such trade relations do not compromise United States human rights policy. Although China's emigration practice may be exemplary, as shown by Deng Xiaoping's statement that Beijing would allow ten million people to leave the country at any time, the adequacy of its overall human rights record is far from apparent.

We believe the Jackson-Vanik amendment, although focused on free emigration, was designed by Congress to be a window through which the United States could view its trading partners' regard for

human rights. As Congressman Vanik, one of the architects of the Jackson-Vanik amendment, stated in hearings before the House Subcommittee on Trade last July 9, "The Jackson-Vanik amendment covers the whole spectrum of human rights."

Establishing a new trade relationship with China thus presents the United States with a singular opportunity clearly to signal an even-handed policy free from arbitrary distinctions and applicable to all our trading partners.

To articulate that policy specifically, it is that the U.S. does not target only certain human rights violators or certain human rights violations, but demands adherence to minimum international human rights standards by all those who seek trade concessions with the United States.

We hope the Senate will see the political wisdom of seizing this opportunity to make this statement.

Senator RIBICOFF. Thank you very much. I have no questions.

Senator Dole has a statement for the record which will be inserted therein.

[The material referred to follows:]

STATEMENT OF SENATOR BOB DOLE AT HEARINGS ON THE PEOPLES REPUBLIC OF CHINA TRADE AGREEMENT

Mr. Chairman, I am pleased that we have this opportunity to hear Senators Jackson and Stevenson, the Administration and some members of the public on the subject of the proposed trade agreement with the Peoples Republic of China. I only regret that competing demands on the time of the Finance Committee, including our consideration of the so-called windfall profits bill on the Senate floor, does not give us more time to explore a difficult subject.

Like most of my colleagues, I hope to be able to support this agreement when it comes to the Senate floor. I think that conclusion of the trade agreement will benefit our own export interests. I was encouraged by Chinese statements to Bob Bergland indicating that our grain farmers can expect a significantly larger and more stable market in China for our wheat and corn, perhaps five to six million tons per year. There are also excellent prospects for cotton, soybean and perhaps other farm exports. On the industrial side, Chinese modernization plans should create an excellent opportunity to American industries like drilling equipment, transportation, telecommunications, power generation and others. While some of these benefits might happen without this agreement, I recognize that the Chinese are quite capable of turning to other markets.

But, I think we must also be cautious, Mr. Chairman, that there are potential problems in such a new trade relationship. Imports from China can be a problem. Some Chinese products, such as textiles and clothespins, have already created problems for our domestic industry, necessitating import restrictions. As the Chinese move into other industries, their exports may displace domestic businesses and jobs, or cut into the market of other developing countries friendly to the United States. The absence of market discipline over Chinese price and production policies creates particular risks to our free market industries and the President must be prepared to act fairly and firmly.

We must also be realistic about our export opportunities. There is some vagueness and hedging of the protections in this agreement, which hopefully would be remedied in time. We face substantial competition for the Chinese market from our Japanese and European allies. I hope the administration will ensure that such competition does not degenerate into a trade or credit war, which chiefly would benefit the Peoples Republic of China. We must also be cautious about apportioning an excessive share of government export credits to a new trading partner.

I also share my colleagues concerns about assurances regarding emigration practices of the Peoples Republic of China. To this point, the human rights and emigration record of the Peoples Republic of China has received relatively little attention in this country, but I think this may be because Chinese society has been so closed to the West. Fair application of our law and our commitment to human rights demands that we in Congress monitor carefully the Chinese situation.

I would note that in my view the PRC's actions towards Taiwan are a proper part of our review of the record. If we enter into this trade agreement, I believe the Congress and the Administration should make clear that attempts to use force or to boycott Taiwan will lead immediately to suspension of the agreement and the withdrawal of waiver authority.

I look forward to hearing the views of our distinguished group of witnesses.

Senator RIBICOFF. The subcommittee stands adjourned.

[Whereupon, at 12:30 p.m. the subcommittee adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF DEERE & CO., MOLINE, ILL.

Deere & Company is a farm and industrial equipment manufacturer with headquarters in Moline, Illinois. Our worldwide sales during fiscal 1978 were \$4.15 billion. Our fiscal 1979 worldwide sales were approximately \$4.95 billion. We strongly support approval by the Congress of the Trade Agreement between the United States and the People's Republic of China.

Our Company's principal experience in trade and other economic matters is concentrated in the agricultural sector of the economy, where we have participated as a manufacturer for 142 years. We would like to comment on the Trade Agreement between the United States and the People's Republic of China (the PRC) from that perspective.

Agriculture and its related enterprises—transportation, processing, distribution, retailing and exporting—now generate about one-fifth of all the jobs in this country. Growth in this industry over the past 10 years has been based largely on expanding international trade. During this period, while the U.S. share of the world markets for all exports was declining from about 23 percent to 14 percent, the U.S. share of all world agricultural trade rose from 13 percent to 17 percent. Agricultural exports now represent about one-fifth of all U.S. exports.

Since the 1950's, as the agricultural equipment industry in this country has become a more mature one, Deere & Company's interest in international sales has also been increasing. Our future growth in sales, earnings and job creation, and our future contribution to the U.S. economy now depends to a much greater degree than in the past on our ability to penetrate overseas markets. Increased foreign sales are therefore crucial both to the agricultural economy and to many more mature U.S. industries like our own. They are also crucial to a sound U.S. economy.

During the same time that export sales have become more important to agriculture, its related enterprises, and the U.S. economy generally, competition for worldwide markets has become more intense. As a result, the importance of competitive government financing programs—such as the Eximbank and Commodity Credit Corporation programs—has increased significantly. Financing has become a crucial part of nearly all international transactions of significant size.

It is within the overall perspective outlined above that we urge your support for the Trade Agreement between the U.S. and the PRC. It is clear that China provides a major and expanding market for U.S. businesses as well as for our foreign competitors. The U.S. is significantly behind its major competitors in developing this market. (Exhibit No. 1) According to the U.S.-China Trade Council, in terms of the exports of industrialized countries to the PRC, Japan has accounted for about half of all sales, followed by Germany, Canada and France. The U.S. lags far behind. Moreover, when U.S. commodity exports are ignored, the total impact of U.S. sales to China is hardly significant at all. (Exhibits No. 1 and No. 2)

U.S. exports of agricultural commodities to the PRC have fluctuated greatly year by year as a result of weather affecting China's ability to produce sufficient food to meet its needs. In addition, China is actively seeking to improve the diet of the Chinese population, which is causing it to increasingly turn to the world market for agricultural commodities. From the time direct trade between the U.S. and the PRC resumed in 1972 through this past year, approximately \$2 billion of agricultural commodities has been sold to the PRC. This is an average of nearly \$300 million per year. Needless to say, many U.S. farmers are hopeful that we can develop a climate in which such purchases will be continued and substantially increased.

From a farm machinery standpoint, we can only speak of our own experience, which we feel has been mutually beneficial to the PRC and ourselves. We have sold approximately \$3 million of farm machinery to China during the past several years. We are continuing to develop our relationships with the Chinese and are hopeful that additional purchases will result in the future as mechanization of large farms

in northeast China continues. Naturally, however, large scale business relationships with China will take time to develop.

The passage of the Trade Agreement between the U.S. and the PRC will furnish U.S. businessmen and agricultural enterprises with important practical tools which will allow us to become more competitive in China's markets. For example, large sales of U.S. manufactured machinery may require the favorable credit terms which can be provided by Eximbank programs. Similar government-guaranteed credits have been available to Japanese companies for sales to China since 1973. West European exporters to China also have had access to government backed credits, insurance and guarantees. The U.S.-China Trade Council reports that government-guaranteed export credits of over \$13 billion have so far been offered to China by Britain, France, Italy and Japan. In today's highly competitive world markets, it is critically important that we be able to match the credit terms offered by our overseas competitors.

Similarly, large commodity sales may require the favorable credit terms which can be provided by Commodity Credit Corporation programs. When worldwide commodity surpluses exist it will be important that we be able to match the credit terms offered by our overseas competitors in this area. The PRC will be eligible to participate in the Eximbank and Commodity Credit Corporation programs if the PRC Trade Agreement is approved.

In numerous sales negotiations with us, representatives of various ministries within PRC have made it clear that they prefer to do business with trading partners who do not discriminate against their own sales by imposing high import duties. This is an understandable point of view, particularly in light of the PRC's need for additional foreign exchange to pay for its increasing imports. The lower U.S. import duties for Chinese products which the Trade Agreement will allow will remove this deterrent to expanded U.S. exports.

In addition, we understand that clauses in the Agreement provide protection of U.S. patents and trademarks equivalent to that offered by our own government. We consider this a necessity to protect John Deere proprietary technology which has taken many years to develop.

There is a broader significance to the Agreement as well. An economic and trading climate which lets each nation carry out the economic activities which it conducts most efficiently benefits the U.S. as well as the rest of the world. Also, fostering an international climate of cooperation, rather than confrontation, should be a concern to all of us. This Agreement makes such a climate more possible.

The basic trading relations now being developed between the U.S. and China are of fundamental importance. We believe they will have a highly significant impact on basic trading patterns for many years to come. Therefore our trading terms during this period must be competitive with those of other industrialized nations of the world. Most importantly, however, our trading relationships must be built upon a foundation of respect and mutual benefit. The Trade Agreement between the U.S. and the PRC allows us to take an important step towards reaching these goals.

WHAT CHINA BUYS FROM SIX MAJOR TRADE PARTNERS

The table below lists Chinese imports during 1978 by origin as well as by products. The data come from the various supplier countries. It should be noted, however, that different nations report their exports in different ways, i.e. they group them into categories that are not necessarily comparable. An effort has been made to place the same goods into the same categories, but this is obviously not possible in all cases. For example, it should not be concluded from the table that only the UK among the six countries supplies telecommunications equipment or industrial machinery to the People's Republic. Chances are that such equipment and machinery is also sold by, for example, the US, France, Germany, and Japan to Peking. However, those countries might list such items under categories like nonelectric machinery and equipment or electrical machinery and equipment.

Nevertheless, the principal sources for Chinese buying of major items become clear from the table. Thus, it is evident where China purchases most of its chemical fertilizer, iron and steel, or synthetic fibers.

EXHIBIT NO. 1

[Fob, in millions of U.S. dollars, 1978]

	Japan	United States	France	Germany	Italy	United Kingdom
Chemical fertilizers.....	166.6	35.0	62.0	(¹)	33.8	(¹)
Organic chemicals.....	112.8	(¹)	(¹)	31.0	11.5	7.1
Artificial resins, plastic materials.....	90.0	(¹)	(¹)	15.6	9.9	2.5
Dyes and tints.....	(¹)	(¹)	(¹)	27.1	(¹)	5.8
Other chemicals.....	73.4	(¹)	52.0	84.3	10.0	9.2
Metal products.....	(¹)	(¹)	(¹)	7.9	(¹)	(¹)
Iron, steel, etc.....	1,656.6	(¹)	406.0	535.7	45.5	41.5
Aluminum.....	(¹)	(¹)	63.0	(¹)	9.4	(¹)
Nonferrous metals.....	(¹)	(¹)	(¹)	32.7	(¹)	(¹)
Other iron and steel products.....	32.4	(¹)	(¹)	(¹)	9.0	(¹)
Synthetic fiber.....	64.7	44.3	10.0	22.5	(¹)	14.9
Synthetic thread.....	32.9	(¹)	(¹)	(¹)	(¹)	3.2
Rayon thread.....	23.3	(¹)	(¹)	(¹)	(¹)	(¹)
Other textile goods.....	77.0	(¹)	(¹)	(¹)	(¹)	(¹)
Nonelectric machinery, equipment.....	237.3	(¹)	100.0	99.1	(¹)	(¹)
Electric machinery, equipment.....	62.5	(¹)	42.0	38.0	(¹)	1.0
Transport equipment.....	297.2	(¹)	14.0	99.0	10.4	29.3
Instruments.....	41.4	(¹)	38.0	9.4	(¹)	9.2
Diesel engines.....	(¹)	4.5	(¹)	(¹)	(¹)	(¹)
Oil drilling equipment.....	(¹)	44.5	(¹)	(¹)	(¹)	(¹)
Power generating equipment.....	(¹)	(¹)	(¹)	(¹)	(¹)	26.7
Industrial machinery, equipment.....	(¹)	(¹)	(¹)	(¹)	(¹)	5.3
Metal working machinery.....	(¹)	(¹)	(¹)	(¹)	(¹)	1.9
Telecommunications equipment.....	(¹)	(¹)	(¹)	(¹)	(¹)	5.2
Office equipment.....	(¹)	(¹)	(¹)	(¹)	(¹)	0.9
Food products.....	(¹)	(¹)	(¹)	11.4	(¹)	(¹)
Wheat.....	(¹)	250.2	(¹)	(¹)	(¹)	(¹)
Cotton.....	(¹)	157.3	(¹)	(¹)	(¹)	(¹)
Corn.....	(¹)	111.7	(¹)	(¹)	(¹)	(¹)
Soybean oil.....	(¹)	26.1	(¹)	(¹)	(¹)	(¹)
Soybean oil.....	(¹)	15.3	(¹)	(¹)	(¹)	(¹)
Tallow.....	(¹)	11.7	(¹)	(¹)	(¹)	(¹)
Sugar.....	(¹)	(¹)	36.0	(¹)	(¹)	(¹)
Other and miscellaneous goods.....	79.7	117.6	67.0	32.3	49.0	11.1
Total.....	3,048.7	818.2	890.0	1,046.0	188.3	174.8

¹ Nil or negligible, but possibly also different categorization by the exporting country.

Source: Jetro; China Business Review; Centre Français du Commerce Extérieur; Ausweertiges Amt; Informations économiques et commerciales; Statistica mensile del commercio con l'Estero; La Documentation Française; BC.

EXHIBIT NO. 2.—U.S. EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA, 1972-78

[In millions of U.S. dollars¹]

	1972	1973	1974	1975	1976	1977	1978	Total 1972-78 (in percent)
Agricultural commodities.....	61	628	668	80	0	64	573	2,074(68)
All other exports.....	2	112	151	224	135	107	251	982(32)
Total U.S. exports.....	63	740	819	304	135	171	824	3,056(100)

¹ Commerce Department data.

STATEMENT OF AMERICAN IMPORTERS ASSOCIATION

This statement is submitted by the American Importers Association, a non-profit organization formed in 1921 to represent the common interests of the United States importing community. AIA is the only association of national scope not limited to

specific commodities or product lines. As such it is the recognized spokesman for American companies engaged in the import trade.

At present, AIA is composed of nearly 1,300 American firms directly or indirectly involved with the importation and distribution of goods produced outside the United States. Its membership includes importers, exporters, import agents, brokers, retailers, domestic manufacturers, customs brokers, attorneys, banks, steamship lines, insurance companies, and others connected with foreign trade.

AIA strongly supports Congressional approval of the United States-People's Republic of China trade agreement and the grant of most-favored-nation status to the People's Republic of China.

Nondiscriminatory tariff treatment should be extended to China for many reasons beyond the basic desire to facilitate and increase our commerce with an important developing nation. First among these reasons is the symbolic significance of including the People's Republic of China among the nations now receiving MFN treatment—a status grant implying that both parties have a serious attitude toward trade conducted solely on a commercial basis.

It is not necessary to succumb to the centuries old belief that China is a market of nearly a billion persons all eager to buy American consumer products to argue that China's trade is important to this country. The basic proposition that we must buy our trading partner's products so that they can afford to buy our exports is particularly relevant to China as a newly emerging trading nation. China has a great desire to obtain technology, commodities, and manufactures but has not yet accumulated the reserve of foreign exchange needed to make those purchases. To this end, United States-Chinese commerce must be stimulated to move beyond trade in relatively insignificant consumer items and apparel on their part and an occasional grain or airliner sale on ours. The Chinese have raw materials which we need, and, given the opportunities presented by the U.S. market, they are likely to rapidly acquire the expertise and sophistication to be able to offer many more useful manufactured products. The result of our purchases will be a Chinese ability not only to afford to buy from the United States but an increased degree of development that will expand the range of American-produced items which they can utilize domestically. It is clear that the Chinese are ready to engage in more sophisticated trade. If we do not open our markets by granting MFN status, they have only to look elsewhere. Clearly we have already lost commercial opportunities to other major trading nations; we cannot afford to delay longer the initiation of significant trade with China.

Extending the opportunity to develop a substantial commercial flow between China and the United States also will assist their national development and further their involvement in the world community; both are steps of mutual political as well as commercial advantage.

The Chinese historically have been good traders and have developed a reputation as reliable, straightforward participants in commerce. Trade between China and the United States has grown since 1971 even without MFN privileges partly because American businessmen knew they could rely on the Chinese and partly because the government of the People's Republic wished to demonstrate its desire that this reputation should be preserved intact. That government has further indicated its willingness to adapt its practices and laws to international commercial necessities and realities. China has shown its readiness to trade; the United States should remove the unnecessary obstacle of a lack of MFN status so as to encourage that trade.

AIA sees no reason—either political or commercial—to reject this agreement. In the course of developing a mature trading relationship with China, issues of dispute will arise; some have already appeared. AIA believes that the proper solutions to these issues will be found more easily in the context of ongoing trade and common understandings of trade realities and the political and business dynamics of each country.

AIA urges prompt approval of the United States-Chinese trade agreement by the Congress.

GERALD O'BRIEN,
Executive Vice President.

STATEMENT BY NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION

The National Machine Tool Builders' Association is a national trade association representing over 370 American machine tool manufacturing companies which account for approximately 90 percent of the United States' machine tool production.

Although the total U.S. machine tool industry employs approximately 100,000 people with a combined annual output of around \$3 billion, most NMTBA member companies are small businesses with payrolls of 250 or fewer employees.

While relatively small by some corporate standards, American machine tool builders comprise a very basic segment of the U.S. industrial capacity, with a tremendous impact on America.

We welcome this opportunity to comment on the bilateral trade agreement between the United States and the People's Republic of China (PRC) signed on July 7, 1979, which provides for reciprocal non-discriminatory treatment of each country's products, including most-favored-nation (MFN) treatment for products from the PRC. We hope that our observations and comments, based upon recent extensive experience in the Chinese market on behalf of our members, will be valuable to the deliberations on the trade agreement now before this Subcommittee. Moreover, we would hope that upon concluding these hearings, this Subcommittee would recommend swift Congressional approval of this important new trade relationship.

NMTBA and its member companies have devoted considerable time and effort to increasing exports.

NMTBA, on behalf of the American machine tool industry is devoting its own resources to the development and maintenance of international markets everywhere in the world. The Association has three people who spend virtually their full time overseas promoting United States machine tool exports.

In November of 1975, NMTBA's International Marketing Director led a nineteen-man machine tool industry delegation on what was only the second United States IOGA (Industry Organized Government Approved) trade mission to the PRC. Since this initial American machine tool industry venture into the large and expanding Chinese market, NMTBA has sponsored and led three additional IOGA trade missions to the PRC, with another planned for April, 1980.

NMTBA has also been the official host for three buying missions by delegations from the PRC. One of these groups toured NMTBA's International Machine Tool Show in Chicago last year, and another PRC buying delegation anticipates attending the 1980 Show.

Prior to normalization, China's foreign trade corporations were reluctant to purchase from the United States. Now, however, in striving for modernization China must import a wide range of capital equipment and technology, some of which can be obtained from the United States on competitive terms.

Beginning in 1975, total U.S. exports to China increased from approximately \$300 million in that year to over \$800 million by 1978, with the total trade balance for those years overwhelmingly in the United States' favor. Notably, during this period machinery and transportation exports (a category which includes machine tools) consistently produced U.S. trade surpluses. Moreover, U.S. machine tool exports to the PRC have nearly tripled since 1976, with an enormous potential market yet untapped, providing we are always accepted as a reliable trading partner. (See Exhibit A)

But however promising the current prospects are for expanded U.S.-China trade, attaining a level of commerce even close to the current level of expectations will largely be determined by China's ability to pay and our willingness to finance.

In the many contacts we have had with PRC representatives, we have repeatedly been told that they would generally prefer to buy American made machine tools, but that the United States needs to improve its export financing ability so as to make American machine tool builders more competitive with their foreign counterparts.

One step which would be of immediate benefit would be an increased availability of credit, particularly Eximbank loans, for financing of China trade. To this end, we would urge the rapid settlement of outstanding Eximbank claims against the PRC, so as to pave the way for new Eximbank financing. Moreover, in regard to compliance with the provisions of the Export-Import Bank Act of 1945 concerning such new financing, we strongly recommend, and believe that the above stated trade statistics expressly argue for a Presidential determination that credit extension to the PRC would be in the national interest.

Such Government support of financing, not only with regard to the PRC, but also as it relates to all foreign business, is vitally necessary in order to assure that U.S. manufacturers remain competitive with their heavily government subsidized foreign counterparts.

In conclusion, in addition to vigorously supporting the extension of most-favored-nation (MFN) status and Eximbank credits to the PRC, we look forward to an early Administration request for similar trade normalization with the Soviet Union.

We think the Subcommittee for its interest in this very important trade issue, and appreciate the opportunity to submit this statement.

EXHIBIT A.—TRADE BETWEEN UNITED STATES AND PEOPLE'S REPUBLIC OF CHINA

(In millions of dollars)

Year	Machine tools			Machinery and transportation equipment			Total trade		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1975.....	\$4.7	\$0.1	\$4.6	\$118.8	\$0.3	\$118.5	\$303.6	\$158.3	\$145.3
1976.....	2.1	.2	1.9	65.1	1.3	63.8	135.4	201.9	-66.5
1977.....	3.5	.5	3.0	51.9	.6	51.3	171.3	202.7	-31.4
1978.....	6.0	.3	5.7	93.0	.5	92.5	818.2	324.0	494.2
1979.....	* 3.2	*.1	* 3.1	* 78.7	*.4	* 78.3	* 595.5	* 190.6	* 404.9

*1 Data for first 5 months of 1979.

* Data for first 6 months of 1979.

Sources: U.S. Department of Commerce, Industry and Trade Administration, National Machine Tool Builders' Association, Nov. 1, 1979.

STATEMENT OF PAUL E. JOHNSON, VICE PRESIDENT, CORPORATE DEVELOPMENT, INTERNATIONAL HARVESTER CO.

International Harvester Company strongly endorses the three-year trade agreement signed on July 7, 1979 by the governments of the United States and the People's Republic of China.

International Harvester has a long history of trade with China going back to the turn of the century (a brief history of the Company's trade with China is appended to this statement). In the absence of the full commercial relations that would be established by this agreement, our Company has in recent years sold to Chinese customers equipment not available from countries having full commercial relations with China.

However, these sales were made with great difficulty and would have been much larger if our two countries had had normal trade relations at that time. We are aware that many of our major competitors are companies that are domiciled in countries that have already established full commercial relations with China. This agreement is important because it puts International Harvester and all other U.S.-based companies on an equal footing with their foreign competitors.

We believe that China will be a significant market for the products that International Harvester makes—medium- and heavy-duty trucks, agricultural and construction machinery and gas-turbine generating equipment. China's modernization plans put a high priority on developing agriculture, the transportation system, and the extraction of natural resources, including petroleum.

The needs of these sectors could provide major export opportunities for U.S.-based suppliers of capital equipment. China's interest in these products was recently demonstrated by the purchase of International Harvester agricultural machinery to equip an entire Chinese farm commune and we are preparing a major order for forestry equipment at the present time.

However, in order for China to increase its purchase of U.S.-made goods and services it will have to earn more foreign exchange. The present trade agreement will be a substantial help in this area because it will grant most-favored-nation status to Chinese products coming into the United States.

At the same time, the trade agreement makes available the programs of the U.S. Export-Import Bank for U.S. exports to China. To the extent that Chinese customers will need and desire financial assistance for purchase of foreign goods and services, Eximbank financing will help U.S. companies compete for this business against non-U.S. suppliers.

Finally, we should not lose sight of the fact that, in addition to the purely commercial benefits we expect to flow from this agreement, establishment of normal commercial relations between the United States and China will allow and encourage greater interaction between U.S. businessmen and leaders of Chinese enterprises, as well as officials of both governments. We believe that such interaction tends to break down any remaining barriers of suspicion and misunderstanding, and helps to preserve world peace.

For all of these reasons, International Harvester encourages the Finance Committee and the Senate to approve the U.S.-China trade agreement.

INTERNATIONAL HARVESTER AND CHINA

HISTORY

1899—1st Shipment.

1900—McCormick Harvesting Machine Company shipped 11 cases mowers to Shanghai.

1909—First International Harvester representative arrives in China to undertake the demonstration of McCormick harvesting machines in farming regions along Sungari River and near Harbin, Manchuria. First rice binder with a bundle carrier is dispatched from Chicago.

1913—The representation of International Harvester in China is assumed by agent Kunst & Albers which have offices in Harbin.

1922—International Harvester opens its own office in Harbin and together with its selling agent in Shanghai—Anderson, Meyer and Company—expands and diversifies machinery sales as follows: Reapers 50; Mowers 200; Hay rakes 200; Grain drills 200; Plows 85; Assortment of tractors and miscellaneous implements for trial and demonstration purposes.

1923—International Harvester's Far East office is opened in Kobe, Japan, with jurisdiction over Japan, Korea and China.

1924—Headquarters for China established in Shanghai.

1926—Total sales for China: \$245,000.

1927—Total sales for China: \$331,000.

1928—Total sales for China: \$490,000.

1929—Total sales for China: \$713,000.

1930—International Harvester Export Company appoints A. H. Schweiger as its authorized representative with residence in Harbin.

1945—International Harvester in close cooperation with China's Ministry of Agriculture and Forestry undertakes leadership in sponsoring a long-term agricultural engineering development program. The program provides for exchange of agricultural engineering students and specialists between China and the U.S.A., and assistance in organizing and equipping three major research and experimental institutions in China—National Central University, University of Nanking and National Agricultural Research Bureau. The demonstration units selected are farm machines, tractors, wood and metal working machines of type employed in the current agricultural production in the U.S.A.

1945—First contingent of Chinese fellowship students arrives in the U.S.A.

1947—Four members of the U.S. Committee of Agricultural Engineering leave with their families for China.

1948—After successful participation in a 14-part research program at the National Agricultural Research Bureau, the U.S. Delegation returns to the United States. International Harvester designates Andersen, Meyer and Company to maintain contact with the Chinese authorities in the interest of continuing the programs of education and research successfully initiated.

1973—Inquiry is received for some Hough airport servicing machines in connection with Boeing's aircraft sale to China. Machimpex enters into direct negotiations with International Harvester and orders six T-300 Paymovers.

1974—International Harvester accepts offer extended by the Australian Government to participate at the Australian Trade Exhibition at the Peking Exhibition Center.

1977—The Ministry of Oil and Gas and Machimpex purchase 24 oil rig transport vehicles and three Scouts.

1978—Three agricultural machinery technical seminars held in Peking. Negotiations started on tractor manufacturing project.

1979—Comprehensive order for agricultural machines received for Chen Lang Commune, Luan Chen County, Hebei Province.

1979—Order received for forestry equipment near Tumen.

STATEMENT OF DON FLOWERS, DON FLOWERS FLORIST, INC., ON BEHALF OF FLORISTS' TRANSWORLD DELIVERY

Mr. Chairman and Members of the Committee; My name is Don Flowers. I am a retail florist in Randallstown, Md., appearing today on behalf of Florists' Trans-

world Delivery Association of Southfield, Michigan. With me is Gordon Smith of Hill and Knowlton, Inc., our representative in Washington. FTD supports favorable action on House Concurrent Resolution 204 extending nondiscriminatory treatment to products of the People's Republic of China as provided for in the trade agreement transmitted to Congress by the President on October 23, 1979.

I am a former president of FTD, which is a member-owned cooperative made up of more than 18,000 independent retail florists in the United States, Canada, Latin America, and certain far eastern nations, including Japan. I serve on the board of directors of FTD and Interflora, Inc., an affiliated worldwide organization of florists having some 33,000 members in about 135 countries.

FTD serves as a clearinghouse for the exchange of intercity flower orders between its members, as well as providing marketing, research, education and membership services of a comprehensive nature. Our Special Services Division has purchased florist supplies and giftware in the People's Republic of China since April, 1975. The intercity florist business, or "flowers by wire" as it has been generically known since FTD was founded in 1910, is a substantial part of an FTD member's business, ranging on the average from 15 to 17 percent of a member's annual gross volume. In the fiscal year ended June 30, 1979, FTD "cleared" 17,904,953 member orders with a value of \$315,499,628, a record high for FTD.

In our testimony today, we address ourselves solely to trade relationships as they have developed between the United States and People's Republic of China. As we seek to make clear, the People's Republic of China can make available to the American consumer unique products of high quality not elsewhere available and at competitive prices, providing that a stable and mutually advantageous trading atmosphere exists. We believe that the grant of Most Favored Nation status to the People's Republic of China would help to achieve that goal.

Our organization has been interested in trade with the People's Republic of China since the U.S. Government opened cultural and commercial relationships with that nation in 1973-74, and our business relationships with China have followed this trend in U.S. Government policy. I was a member of one of our first purchasing missions to the Canton (Kwangchow) Export Commodities Fair in April, 1975, and have been generally familiar with FTD activities in this area since that time. FTD is a member of the National Council for U.S.-China Trade and has visited Canton on four occasions in order to purchase merchandise for our members.

This merchandise includes items of jade, porcelain, bamboo and rattan, basketry, cork, and silk flowers. In China we deal with the National Arts and Crafts Import and Export Corporation and have certain exclusive arrangements with other firms who also deal with this Corporation or its component organizations on our behalf. Whereas initially we limited ourselves to importing merchandise displayed at the Canton Trade Fair, we are now broadening our approach to include product development.

We would be glad to furnish more detailed information concerning FTD's trade with the People's Republic of China should the committee wish to have it, but my primary purpose in appearing before you today is to urge approval of H. Con. Res. 204 granting Most Favored Nation status to the People's Republic of China.

We have found our dealings with the China National Arts and Crafts Import and Export Corporation to be very satisfactory. We have been pleased with the availability of desirable consumer products, consistent high quality, and competitive prices when allowance is made for present rates of duty. Many of the products are handmade and highly artistic. Like or similar merchandise is not produced in the United States and is not available at the same level of quality in other foreign countries. FTD member reaction to goods purchased in China has been uniformly good. It is apparent that craftsmen in the People's Republic of China have an artistic bent that is not found in the same degree elsewhere.

If the Congress confers Most Favored Nation status on the People's Republic of China, which would result in decreases in U.S. duties, lower prices to FTD members and to consumers would occur. This is predicated on the assumption that prices in the People's Republic of China would remain near their present highly competitive levels. Not only would FTD be able to pass along savings to its members, but the opportunity to expand our purchasing in China would also be enhanced.

For many years, FTD has searched the world to obtain the best possible products for its members and for consumers. It seems to us that official recognition of the People's Republic of China by the United States should also carry with it treatment in trade and commercial matters extended to other nations. We think that if Most Favored Nation treatment is granted, consumers in this country will benefit. Accordingly, we urge this committee to approve H. Con. Res. 204.

I want to thank you for this opportunity to present this testimony, and I will be glad to try to answer any questions you may have. I have with me a few samples of informational literature distributed to FTD members by our Special Services Division should you care to see it.

STATEMENT OF GENERAL TIME CORP., FOR THE SENATE FINANCE COMMITTEE

SUMMARY

General Time welcomes Most-Favored-Nation trade relations with the People's Republic of China. This grant of MFN status, however, dramatizes the lack of adequate remedies for domestic industry against unfair trade practices by non-market economy countries (including, but not limited to, the PRC).

This Committee should enact a simplified and non-politicized alternative to present dumping laws relating to non-market economies. Such a bill was introduced earlier this week, and General Time strongly supports that measure.

General Time is a major U.S. clock producer, best known for its Westclox and Seth Thomas lines. General Time employs more than 4,500 people in seven States.

General Time welcomes Most-Favored-Nation trade relations with the People's Republic of China. Reciprocal and mutually beneficial trade with the People's Republic of China should serve the interests of both countries. The grant of MGN status to China, however, dramatizes a major problem for U.S. industry in competing with non-market economy producers, namely the lack of adequate remedies against occasional unfair trade practices by those countries, which can set their prices without having to make a profit.

On the eve of a new economic friendship no one wants to emphasize the possibility of unfair trade practices, but it is only realistic to note that non-market exporters have been condemned for dumping in the past, both here and in other Western nations. In our own field, antidumping duties or price assurances are in effect in Great Britain on clocks from China, Russia, Romania, East Germany, Hungary, Poland, and Czechoslovakia, and an antidumping investigation by the entire Common Market is currently under way against clocks from those same countries. General Time has had direct experience with the questionable pricing policies of Russian exporters bringing watches into the United States through the Virgin Islands. And we have encountered evidence in Australia and Canada of Chinese and Russian clocks being sold at extremely low prices, apparently to gain foreign currency. So far, not many clocks from Russia and China have come to the U.S., because of our Column 2 tariff rates. The grant of MFN treatment will make the U.S. market considerably more attractive—especially if a Common Market dumping decision closes off the European market.

This statement is not based on any special fear of Chinese imports or any feeling against the People's Republic of China. China is no different in this respect than Russia or Poland or any other non-market economy. All of them have the ability to export at artificially low prices in order to obtain hard currency, and all of them have done so in the past. However, China has the world's second-largest non-market economy, and it could be the first large non-market country to get MFN treatment from the United States. This is a great opportunity for both nations, but it also poses a great challenge to existing American trade laws. General Time believes that, if this Committee does approve MFN status for China, it should at the same time put in place new and more effective rules for making sure that non-market producers get no special advantage over private firms in the marketplace.

Existing laws against dumping and export subsidies were generally written with free-market countries in mind. They just are not adequate in theory or practice to handle unfair practices by non-market countries. The Executive Branch will not consider a countervailing duty case against those countries, because Government subsidies in such countries are simply too pervasive to measure on a product-by-product basis. Another remedy, section 406 of the 1974 Trade Act, is aimed specifically at non-market countries, but it applies only to surges in the volume of imports from such countries—it does nothing about the steady erosion caused by unfair prices.

Finally, the antidumping laws, as administered, are extraordinarily complex and ultimately ineffective. According to our legal counsel, at last count there were four possible tests that the Administration could use to determine the fair market price of a non-market import in a dumping case, and not one of them was worth much. I will not attempt here a detailed analysis of these four tests or their failings. Many of the flaws are revealed by the *Polish Golf Car* case in which the Treasury has proposed hypothetically moving a Polish golf car factory from Poland—where there

are no golf courses—to Spain—where no golf cars are produced—and then measuring the costs of building Polish golf cars in Spain. With determinations like these, no one can have the slightest idea what the foreign market value for a non-market import will turn out to be. Domestic producers can only sit back and take whatever decision the Executive Branch hands out, while non-market economy countries work through diplomatic channels to get those rules changed or cases handled to ensure that the final result goes their way.

What we need is a simple alternative that will give domestic industries and non-market countries certainty about how to measure fair import prices. Any such measure should make available to domestic industry a relatively straight-forward, inexpensive, and non-politicized procedure for obtaining relief where justified, without depriving American consumers of the advantages of low-priced imports, and without depriving the People's Republic of China—or other non-market countries—of legitimate access to the U.S. market.

It is my understanding that a bill, S. 1966, was introduced last week to provide just such a remedy. The bill would amend section 406 of the 1974 Trade Act to permit the ITC to grant relief against non-market countries charging prices lower than the lowest price charged by any significant free-market producer, foreign or domestic. Relief would be granted only to American industries suffering or threatened with material injury as defined in the recent Trade Agreements Act.

The new bill would permit both importers and domestic industry to determine rather quickly whether a non-market importer is in violation of the law. This in itself would deter many violations. The law would also assure domestic industry that the prices charged here by non-market countries can be met by unsubsidized firms operating in a free-market atmosphere. At the same time, consumers would benefit from an influx of goods at the lowest existing market price.

General Time already competes with low-priced clocks from Singapore, Korea, Hong Kong, and Taiwan. We are confident that we can also compete with clocks from the People's Republic of China or the Soviet Union—so long as those clocks are sold in this country under the same basic rules that we and other free-market producers have to live with. Under these rules, low-priced imports are welcome in this country unless their low price reflects a government subsidy or exploitation of a monopoly position in the home market. General Time and other free-market producers simply cannot compete with subsidized, below-cost prices for very long without going out of business.

It is General Time's understanding that the question of unfair pricing by non-market countries arose several times during hearings on the Trade Agreements Act. The prospect of MFN for the People's Republic of China adds urgency to the search for a solution. If legislation such as that recently introduced is in place when Chinese imports begin to reach our shores, MFN status for China could offer great new opportunities for economic cooperation between the United States and the People's Republic of China. If not, the uncertainties and opportunity for Executive manipulation inherent in our present trade laws may soon cause disputes which would make our trade relations with China less comfortable. If this Committee reports favorably on MFN, General Time strongly urges you to turn as quickly as possible to the task of devising an effective set of fair-trade rules for the People's Republic of China and the other non-market importers.

**TESTIMONY OF F. A. MEISTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE
AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION**

**THE IMPACT OF MOST-FAVORED-NATION STATUS FOR CHINA ON THE U.S. NONRUBBER
FOOTWEAR INDUSTRY**

The American Footwear Industries Association, whose member firms account for approximately 90 percent of domestic non-rubber footwear production and a substantial number of suppliers to the industry, asks you to consider, in your deliberations on the granting of Most-Favored-Nation (MFN) status to the People's Republic of China, the potentially serious impact that this will have on import-sensitive industries such as footwear and other leather products.

This Committee, the Congress and the Administration have recognized that the domestic non-rubber footwear industry is possibly the most import-impacted industry in the United States. There have been two unanimous findings of injury by the International Trade Commission. In fact, it was this Committee that initiated the second injury case before the ITC.

Yet, despite these comprehensive and legitimate injury findings, we continue to be wracked by excessive footwear imports. We suffer from a 53 percent import-

penetration ratio. In 1979, 56 million more pairs of non-rubber footwear will be imported than in 1976—the base year for the import relief program. (Attachment I)

In fact, the Administration's limited import control program of Orderly Marketing Agreements (OMA's) with Taiwan and Korea has proven to be a dramatic failure, since footwear imports from all other countries have been permitted to surge. For example, in 1979, while Korea and Taiwan will be down only 54 million pairs, or 27 percent, from 1976 levels, other countries of the world are projected to be up by 110 million pairs, or 64.4 percent. (Attachment II)

The assurances our industry and the Congress received that imports from countries other than Korea and Taiwan would not surge to "grab away" the rollback from these two countries have not been fulfilled by the Administration. With negotiated restraints on only two countries (out of more than seventy foreign suppliers), such assurances were the key underpinning of our industry's acceptance of the Administration's program, rather than the global quotas for which we pressed.

The Administration and the Congress have recognized that labor-intensive industries are threatened severely by the likely emergence of the People's Republic of China as a major exporter, indeed an overwhelming exporter, of labor-intensive products. Specifically, the U.S. Government already has taken strong unilateral actions to control China's textile exports to the United States. We support this strong action, but our industry firmly believes that consistent public policy requires a similar policy of import controls for the domestic non-rubber footwear industry. Our case is at least as compelling as that of the textile industry—we, too, are labor-intensive, have been found twice to be seriously harmed by imports, and suffer from declining domestic production and employment. (Attachment III)

With imports at an all-time high, domestic production at an all-time low, and a totally ineffective Administration control program, we now face the frightening specter of China. The People's Republic of China clearly has a potential of unparalleled dimensions to flood our market with footwear.

We ask this committee, in its deliberations on MFN status for China, to take appropriate steps to ensure that the U.S. Government adopt an equally tough stance on footwear imports from China as it has done with textiles. If this committee ignores the serious threat posed by China to our already beleaguered industry, our very survival will be at stake. We believe this request is necessary and legitimate for the following reasons:

1. China has the potential of becoming a major footwear producer and exporter in the next two to five years.

2. The primary market for China's footwear exports will be the United States.

3. The Administration will not prevent China's emergence as a major exporter of footwear to the U.S. It has failed to prevent injurious surges in imports in the past, denying our industry the promised import relief. There thus is no indication that it will do so in the future.

4. The lack of effective import relief to date has left the domestic non-rubber footwear industry at its lowest ebb in history. Significant imports of footwear from China will hasten our decline.

5. The Administration has adopted the inconsistent policy of promoting actively the development of a footwear industry in China while simultaneously committing itself to provide import relief.

6. A significant footwear industry in China could put considerable pressure on scarce U.S. supplies of cattlehides, vital to the existence of the footwear, handbag, apparel and other leather industries.

1. China has the potential of becoming a major footwear producer and exporter in the next few years.

It is difficult to predict potential footwear exports from China over the next few years. Official statistics on the dimensions of the footwear industry in China are not available and commercial ties between China and the U.S. are in the early stages of development. However, there are several reasons to believe that we will witness a significant surge in footwear imports from China in the next two to five years:

Footwear, like textiles, is a labor-intensive industry where wages are a significant component of product value. Countries with surplus labor and low labor costs traditionally have begun manufacturing and exporting footwear. China has the inherent ability and is developing the capability to produce significant amounts of footwear.

Wages in China are low, even compared to other developing countries in the Far East which produce footwear. Estimates indicate that Chinese workers receive about \$30-40 per month, roughly one-fifth of the wages paid to footwear workers in Hong Kong, one-third of wages paid in Taiwan and two-fifths of wages paid in Korea. It is only one-twentieth of wages paid to U.S. shoe workers.

Considering that Taiwan, Korea and Hong Kong together have a population of 55 million people and produce about 700 million pairs of shoes (nearly twice the production of the entire U.S. non-rubber footwear industry), China, with a population nearly 20 times higher and even lower labor costs, has a staggering production potential.

China has contracted already with Japan for a seven billion yen (roughly \$32 million dollars) synthetic leather factory.

Historically, other surplus labor, low-wage countries (much smaller than China) which have pursued aggressive export promotion policies to further their own economic development have increased their exports of footwear at phenomenal rates.

In the five year period between 1967 and 1972, when Taiwan first began its push to export footwear to the U.S., their exports of non-rubber footwear to our market increased by 1259 percent, from 6.7 million pairs to 91.3 million. By 1977, their exports rose to 166.5 million. By 1977, this single country's share of the U.S. non-rubber footwear market was 21.4 percent.

In the five year period between 1971 and 1976, Korea's exports of non-rubber footwear to the U.S. increased by 1233 percent, from a mere 3.3 million pairs to 43.9 million.

In only two years, from 1976 to 1978, non-rubber imports from Hong Kong rose by 327 percent, from 6.6 million pairs to 28.3 million.

Between 1976 and 1978, imports from the Philippines increased by over 2000 percent, from a mere 370,000 pairs to 8.4 million. The Philippines is expected to export 15 million pairs of non-rubber footwear to the U.S. in 1979. This represents an astounding increase of almost 4000 percent over 1976 levels.

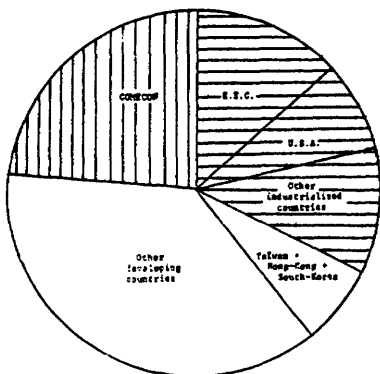
Other developing countries such as Singapore, Indonesia, Malaysia and Macao are showing the same alarming rates of increase.

The Chinese Footwear Exhibition in Hong Kong in September, 1979, displayed more than 100 new styles produced in China with more than 2000 varieties of footwear in the official Chinese Export Commodity Exhibition Hall. The supervisor of this Exhibition has been quoted as saying that "China has big shoe factories. There is enough production for China and for export."

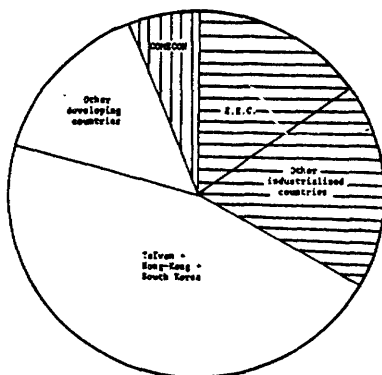
2. The primary market for China's footwear exports will be the United States.

China, like Taiwan, Korea, Hong Kong and other developing nations, will look to the U.S. as a prime market. As stated by Gilbert Maeyaert, Secretary General of the European Federation of the Footwear Industry, in an address before our industry in March, 1979: two-thirds of world trade in footwear is, in fact, just one-way traffic from developing and COMECON countries to the industrialized world. With the tariff and non-tariff barriers erected by developing countries against imports of footwear, there is really only one direction this trade can take, and that is toward the developed countries. China will sell footwear to the U.S. because there are few other markets open to them. As the following two charts indicate, developing countries, in particular Taiwan, Korea and Hong Kong, already account for a disproportionate share of world footwear exports compared to their share of world footwear production.

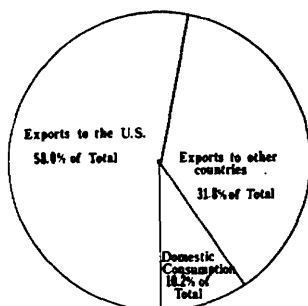
WORLD FOOTWEAR PRODUCTION



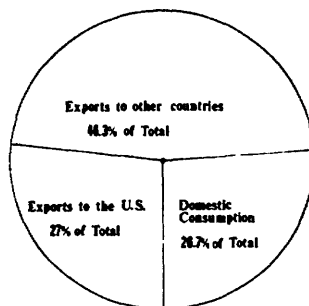
WORLD EXPORTS OF FOOTWEAR



It also is illuminating to look at the percentage of their total footwear production which Taiwan and Korea export to the United States—a pattern likely to be followed by China.



Breakdown of Taiwan's total footwear production in 1977.



Breakdown of Korea's estimated total footwear production in 1977

While China's footwear industry is not yet a serious competitor in the U.S. market (we imported only 404,000 pairs of non-rubber footwear from China in 1978), the combination of lower tariffs and the development of a joint venture code will change that picture. Even the low-wage Hong Kong shoe industry is worried. A Hong Kong trade official has said that this combination could mean the end of the Hong Kong shoe industry.

Chinese traders at the Chinese Footwear Exhibition in Hong Kong were cited as hoping the coming reductions in tariffs would mean bigger sales in the United States. In fact, in the first eight months of 1978, U.S. imports of non-rubber footwear from China are already 91 percent above 1978 levels for the same period.

3. The import relief program already is a failure because the Administration has not stopped import surges. There is, therefore, no basis in fact for believing that the Administration will prevent China from injuring our industry.

After the second injury finding by the ITC in February, 1977, President Carter directed Ambassador Strauss to negotiate Orderly Marketing Agreements with appropriate suppliers. Indeed, in announcing the program on April 1, 1977, the President stated: "Only problems as extreme as those faced by the American shoe industry could force me to seek even modest mandatory limits on imports." While

the OMA's fell far short of the industry's expected global import relief program, the industry was assured that the Administration would effectively control Taiwan and Korea through the OMA's and not allow other countries to surge.

Indeed, the industry and Congress were given assurances that imports from countries other than Korea and Taiwan would not surge to "grab away" the rollback on Taiwan and Korea. With negotiated restraints on only two countries (out of more than seventy foreign suppliers), such assurances were the key underpinning of our industry's acceptance of the import relief program.

A brief review of the import situation indicates a total failure by the Administration to stop surges in imports from third countries or provide the industry with the promised "breathing space" in which to revitalize.

The rollback on Korea and Taiwan (which was intended for the domestic industry) has been negated totally by the increase in imports from the rest of the world. Last year, the 52-million pair drop in non-rubber shipments from Taiwan and Korea was compensated for by a 55-million pair increase from other countries (compared to 1976 base year levels). This year, the problem is even more threatening. In the first seven months of 1979, imports from Taiwan and Korea dropped by 30.7 million pairs from 1976 levels; but imports from the rest of the world grew by 58 million pairs. For the full year, it is projected that the approximately 50-million pair drop in non-rubber imports from Korea and Taiwan will be far surpassed by an astounding 109.7 million pair surge from other countries.

Hong Kong was the first country to show a significant rise in imports following implementation of the Orderly Marketing Agreements. Although the Administration was alerted to this problem in May, 1978, it was not until November, 1978, that a Certificate of Origin Program went into effect, designed to halt transshipments through Hong Kong. In the meantime, imports from Hong Kong were permitted to grow to an alarming 28 million pairs last year, compared to only 6.6 million in 1976. Furthermore, after one year, it is quite apparent that the Program has been unsuccessful in curbing imports, as indicated by the fact that shipments from Hong Kong (projected to total 25 million pairs this year) continue to remain at unacceptably high levels.

There has been, in addition, alarming growth in imports from Italy, the Philippines and Singapore. It is projected that shipments from Italy will rise to 109 million pairs this year, compared to 47 million pairs in 1976. The Philippines, which exported a negligible 370,000 pairs in 1976, could export 15 million pairs in 1979. Singapore's exports are estimated to grow to 6 million pairs, from a mere 5,000 in 1976.

Because of the tremendous growth from other countries, total non-rubber imports could climb to as much as 426 million pairs in 1979, an increase of 56 million pairs over 1976, the base year of the OMA's.

The record of the past two years clearly shows that the Administration has not honored its commitment to the industry and the Congress to provide effective import relief to the domestic non-rubber footwear industry. The specter of yet another "surge country" and one with the export potential that China has, poses a threat of unparalleled dimensions.

4. The lack of effective import relief to date has left the domestic industry at its lowest ebb in history. Significant imports of footwear from China will hasten this decline.

With the "breathing space" promised to the industry, it was expected that we would be in a strengthened competitive position after the program ended. However, the domestic non-rubber footwear industry, after two years of import "relief", has continued to decline, in spite of its best efforts to compete. Domestic production in 1979 is projected to drop to record low levels and 17,000 jobs in the industry were lost between the first half of 1976 and the first half of 1979.

Recent statistics provide further evidence of the increasing severity of the import threat. In July, domestic production plunged to its lowest level in recent history, as imports, which rose to near-record levels, captured a record 63.2 percent of the non-rubber footwear market. In August, domestic production showed the sharpest percentage drop of the year.

These dismal figures indicate that the Administration has failed totally to provide the industry with the meaningful relief to which it is entitled. The emergence of China as a surge country in the next few years will occur before the industry has had a chance to revitalize. Indeed, it will occur when the industry is most vulnerable, at the end of the first phase of the import relief program.

5. The Administration actively is pursuing policies to encourage the development of the footwear industry in China, in direct contradiction to its own import relief program for our industry.

Former Secretary of Commerce Juanita M. Kreps recently announced that the Department of Commerce will sponsor a U.S. national exhibition in Peking in 1980. Exhibits will include products in five industrial sectors, including equipment for the production of consumer goods. DOC now actively is recruiting firms which produce machinery for leather goods and synthetic leather.

It adds insult to injury to find that the Administration (in particular, the government agency responsible for the Footwear Revitalization Program) is deliberately promoting sales of machinery to produce goods made by U.S. industries which already are threatened by imports and to whom the Administration has promised import relief. These sales will be paid for by the jobs of 400,000 workers of the footwear, leather apparel, handbag and other leather products industries when goods made by these machines return to our shores.

6. The development of a footwear industry in China will place an added drain on the supply of an already scarce raw material—cattlehides—vital to the footwear and other leather goods industries.

China already is producing leather footwear for export. For example, in the first eight months of 1979, 52.7 percent of U.S. non-rubber footwear imports from China were leather footwear. China's interest in machinery for leather goods production clearly is a harbinger of China's future intentions to increase its leather goods production.

China does not have, however, significant supplies of cattlehides. They will have to purchase hides or leather from abroad. This could well increase the drain on already scarce U.S. hide supplies, adding new inflationary pressures on the already high price of this basic raw material and further eroding the competitive position of domestic leather products industries. Increases in China's leather goods production over the next few years could mitigate any beneficial effects of the expected moderate recovery in U.S. hide supplies and the recently negotiated agreement with Argentina to release hides into the world market.

According to industry sources, the Chinese are encouraging buyers of their leather footwear to bring the raw materials to them. In an article in a footwear industry publication, a representative of the Chinese shoe industry confirms this practice. "Raw material is a problem. There's a cowhide shortage and it's getting worse and worse. We would like the buyer to provide the raw materials."

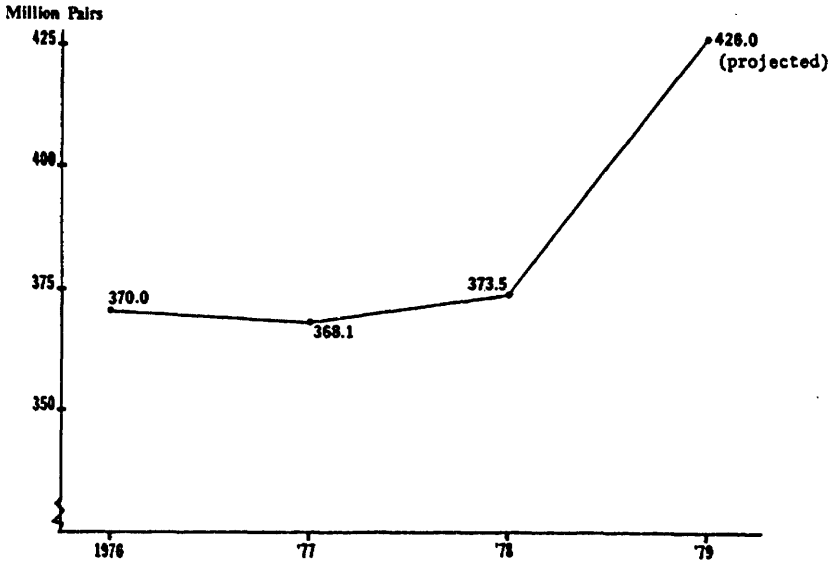
The domestic leather products industry thus is faced with the prospect of raw materials leaving our shores and returning in the form of finished products. This can only worsen the trade deficit of \$2.5 billion dollars in the leather and leather products sector.

CONCLUSION

The Congress and the Administration have recognized that the domestic non-rubber footwear industry is possibly the most import-impacted industry in the United States. The Administration's limited import control program has proved a dramatic failure. Our industry continues to be wracked by excessive imports. Domestic production and employment continue to decline.

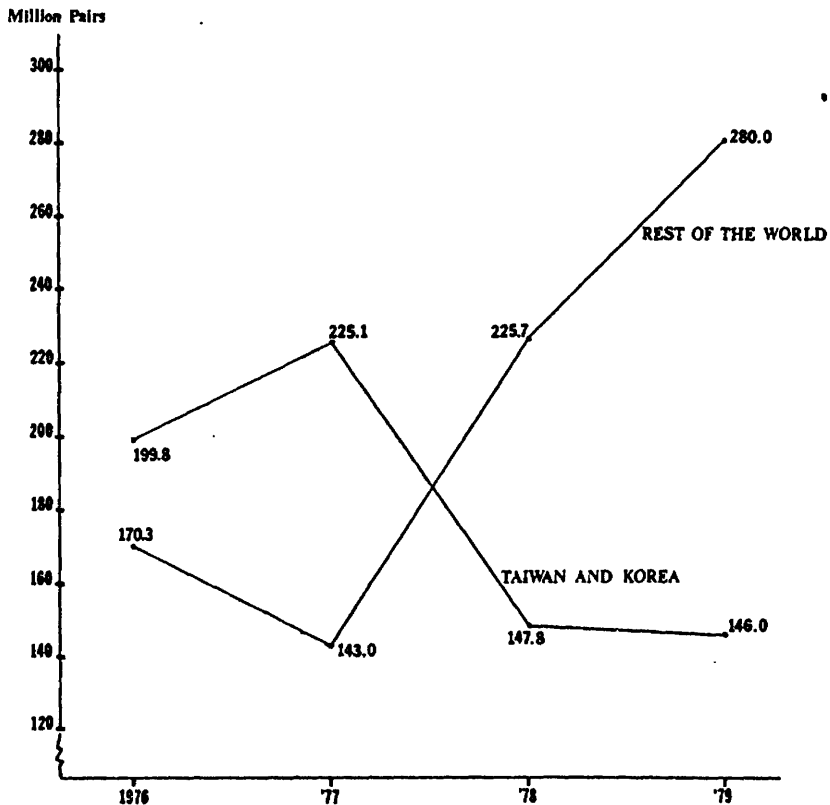
The Congress and the Administration have recognized the threat to labor-intensive industries from the likely emergence of China as a major exporter of labor-intensive products. The U.S. Government already has taken strong unilateral actions to control China's exports of textiles to the United States. Our case is at least as compelling as that of the textile industry. Therefore, logical and consistent public policy requires a similar policy of import controls for the domestic non-rubber footwear industry. We request that this Committee and Congress take appropriate steps to ensure that such a policy is adopted. If this policy stance is not taken, the impact to our industry of the overwhelming threat posed by China will be devastating.

ATTACHMENT 1

NON-RUBBER FOOTWEAR IMPORTS HAVE
SURGED ABOVE THE 1976 BASE PERIOD LEVEL1979 IMPORTS (PROJECTED)/1978

- Singapore up 400% (6 million vs 1.2 million)
- Philippines up 79% (15 million vs 8.4 million)
- Italy up 73% (109 million vs 62.9 million)
- Mexico up 32% (7 million vs 5.3 million)
- Brazil up 24% (34 million vs 27.4 million)
- Taiwan & Korea down 1% (146 million vs 147.8 million)
- All Other down 10% (109 million vs 120.5 million)

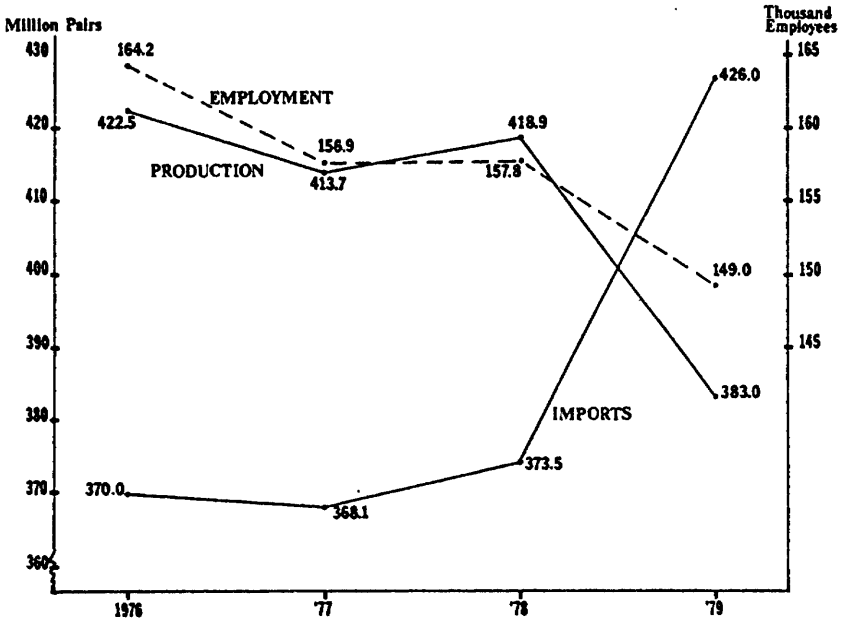
ATTACHMENT 2

NON-RUBBER IMPORTS FROM THE REST OF THE
WORLD OFFSET OMA RESTRAINTS BY A GREAT MARGIN

- Since 1976, world (except Taiwan and Korea) increased 110 million pairs or 64 percent growth.
- Total non-rubber imports up 15 percent from 1976.

ATTACHMENT 3

PRODUCTION AND EMPLOYMENT PLUMMETED



- Employment will be down 15,000 workers from 1976 to 1979
- Production will be down 40 million pairs from 1976 to 1979

STATEMENT OF THE AMERICAN COMMITTEE ON EAST-WEST ACCORD PRESENTED BY
JOHN A. CHAMBERS

SUMMARY

1. American Committee represents a bi-partisan multiprofessional group that is working for the reduction of tension between East and West.
2. The American Committee supports affirmative action to normalize trade with the Peoples Republic of China.
3. There are long term non-commercial benefits to be derived through normalization of trade.
4. There are short term and long term commercial benefits to be derived through normalization of trade.
5. Reciprocal trade, combined with an aggressive positive export policy, will result in a net increase in American jobs.
6. The Committee should address the potential increase in tension between the U.S./U.S.S.R. resulting from passage of the Trade Agreement, and go on record supporting the principle of "evenhandedness".

THE AGREEMENT ON TRADE RELATIONS BETWEEN THE UNITED STATES OF AMERICA
AND THE PEOPLE'S REPUBLIC OF CHINA AND ON S. CON. RES. 47

Introduction

Mr. Chairman, my name is John Chambers, Vice President, Satra Corporation, and a member of the American Committee on East-West Accord. It is in both capacities that I submit this statement.

The American Committee is composed of a bi-partisan group of individuals from a diversified cross section of our society. We are about 200 Democrats, Republicans, and Independents drawn from the fields of diplomacy, trade, industry, labor, science, military affairs, clergy, economics, politics, and journalism.

The basic principles of the American Committee dictate a firm positive position relative to the specific issue before the Committee. These principles of reaching Accord with the nations geographically comprising the eastern part of Europe and Asia, and combined with the specific benefits that can be derived by our Nation provide the argument and rationale. As a point of reference, Webster has several definitions of Accord . . . "balanced interrelationship" best defines the overall American Committee's objectives. We believe that the security of the United States is best served by reducing tensions between East and West.

Position/recommendation

The American Committee on East-West Accord has strongly supported the establishment of diplomatic relations with the Peoples Republic of China. Normalization of trade is a leading component in implementing a successful program that will lead to the accomplishment of a long term, mutually beneficial relationship. Therefore, the American Committee urges this Committee to report favorably by recommending that the bi-lateral Trade Agreement with the Peoples Republic of China, with it's attendant extension of nondiscriminatory tariff treatment, be approved.

Argument for noncommercial benefits from trade normalization

It is difficult to quantify the non-commercial benefits that will be derived through reciprocal, bilateral trade. This Congress and it's predecessors have been exposed to the general thesis that the lines of communications established in the pursuit of commercial business are an important if not the most important, framework for establishing a better understanding between nations. That through this knowledge each then is better equipped to resolve the commercial and non-commercial differences that exist and/or will arise. The validity of this thesis, although not necessarily challenged, has been met in the past with a certain degree of indifference. However, in this decade the cause and effect embodied in this thesis has been tested and may well have been proven. With or without normalization of trade, but through expanded commercial communications, a better understanding has been reached between a number of individual Eastern European countries and the United States. We can assure you that this has been a reciprocal education. One important accomplishment has been the realization that there are basic differences that transcend a very broad spectrum of issues and that each must understand the other's concern in order to reach a mutually acceptable compromise.

It is for this reason and several others discussed below, that we have gone on record against the "linkage" principle that has enjoyed such a prominent position in the Congress and the past three administrations. Specifically, we argue against

linking the normalization of trade/commercial relations to other political/foreign policy issues. If one understands the basic premise relative to the overall and long term non-commercial benefits to be derived through the establishment of a sound bilateral trade relationship, then one would not want to jeopardize the benefits to be gained through precarious linkages to non-commercial issues.

Economic benefits

Our Nation as a whole has commenced to shake off the lethargy that has engulfed its export policies since the non-competitive post war era. The impetus has been the discouraging trade deficit and the attendant adverse effects on our international and domestic economics. It is encouraging that this Congress has commenced to come to grips with practical solutions to the real problems that must be overcome in order to permit the business of this Nation to recapture their position in the international marketplace. In examining those markets in which we do not enjoy a proportionate market penetration, Eastern Europe including the Peoples Republic of China and the U.S.S.R. become highlighted. If the issue before the Committee today is whether or not it is in the economic interest of the United States to normalize trade relations with the Peoples Republic of China, the answer in our opinion is overwhelmingly in the affirmative. We as a Nation must unshackle the basic forces of our free enterprise system to free them to compete head-on in the world markets. The extension of Export Import financing compliments these forces by providing them with equivalent economic tools to meet the competition.

Normalization of trade with the Peoples Republic of China is not/will not in the short term by itself be a panacea to our trade deficit. We can expect that the bilateral trade will be a surplus for a number of years as the Peoples Republic of China learns to compete in our domestic markets. However, normalization of trade is a two-way street and we must and should expect that in time that surplus will diminish. There should not be an influx of marketable Chinese goods into the U.S. market at "dumping prices", or in quantities to cause disruption. If they are, our domestic laws and/or international agreements provide the appropriate vehicle for remedy.

On the other hand, expansion of exports provide jobs for Americans. Certainly over the years some imports will displace a certain number of existing jobs, but these will be regained and increased in proportion to the expansion of our exports.

Possible increase of tension—U.S./U.S.S.R.

As pointed out above, the American Committee advocates the easing of tensions between East and West. I reiterate that we support the Resolution before the Committee. However, we would be remiss if we did not state for the record our concern for potential adverse effect the passage of this Resolution might have on increasing tension between the United States and the Soviet Union. Keeping in mind that we do not agree with the "linkage" principle whether it be embodied in the law, or the result of foreign policy, one can understand the basis for our concern. For seven years in a highly restricted atmosphere the United States and the Soviet Union have been developing and expanding commercial relations. Our understanding of the Soviets has increased immeasurably through these communications. (As a point of interest, the American Committee has just published a book, "Common Sense in U.S.-Soviet Trade," which reflects an insight and understanding of the Soviets that was limited, or non-existent ten short years ago.)

It is this encouraging ongoing commercial relationship which one would normally expect to result in normalization of trade by the implementation of a trade agreement, an event that has not been forthcoming.

The implications of moving ahead so rapidly with the Peoples Republic of China Trade Agreement gave birth to the principle of "evenhandedness". We urge the Committee in whatever action they take on this Resolution to broaden its perspective and address the overall consequences that might occur through normalization of trade with the Peoples Republic of China in lieu of the absence of same for the U.S.S.R. In considering this critical issue, the following points are stressed:

1. Our relations with the U.S.S.R. remain the central problem of our foreign relations. The U.S.S.R. is the only nation in the world which can destroy or gravely damage us. There is no point in aggravating those relations by punitive trade policies which are politically ineffective and economically self-destructive.
2. We will not bring about changes in the Soviet political system or foreign policy by using trade as a weapon. The Soviets will simply trade with other countries. They can buy almost everything they want elsewhere, and if they must, they can even do without our grain.
3. We need to recognize that the Soviets regard our attempts to obtain explicit assurances from them on emigration policy as an unwarranted interference in their

internal affairs. They are unlikely to give explicit assurances. What they have done is increase the rate of Jewish emigration to over 50,000 a year. We ought, in these circumstances, to regard them as in substantial compliance with the spirit of Jackson-Vanik amendment and therefore proceed to grant to them the same treatment which we are asked, through the U.S.-Chinese Trade Agreement, to grant to the Peoples Republic of China.

4. There are some who argue that we should tilt our policy toward the Peoples Republic of China in some kind of big-power game to play the two great Communist countries off against each other. I think this can be a dangerous game. It has some aspects of a plunge into the unknown, with the American people as pawns in the game. I have the old-fashioned idea that the object of international politics is to make friends, not enemies. And I think that if friends make trade, trade also makes friends.

5. Among the pawns in any such big game are the American businessmen, the American worker, and the American consumer. We need to import low-cost goods at low tariff rates to help bring down American prices. We need to export American industrial products and technology to keep American workers employed and to supply the profits which keep American industry in a position of world leadership. And, we need to strengthen the American economy and American dollar through an increase in nonstrategic trade.

PREPARED STATEMENT OF JAMES HENRY GIFFEN, PRESIDENT, ARMCO INTERNATIONAL, INC.

Mr. Chairman, my name is James H. Giffen and I am Assistant to the Chairman and Director of Corporate Development of Armco. I am also President of Armco International, Inc.

Today I am appearing not only on behalf of my company but on behalf of the Committee for Expanded Trade—a group of over thirty American companies that have become equally concerned with this country's economy and trade policy in general, and its policies with respect to the Soviet Union and the People's Republic of China in particular.

Several months ago it became obvious to many of us in the American business community that this country lacked a clear and coherent policy with respect to an expansion of trade with the Soviet Union and the People's Republic of China. We were not making it clear enough to our Government and to the Congress that an increase in trade with these two countries is in the best interests of the United States.

As a result, a group of companies came together to form the Committee for Expanded Trade. The purpose of the Committee is to promote the growth of commercial relationships between the United States and both the Soviet Union and the People's Republic of China. The Committee's immediate objective is to secure equality in the conditions of competition between market and non-market economy countries in their trading relationships with the United States, and to assure the competitiveness of our exporters in the Soviet and Chinese markets.

The Committee includes General Electric, Allis-Chalmers, ALCOA, Bank of America, the Chase Manhattan Bank, the Coca-Cola Company, Phillips Petroleum, Mobil Oil Corporation and many others. The Committee is also working closely with the Business Roundtable—of which it has been invited to become an ad hoc subcommittee—in order to coordinate efforts during the 96th Congress to encourage both Congress and the Administration to provide most-favored-nation status and expanded export credits to the Soviet Union and the People's Republic of China.

Mr. Chairman, the Committee for Expanded Trade enthusiastically supports the Resolution that would normalize trade relations with the People's Republic of China. We have every hope and confidence that the Resolution will be approved.

We congratulate the Administration on its success in negotiating a comprehensive trade agreement with the P.R.C. We believe that this agreement will provide a favorable atmosphere for the development of commercial relations between the two countries. Our members look forward to many years of friendly trade with China, as the largest nation on Earth continues its determined efforts to modernize its technology. We welcome the challenge, and we believe that our ability to meet it will benefit all sectors of American society.

At the same time, we are very concerned over the Administration's failure to develop trade with the U.S.S.R. and the P.R.C. in an even-handed way. We believe that the same factors that weigh in favor of trade liberalization with China make it of the utmost importance that nondiscriminatory treatment be accorded to the

Soviet Union as well. Moreover, it is extremely unwise from a foreign affairs perspective to deviate from the policy of even-handedness.

In October of this year, the Census Bureau reported that the United States balance of trade deficit for 1979 is expected to reach \$24 billion. While this figure is slightly better than the \$28.4 billion deficit incurred last year, it is still well into the unacceptable range. East-West trade, however, has not contributed to this deficit. On the contrary, our balance of trade with Communist countries may produce a surplus of \$3.5 billion this year, a 34 percent improvement over 1978. Of that surplus, nearly \$1 billion will come from trade with the P.R.C., and \$2 billion from trade with the U.S.S.R.

Mr. Chairman, these healthy trade balances have come about without Government-backed credits and without Column I tariffs being in effect. The atmosphere of East-West trade has been one of discouraging commercial transactions. At the same time, our competitors, the Europeans and Japanese, are enjoying the full support of their Governments.

In 1977, Japan had 61.5 percent of the Western share of the P.R.C. market for manufactured goods. West Germany had 16 percent. The United States accounted for less than 3 percent. In the Soviet Union in the same year, Germany took 23 percent, Japan 15 percent, and France and Italy 10 percent each. The United States had 5 percent.

If trade with the U.S.S.R. and the P.R.C. is normalized, there is every reason to believe that the balance in our favor will grow. The expansion of trade—and especially of trade that has proved profitable for our country—is most definitely in the national interest of the United States. In terms of jobs, of capital formation, and of economic stability, the prompt ratification of the Chinese trade agreement should be an important priority for Congress in this session. For the same reasons, the 1972 trade pact between the U.S. and the U.S.S.R. should be submitted and ratified as soon as possible.

Mr. Chairman, the Jackson-Vanik Amendment to the Trade Act of 1974 requires that the President report to Congress that he has received “assurances” of free emigration before he can extend nondiscriminatory trade treatment to a Communist country. Such a report has been made in connection with the People’s Republic. The Committee for Expanded Trade believes that this requirement of the Jackson-Vanik Amendment should be eliminated.

The Jackson-Vanik Amendment is founded on the assumption that trade discrimination against a nation can coerce it into bringing about domestic changes in such areas as emigration and human rights. But in order to have this effect, American trade policy must be equipped with the leverage necessary to make a trading partner desire change. We do not now have such leverage.

Trade with the United States accounts for a very small portion of the gross national products of the P.R.C. and the U.S.S.R. We do not have leverage through imposing discriminatory terms on trade to cause those nations to bring their policies into line with ours. We are not the sole source of the goods or the technology they need. Rather, what the United States does not sell, our competitors in Western Europe and Japan will.

In order to facilitate a significant growth in trade with the Soviet Union and China, the Committee for Expanded Trade favors the Stevenson and AuCoin bills currently pending before Congress. These bills would modify the terms of the Jackson-Vanik Amendment to make possible a true normalization of trade relations.

The Stevenson and AuCoin bills would not eliminate leverage. Rather, by increasing economic interdependence, they would help to create it. As a major trading partner of the P.R.C. and the U.S.S.R., and as the supplier of important goods and services, the United States would have the opportunity to influence their domestic policies, and those nations would have an incentive to comply with U.S. policy objectives.

By allowing Exim Bank financing for sales to the U.S.S.R. and the P.R.C., the proposed legislation would permit American exporters to compete on an equal basis with their German, French, Japanese, and Italian counterparts. The Soviet and Chinese credit records make this policy one of very small risk.

By extending the Jackson-Vanik waiver period from one to five years (after the first one-year waiver), the Stevenson and AuCoin bills would allow American companies to compete for major projects with a potentially significant positive impact on our balance of trade.

Mr. Chairman, we hope that this Committee will soon hold hearings on the bills that would facilitate reform of Jackson-Vanik. In the meantime, we urge approval

of the Chinese trade agreement, and of the Soviet agreement that the Administration has not yet seen fit to submit for your review.

In his message to Congress transmitting the trade pact with the P.R.C., the President stated that "[i]n the past year and a half . . . we have noted a marked relaxation of Chinese emigration procedures. . . . We . . . firmly believe that Chinese statements and the marked increase in emigration reflect a policy of the Government of China favoring freer emigration."

This year, emigration from the Soviet Union has reached the highest level in history. Unquestionably, this unprecedented increase reflects a Soviet policy favoring freer emigration. It stands to reason that the "assurances" reported by the President with respect to the P.R.C. can equally be found in relation to the U.S.S.R. A Jackson-Vanik waiver for the latter nation is long overdue.

The Soviet and Chinese economies are expanding. In both countries, there is significant demand for goods and technology that the United States can supply. American business stands ready to compete in the Soviet and Chinese markets.

We are not asking, Mr. Chairman, for special concessions or benefits. We are not asking for favoritism. We are not asking for anything more or less than the chance to compete on equal terms. Given the right to compete with the Germans, the Japanese, and the French, we will do our part to improve this country's balance of trade, to reduce unemployment, and to strengthen the dollar.

It is not unreasonable to expect that with a normalization of commercial relations, East-West trade will double in volume. But normalization will not occur on the basis of a patchwork approach. It requires that the policy of this Government be to ratify and to implement trade agreements with the U.S.S.R. and the P.R.C., and to remove legislative barriers that discourage successful trade.

The Committee for Expanded Trade urges prompt adoption of Senate Concurrent Resolution 47. We favor the Resolution as one step toward achieving our objective of expanded trade opportunities.

This Resolution is a first step. It is a step in the right direction. But more is required.

The U.S.-U.S.S.R. trade agreement should be submitted and approved. And legislation designed to facilitate East-West trade should be enacted. We look forward to nondiscriminatory commercial relations with the People's Republic of China. But the fact that the United States continues to link trade to specific non-trade issues, such as emigration policy, is unacceptable.

Mr. Chairman, in conclusion let me say that I am grateful for the opportunity to address these remarks to the Subcommittee on Trade this morning. I look forward to appearing before you again in the very near future to support a resolution granting nondiscriminatory treatment to the Soviet Union.

By drawing both the Soviet Union and China into a network of expanded trade, we increase our potential for influence upon them. We thereby enhance our ability to implement our foreign policy. We increase the stake of all nations in world peace and stability.

Mr. Chairman, the question before this Subcommittee and before the Congress is whether we will contribute to that atmosphere of stability. I submit that, in the nuclear age, only one answer is possible.

Thank you.

STATEMENT ON AGREEMENT ON TRADE RELATIONS BETWEEN THE UNITED STATES
AND THE PEOPLE'S REPUBLIC OF CHINA

(By John L. Caldwell¹)

The Chamber of Commerce of the United States appreciates this opportunity to comment on the Agreement on Trade Relations between the United States and the People's Republic of China. We believe this agreement establishes the conditions for a stable and viable bilateral trading relationship and, consequently, we urge prompt congressional approval.

The U.S. Chamber is the largest business federation in this country. Its membership consists of over 86,000 businesses, some 2,600 chambers of commerce in the United States and abroad, and nearly 1,300 trade and professional associations. Approval of the U.S.-China trade agreement would offer significant trade benefits to many of our member companies and organizations.

¹ Vice President, International, Chamber of Commerce of the United States.

SUMMARY

The U.S.-China trade agreement contains three important provisions for the long-term development of our commercial relations with China: (1) the extension of nondiscriminatory tariff treatment; (2) the facilitation of business; and (3) safeguards against market disruption. Together, these three provisions comprise an integral component of the trade normalization process between the United States and China.

The normalization of tariff treatment is a prerequisite for any long-term trading relationship. Realization of this objective should lead to a significant increase in bilateral trade. Not only will our country benefit from a more stable supply of Chinese raw materials and manufactured items, but the agreement should open up numerous trade opportunities to American exporters.

American business will also benefit from the agreement's trade facilitation provisions. As bilateral trade and cooperation expand, the issues of trade representation, industrial property rights, and dispute settlement will take on increased importance. Inclusion of these issues in a bilateral trade agreement is a significant step in our overall trade relations.

Finally, the trade agreement establishes safeguards for U.S. industry and labor against market disruption which might result if there were to be a rapid expansion of Chinese exports to the United States. The agreement, together with current U.S. trade legislation, provides important safeguards against unfair or injurious import competition.

TRADE PROSPECTS

The Commerce Department has predicted that, with normalized commercial relations, U.S. exports to China could reach an annual level of \$4 billion by 1985. China could easily become a significant market for American manufacturers of machine tools, mining and metallurgical equipment, construction machinery, and chemical and petrochemical equipment and installations, as well as a major market for equipment in the fields of energy, transport, and communications.

China also offers a growing market for American technology. As that country proceeds with its modernization plans, it will require a broad range of Western technology and know-how. In the words of Vice President Mondale, "By sharing our technology (with China), by building commercial bridges, we not only help modernize, we also help America and we do it in the best possible way."²

The extent to which China expands its purchases in the U.S. market, however, will be directly related to that country's ability to expand its own export earnings. At present, U.S. tariff rates are so high as to be a substantial deterrent to the importation of many Chinese goods into our country. Until this situation changes and reciprocity is established, American companies will be at a distinct disadvantage when trying to penetrate the Chinese market.

Moreover, China has a long-term potential to become an important supplier of petroleum and other mineral resources to the United States. With the current international energy shortage, the United States should be making every effort to assist countries such as China to develop their energy reserves.

BUSINESS FACILITATION

The agreement includes measures that deal with business representation, trade promotion activities, industrial property rights, financial transactions, and the settlement of business disputes. These provisions will have increasing importance for Americans living or working in China.

There are currently a handful of American business representatives operating out of hotel rooms in Beijing. As trade between our two countries expands, the number of Americans residing in China will expand accordingly. It is probable that several dozen additional American companies will decide to establish permanent business representation in Beijing over the next few years, and will thus benefit from the provisions in the trade agreement governing such activity.

Inclusion of provisions governing patent and copyright protection should also provide important benefits to American business. This is a significant feature in the trade agreement as it represents a departure from prior Chinese practice. These provisions should go a long way in contributing to the trust and confidence that is so important to long-term commercial relations.

² Speech to representatives of the Asia-Pacific Council of American Chambers of Commerce, August 31, 1979, Canton, China.

SAFEGUARDS

The trade agreement also contains provisions to ensure that our trade with China will not expand in a manner so rapid as to injure U.S. industry or labor. Under these safeguard arrangements, a threat of market disruption due to rapidly expanding imports will be subject to bilateral consultations. Should such consultations fail to result in a satisfactory resolution of the problem, the United States would be free to take whatever measure it deemed appropriate. In an emergency situation, the United States could take unilateral action before consultations are held.

CONCLUSION

Expansion of U.S. exports to China will not come without effort. American companies will have to devote a great deal of time and patience to this market if they ever hope to catch their Japanese and European competitors. We believe that U.S. companies are prepared to make this effort. What U.S. companies need is the normalization of the framework for economic interchange so that they can compete on equal terms with other Western companies.

We would like to stress that, while the U.S.-China trade agreement is part of the logical progression in our commercial relations with China, it is only one step in this normalization process. As such, the Chamber also supports the establishment of an Export-Import Bank program in China. Such a program would greatly enhance the competitiveness of U.S. firms seeking to export goods and equipment to China.

Similarly, we are encouraged by the Administration's recent efforts to provide Overseas Private Investment Corporation guarantee and insurance programs to American companies investing in China. This initiative comes at a significant time, after the promulgation of China's new joint venture legislation, and should encourage U.S. firms to become more actively involved in the Chinese market.

The U.S.-China trade agreement, together with these other measures, constitute an important step toward facilitating complete U.S. entry into the Chinese market. We view this step as part of an important effort in this country to assist American business in boosting the U.S. share of world exports. Beyond the commercial benefits, it is our hope that the trade agreement, by promoting greater contact between our two countries, will contribute to a better understanding between the Chinese and American people. It is our sincere belief that international trade and cooperation not only further our own national interests, but enhance the cause of world peace and prosperity.

STATEMENT BY THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES ON EXTENSION OF NONDISCRIMINATORY TREATMENT WITH RESPECT TO THE PRODUCTS OF THE PEOPLE'S REPUBLIC OF CHINA

The League of Women voters supports the extension of nondiscriminatory treatment to the products of the People's Republic of China. The League is committed to a reduction of trade barriers worldwide. We believe such a policy is in the best interest of this country because it paves the way for political harmony with other nations, stimulates economic development at home and abroad, and expands consumer choice.

Our particular interest in U.S. policy toward the People's Republic of China dates back to 1969 when, as a result of extensive study consensus, the League adopted a position in support of normalization of U.S. relations with the People's Republic of China. At that time, we advocated a range of policies to encourage normalization of relations—through travel, cultural exchanges and unrestricted trade in nonstrategic goods. The League also urged the U.S. to withdraw its opposition to representation by the People's Republic of China in the United Nations.

Through various carefully calculated presidential and congressional initiatives, many of these recommendations have been considered and adopted. Most-favored-nation status is the logical next step in this continuing growth in U.S.-P.R.C. relations. In addition to the political importance of this action, it will be economically beneficial to both nations to further relax restrictions and permit flexibility in our trade relations.

The League of Women Voters takes pride in having played an important part in creating the climate for normalization of U.S. relations with the P.R.C. The League fully supports extension of nondiscriminatory treatment because, we believe, this will enhance economic opportunities for both nations and increase the level of cooperation necessary to promote world harmony.

U.S.-CHINA PEOPLES FRIENDSHIP ASSOCIATION,
 CENTER FOR U.S.-CHINA RELATIONS,
 Washington, D.C., October 31, 1979.

Hon. RUSSELL B. LONG,
 Chairman, U.S. Senate Finance Committee,
 Washington, D.C.

DEAR SENATOR LONG: The Center for U.S.-China Relations respectfully requests to submit testimony into the hearing record regarding the extension of nondiscriminatory treatment with respect to the products of China (S.C.R. 47). This legislation is in the best interests of the United States and an important step in our relations with China. It will serve to remove obstacles that currently impede expanded economic relations between the two countries. Obstacles which if allowed to remain in place could have serious political implications.

The passage of this legislation is important to the U.S. if we are to enter China's international trade market on a competitive basis. Japan and Western Europe have already extended these benefits thereby succeeding in capturing a significant portion of the "China market." By placing restrictions on trade, the U.S. is in essence encouraging China to trade with other nations. When looking at last year's trade deficit, it becomes apparent that this is something we can ill afford to do.

Extending nondiscriminatory treatment to China would also lead to increased contact between the American and Chinese peoples which would in turn lead to increased international understanding and cooperation. After surfacing from thirty years of at most limited contact, this is an important ingredient as the world becomes smaller everyday and as misunderstandings develop into wars that effect all nations. China will play a large role in world affairs in the approaching decades and it is in our best interests to build a solid foundation for our relations as both nations approach the 1980's.

Sincerely,

ELAINE E. BUDD, *Director.*

STATEMENT BY THE AMERICAN COMMITTEE ON EAST-WEST ACCORD: ON
 EVENHANDEDNESS IN UNITED STATES-SOVIET-CHINA TRADE

The American Committee on East-West Accord is deeply concerned at reports emanating from the Administration that U.S. trade policy is to be tilted toward China and away from earlier Administration policy of evenhanded treatment of the Soviet Union and China.

We believe extension of most-favored-nation custom duties to imports from China and *denial* of the same treatment to the Soviet Union:

Will have grave political implications for U.S.-Soviet relations.

Will further impede efforts to expand U.S. exports and reduce the U.S. trade deficit.

Will deny markets to American industry and labor which will be captured by other industrial nations that do extend MFN treatment to the U.S.S.R.

Will contribute to unemployment and under-use of industrial facilities in the United States.

Will fail, as restrictive trade policies have in the past, to bring about changes in Soviet foreign policy and political institutions.

Last January President Carter affirmed his desire to be evenhanded in dealing with China and the Soviet Union in the area of trade, and he cautioned against an "unbalanced relationship". We urge the President to adhere to the evenhanded trade treatment of China and the Soviet Union which he enunciated and, at such time as he submits the China Trade Agreement to the Congress, we urge him also to recommend to the Congress, or on his own behalf, to take steps which will bring into full effect the U.S.-U.S.S.R. Trade Agreement of 1972.

We believe the development of a wide-ranging and expanding trade relationship with all the communist countries will do more to promote peace and cooperation among all nations than punitive trade policies which are politically ineffective and economically self-destructive. Punitive trade agreements have had a destabilizing effect on the ability of American exporters to provide reliable performance in connection with their sales.

Last July 6th, the American Committee issued the following statement:

STATEMENT ON TRADE—JULY 6, 1979

"While welcoming reports that the Carter Administration is about to sign a trade agreement with China, the American Committee has grave misgivings as to the agreement's impact on SALT II.

"We are deeply concerned that the U.S. be even-handed in its treatment of China and the Soviet Union with respect to extension of Most-Favored-Nation treatment of imports from both nations. We believe it would be a grave mistake at this time to take any action which would be viewed either in the U.S., China, or the Soviet Union, as tilting toward China. Any discrimination in the treatment of the two communist countries on matters of trade could only damage prospects for SALT II.

"The American Committee is in favor of a Presidential waiver, under the authority which the President now possesses, to extend Most-Favored-Nation treatment to both countries and Amendments to the Trade Act which would honor U.S. commitments under the 1972 Trade Agreement to extend unconditional and non-discriminatory MFN tariff treatment and Export-Import Bank credits to the USSR and China simultaneously.

"The American Committee believes such moves are in the national interest of the United States and also of importance for the American economy.

"The Committee believes these moves should proceed at the same time as Administration efforts to obtain approval of SALT II."

The foregoing views have been brought to the attention of policy officials in the Executive and Legislative branches of the Government.

NOTE.—In November, the American Committee on East-West Accord will publish a book entitled, *Common Sense in U.S.-Soviet Trade*. It includes a series of original articles exploring the opportunities and problems of such trade, industry by industry. Among the contributors are William Verity, Donald M. Kendall, William C. Norris, Marshall Goldman, Cyril Black, and David Rockefeller.

STATEMENT BY CHRISTOPHER H. PHILLIPS, PRESIDENT, NATIONAL COUNCIL FOR UNITED STATES-CHINA TRADE

On. S. Con. Res. 47 to approve the Agreement on Trade Relations between the United States of America and the People's Republic of China.

To the Subcommittee on International Trade of the Committee on Finance, United States Senate.

Mr. Chairman and members of the Subcommittee on International Trade of the Senate Finance Committee.

It is a privilege and pleasure to have this opportunity to make a statement to your committee on the important matter of the Trade Agreement between the United States and the People's Republic of China (the PRC) and on the question of most-favored-nation tariff status for Chinese products.

The National Council for U.S.-China Trade is a non-profit organization established in 1973 to facilitate trade with the People's Republic of China. Since our inception, membership in the Council has quadrupled to about 650 at the present reflecting a vastly expanded involvement in American trade with China. Our membership includes both large and small companies, both exporters and importers.

The signing of the U.S.-China Trade Agreement in July was the most significant of the many steps the Administration has taken this year toward normalization of economic relations with the People's Republic of China. The passage of this Trade Agreement by the House of Representatives and the Senate will be the most constructive action the Congress can take in the further removal of obstacles to normal trade relations between our two countries.

With the headlines stressing how the Chinese will benefit from this agreement because of lower tariffs for their goods, the public may not fully understand the very real benefits passage of the agreement will confer on American export business and on the U.S. economy. Both exporters and importers will be aided by passage of the Agreement.

It is often overlooked that China is a major and expanding market for foreign products. Last year the total two-way trade of the People's Republic was \$21.1 billion, an increase of 43 percent over the 1977 figures. The United States had only 5.9 percent of that trade, or \$1.2 billion.

Japan, which has a long-term trade agreement in effect with Beijing, captured nearly 25 percent of the China market. Its trade with China this year will be over \$6 billion.

Indeed, in terms of the exports of industrialized countries to China, Japan has consistently accounted for about half of all sales, followed by Germany, Canada, and France.

Only by passage of the Trade Agreement will the United States become truly competitive in the rapidly developing China market.

We know that China itself wants to substantially increase its trade with the United States. On May 10 of this year China's Vice Premier Deng Xiaoping told Secretary of Commerce Kreps that "As far as the volume of trade between our two countries is concerned surely it would not be less than our trade with Japan." That is a handsome prospect.

We know that China wants American products and technology. Agriculture products have consistently dominated our exports to China to help feed and clothe the Chinese people. We can expect them to dominate our China sales for the foreseeable future.

This year, corn, wheat, cotton, soybean oil, and soybeans have been our principal exports.

American technology, equipment, and expertise are also of major and growing interest to the Chinese. Petrochemical technology, aircraft—such as Boeing 747's, machine tools, petroleum equipment, construction and mining equipment, agricultural machinery, computers, and telecommunications equipment are some of the categories in which U.S. companies have concluded transactions and which are of interest to the Chinese.

American firms are helping to develop China's mines, proposing cooperation agreements for the construction of hotels, and power schemes, and becoming heavily involved in China's offshore oil exploration and development, as well as in other projects.

In both agriculture and industry, China is providing tens of thousands of jobs for Americans by its purchases of U.S. products.

MFN: HELPING THE CHINESE TO PAY FOR MORE U.S. GOODS

The most publicized aspect of the Trade Agreement is, of course, the granting of most-favored nation (MFN) tariff status to China for goods imported in the United States. Strictly speaking, this will benefit U.S. importers and the Chinese more directly than it will help U.S. exporters. But in the Council's many talks with the Chinese, they have consistently reminded us that as U.S. exports to China increase, our imports from China must increase as well. Otherwise, how will the Chinese pay for their growing imports from the United States?

So far, we have consistently imported much less from China than we have exported to China. If one takes our trade with China, from its resumption in June 1971 through the end of 1979 (as projected), we will have exported a total of \$4.5 billion worth of goods to the PRC while only importing \$1.6 billion worth of Chinese products.

Thus, of our total China trade so far, imports account for only about a fourth; the ratio of exports to imports is almost three to one (3:1), and we have had a trade surplus in our favor of \$2.9 billion.

The granting of MFN status will have several beneficial consequences. It is generally agreed both by American importers and other foreign suppliers, that prices of Chinese imports following approval of MFN, will be highly competitive with—that is, match—those from other sources in Asia. In other words, at a time when inflation is moving at 13 percent a year, this will be one means of helping keep prices down—a welcome prospect for American consumers.

Second, Chinese goods will not "flood the U.S. market." At present imports from China comprise only 0.18 percent of all U.S. imports, so that any impact is going to be slight. (\$324 million against \$183 billion total U.S. imports. U.S. world trade in 1978 was \$327 billion).

Several factors limit China's ability to expand exports rapidly including:

Shortcomings in domestic transportation and electric power, along with competing demands for these resources from agriculture and other industries.

Rising domestic consumer and industrial demand for many items China would like to export, such as petroleum, and building materials; as well as textiles.

A fragmented export industry.

Difficulties in complying with U.S. Federal regulations and standards.

A need to adapt to the U.S. market expectations on packaging, labeling, range, and style.

Assuming MFN is granted, imports from the PRC are likely to increase gradually, perhaps by 30 percent over the next few years, rather than cause an immediate impact.

Since total U.S. imports have increased by about 20 percent in the last two years—and are currently increasing at an annual rate of over 15 percent thus far in 1979—this rate of increase of imports from China is not likely to present a problem.

The additional trade resulting from MFN in the next three years could be about \$540 million. Imports from China this year will probably reach about \$250 million.

Third, nondiscriminatory tariff status will tend to encourage diversification of Chinese exports to the United States. Granting China MFN tariff status will allow it to be less dependent on traditional exports—such as textiles—that it has relied on heavily until now.

Let me address the textile question briefly. This is clearly an issue about which the Chinese feel strongly and which has hit some American importers very hard.

It is universally recognized that Chinese textile products are excellent quality. Chinese silk is of course world renowned, and has had a considerable impact on the American fashion market in the last few years.

So far nine textile categories have had unilateral quotas imposed for Chinese products; in one of these categories the quota has already been filled and an embargo implemented.

If we look at the general picture, I think it's important to note that, in terms of square yard equivalents (SYE's), China has accounted for only 1.7 to 3.6 percent of all U.S. textile imports in the past five years. By contrast, last year of all U.S. textile imports, Taiwan, Hong Kong, South Korea, and Japan accounted for nearly 60 percent with little Hong Kong providing almost a million square yards, nearly five times the figure from China.

And while some textile categories from China have increased this year, it is important to note that some have declined. U.S. imports of Chinese cotton textiles through August are actually down 9 percent from the same period last year. Cotton fabrics from China have declined 50 percent.

The U.S. textile industry as a whole has done very well out of the China business. We have consistently sold more textile materials to China than we have bought. Over the past five years, plus this year through August, we have sold China well over half a billion dollars worth (\$687 million) of cotton, polyester and acrylic fibers, yarns and fabrics.

Last year alone we sold over \$200 million of fibers to China, far more than the textiles we bought, (\$116 million).

So important is this two-way textile trade that a group of South Carolina industrialists led by the South Carolina State Development Board Chairman, Max Heller, will soon travel to China to promote U.S. textile sales.

The Chinese recognize a bilateral textile agreement must be reached, but not at a level which is unrealistic. They are ready to sign an agreement as long as it does not limit the PRC to too low a level of textile trade. The U.S. government has made well-publicized and continuing efforts to reach an agreement with the Chinese.

America will continue importing textiles: Since 1974 U.S. textile imports as a whole have increased over 30 percent. They will continue rising to meet demand that cannot be fulfilled in the United States.

We are now faced with the interesting situation that, because demand has continued to rise for shirts in the category of Chinese textiles embargoed (340), domestic industry is, I understand, unable to supply the market. Thus the embargo creates an artificial shortage which may result in higher retail prices, adding to an inflation that is already severe.

In sum, I think that while the question of textiles is important, I don't think it should stand in the way of the Trade Agreement we are now discussing.

EXIMBANK FINANCING—A MUST IF WE ARE TO COMPETE EFFECTIVELY

Let me now turn to the question of exports and the vital U.S. Eximbank financing that American companies need if they are to compete effectively in the China market.

Chief among the advantages of the U.S.-China trade agreement is that it will serve to put U.S. exporters on a more equal footing in competition with Japanese and European firms for sales to China. The major handicap for U.S. firms in the China market has been the lack of Export-Import Bank facilities to back up U.S. sales to China.

The Japanese government-guaranteed credits have been available to Japanese companies for sales to China since 1973, and Western European exporters to China also have had access to government-backed credits, insurance, and guarantees. Government-guaranteed export credits of over \$13 billion have so far been offered to China by Britain, France, Italy, and Japan.

All major China sales by industrial nations in recent years have been contingent on government-backed loans, subsidies, or guarantees. The \$267 million Rolls-Royce sale of Spey engine technology, the French sale of \$292 million worth of petrochemical plants, the German steel complex, nearly all the Japanese plant sales in recent years—worth some \$5 billion—have relied on foreign Eximbank assistance of one kind or another such as interest rate subsidies, supplier credits, or insurance.

The position of most American suppliers faced with potentially huge sales of mining equipment, offshore petroleum technology, hotels or complete plants, is frankly, that without Eximbank assistance they will have to secure their equipment from other countries which do have Eximbank facilities for China—if they want to win the deals.

In other words they will have to export jobs to get the big China sales. I know that they would prefer not to.

Unquestionably, passage of this Trade Agreement is the crucial step needed to make China eligible for U.S. Eximbank credits. The other steps—a Presidential determination that Eximbank credits to China are in the national interest and settlement of outstanding Eximbank loans to China—should not be as difficult to obtain.

Also, the Eximbank will have to ask Congress for an increase in its fiscal 1980 lending authority so that credits to China do not reduce funds available to other countries. We urge Congress to approve such an increase in order to further the competitiveness of U.S. firms in the China market.

The importance of Eximbank facilities for the expanding China market cannot be overemphasized.

Other aspects of the Trade Agreement will also be of significant practical benefit to U.S. exporters to China. In particular the clauses in the Agreement providing for protection of American patent rights will increase the incentive for American exporters to sell to the PRC. In Article VI of the Trade Agreement, the Chinese have agreed to the protection to U.S. patents, trademarks, and copyrights equivalent to that offered by the U.S. government. In a country that until recently had no system for the registration of industrial or intellectual property, this is a significant step.

The U.S.-China trade accord will also smooth the path for American exporters in other ways. It provides for facilitation of trade relations, commits the Chinese to reliance on commercial contracts and considerations, eases the way for establishment of offices and representatives of U.S. companies in Beijing, sets up a financial framework for normal banking operations, and allows for arbitration of commercial disputes to be carried out in a third country if they cannot be settled amicably first.

Overall, this agreement, which has a three-year term, will for the first time provide the basis for long-term marketing efforts to China by American firms, essential for the major kinds of projects now under negotiation.

For those who have done business with the PRC, these will be welcome—and practical—developments.

Passage of this Agreement has more than purely commercial implications. It is by far the longest and most complex trade agreement the Chinese have agreed to sign with any country. True to the letter and spirit of the U.S. Trade Act of 1974, it commits the Chinese in writing to accepted international business practices.

It comes at a time when China is preparing the way for its "four modernizations" program, when Beijing is doing all it can to learn from the United States. The Chinese are studying American management, quality control, production technologies, and accounting methods. American firms are discussing countertrade, joint ventures, and design engineering with Chinese entities.

Approval of the Trade Agreement and Eximbank facilities will be critical in negotiating potentially massive ventures now under discussion with the Chinese for manufacturing of trucks and tractors, development of mines, installation of power plants and offshore oil development. These contracts could easily go to European and Japanese firms now in fierce competition with American companies for what could be multimillion dollar deals.

Frankly, it is time for American companies to be more aggressive. The United States needs a clear-cut, pragmatic export policy. We have an astronomical trade deficit, over \$30 billion last year alone, that seems to grow ever worse.

Passage of the Trade Agreement with China will certainly help reduce the deficit. In these days of weakening confidence in the dollar that is no small claim. U.S.-China trade in 1978 totalled over \$1.1 billion, with a surplus of nearly \$500 million in favor of the United States.

Based on figures from the first nine months of this year our trade with China in 1979 is likely to reach nearly \$2 billion, with a surplus of about \$900 million.

Although these figures are small compared to the overall U.S. trade deficit, they count.

And if we look into the future, total Sino-U.S. trade will probably reach at least \$5 billion in 1985, and could rise to as much as \$8 billion if the U.S. share of PRC imports grows steadily, as we expect it will.

The passage of the U.S.-China Trade Agreement by Congress will further the national interest. It is in the U.S. interest to decrease restrictions on trade with all countries—and a vote for the China Trade Agreement is not a vote against any other trade agreement. The fostering of an international environment of cooperation rather than confrontation is indeed above the national interest—it is a concern of the entire world.

I urge that Congress approve passage of this Agreement as soon as possible.

APPENDICES

1. "Preparing for Economic Normalization: The Impact of MFN on Our Future Trade with China"

Source: *The China Business Review*, July-August 1979

2. "China's Trade Through 1985"

Source: *The China Business Review*, May-June 1979

3. "Analysis of Total Sino-U.S. Trade, 1978"

Source: Sino-U.S. Trade Statistics 1978 (S.R. #24)

4. "Major U.S. Sales to China 1973-1978"

Source: National Council for U.S.-China Trade

Preparing for Economic Normalization

The Impact of MFN on Our Future Trade with China

With the signing of a Sino-US trade agreement on July 7, most-favored-nation (MFN) tariff status, giving China's products equal treatment with those of other countries, is likely to be approved by Congress and become a reality by the end of 1979.

In a series of articles prepared by Dori Jones, CBR looks at what the impact of MFN will be on US importers—and competing Asian exporters; a likely scenario for the passage of the trade agreement, along with an assessment of where the Jackson-Vanik amendment and Exim Bank legislation fit in; the Soviet connection—the effect of the Soviet trade agreement on the progress of the Sino-US agreement.

CBR also looks at the way ahead beyond MFN—at GSP, the GATT, and IMF. And finally, the coin is turned to look at China's own most-favored-nation tariff status—what will the US get in return for giving China Column I status?

Most importers of Chinese products are still uncertain about what effect the extension of MFN tariff status will have on their businesses, but most agree that it will definitely do nothing but help.

"It should unquestionably open up a load of opportunities, especially in areas where duties were prohibitive. It will be a real stimulant to our business," said a representative from one of the largest US importers of PRC goods.

Some of the anticipated effects are:

- The Chinese will probably raise their prices on most items, although not by the full amount of the tariff differential.
- Importers will be able to widen their profit margins and may make large one-time gains on shipments that were contracted for without taking MFN into consideration but which arrive afterwards.
- Competition will increase as other importers turn to the PRC for goods previously imported from elsewhere.
- The biggest opportunities are likely to be in products not now imported from China in large quantities that will become profitable once duties are lowered.
- Goods from the PRC already imported in large quantities are mainly those with small tariff differentials, and are not likely to be affected greatly.

Thinking Ahead

Although the Chinese will probably raise their prices, US importers still stand to make more money, particularly those who pared profit margins down to the bone in order to establish "friendly relations" with the Chinese.

Several importers have already signed contracts with the Chinese for such goods as canned mushrooms or carpets—items with prohibitively high Column II tariffs—by agreeing to pay higher prices, including the

duty, for these items than they would if they bought them from other countries. The Chinese in turn agreed to sell at a lower price than normal, with the difference being the amount of the tariff.

When MFN comes into effect, those with long-term contracts in which the Chinese have agreed to these lower prices stand to gain tremendously. The Chinese have written into some contracts a clause eliminating special discount prices if MFN is granted. Even so, importers in these cases will benefit because they have some assurance of supply during the early time period when other importers are just starting negotiations on these goods.

For instance, duty on Chinese carpets is now 45 percent ad valorem, and with MFN it will fall to about 11 percent. One importer noted that he had already signed a large contract for carpets in which the Chinese had not made allowances for MFN. "We will make huge profits and we will definitely lower our prices," the importer noted.

Many importers are now considering putting their goods from China in bonded storage in October or November and removing them after MFN status goes into effect. Despite the inherent risk—high storage fees for uncertain lengths of time—the idea is catching fire.

Jumping on the Bandwagon

More and more American importers are likely to jump on the bandwagon and turn to the PRC as a source of various products that they previously imported from other places. Those who are already im-

porting from the PRC—there are well over 1,000 now—are hoping that the ties they have established with Beijing by buying what's available and squeezing profit margins will now pay off in better terms than the Chinese are giving newcomers.

"I think China will deal with some of their established customers," said one China trade consultant. "Clients have attempted to develop relations with the Chinese in anticipation of lowered duties. It remains to be seen how they will be treated by the Chinese after MFN."

Among products that are already being imported in large quantities, US consumers are not likely to find lower retail prices. "I don't think the price will go down," commented an importer of arts and crafts. "We're selling a very skilfully made product that takes a lot of labor, and it's being sold at a low price. In the past we have not started it up to the full extent. Now we plan to make up the loss."

Retail prices of items which now can be imported only under special arrangements will generally drop, though, either for temporary "sales" or to match prices of goods from other suppliers.

"I think the Chinese will increase their prices just enough to match prices of goods from Taiwan," said one West Coast importer of canned foods. With MFN, "Chinese goods will be very, very competitive."

In support of this point, a recent study by the Korean government on the impact that US extension of MFN to China would have on some 80 Korean exports to the US concluded that Chinese prices will be "neck-to-neck" with Korean prices on these items.

The long-term effect on Korea and Taiwan is likely

TARIFFS ON LEADING CHINESE EXPORTS TO THE US

TSUSA No.	Top 15 Products	With MFN	Without MFN
320.2032	Printcloth shirting	9.51%	17%
622.02	Tin other than alloys, unwrought	Free	Free
186.156	Feathers	15%	20%
		(duty temporarily suspended)	
755.15	Fireworks	12¢ per lb.	12¢ per lb.
796.256	Antiques	Free	Free
186.1585	Downs	15%	20%
		(duty temporarily suspended)	
320.1038	White cotton sheeting	7.61%	13.5%
222.40	Bamboo baskets and bags	25%	50%
186.30	Bristles	¾¢ per lb.	3¢ per lb.
145.44	Cashews, shelled	Free	2¢ per lb.
601.54	Tungsten ore	25¢ per lb. (on tungsten content)	50¢ per lb.
360.15	Floor covering, pile	11%	45%
380.2766	Men's cotton shirts	21%	45%
704.401	Cotton gloves	25%	25%
180.50	Tea, crude or processed	Free	Free

US TARIFFS ON CHINESE EXPORTS WITH POTENTIAL IN THE US MARKET

BITC No.	Description	With MFN (ad valorem)	Without MFN (ad valorem)	MFN Effect (in million US \$)
512	Organic chemicals	6.3%	24.5%	1.1-2.0
551	Essential oils	4.3%	31.3%	0.1-0.2
598*	Chemical products and materials	6.8%	24.8%	8.0-9.2
651	Textile yarn and thread	10.5%	48.0%	0.3-0.7
652*	Cotton fabrics, woven	8.7%	18.7%	1.1-1.7
653*	Textile fabrics, woven, other than cloth	21.2%	69.0%	2.7-5.3
666*	Pottery	20.1%	62.9%	1.9-4.8
821*	Furniture	12.5%	48.0%	0.4-1.0
831*	Travel goods, handbags, etc.	21.5%	60.8%	1.0-1.6
841*	Clothing and accessories	21.8%	68.2%	4.3-10.0
851*	Footwear	10.4%	27.4%	2.0-4.9
894*	Toys, games, sporting goods	10.0%	41.8%	2.0-4.9
897	Jewelry and related articles	18.3%	67.0%	0.0-1.0
899*	Manufactured articles	13.0%	50.5%	1.8-21.8
	Light machine tools	6-10%	30-40%	
	Hand tools	10.5-20%	45-60%	
	Silk fabrics, jacquard-figured, colored	10.5%	65%	
	Silk scarves, valued over \$5 per dozen	13.5%	60%	
	Radios	10.4%	35%	
	TV sets	5%	35%	
	Bicycles	5.5-15%	30%	
	Canned mushrooms	3.2¢ per lb. +10%	10¢ per lb. +45%	
	Canned water chestnuts	17.5%	35%	

* High estimated potential reduction in number of US jobs.

Source for all items above: See: "The Impact of Most-Favored-Nation Tariff Treatment on U.S. Imports from the People's Republic of China," by Philip T. Lincoln, Jr. and James A. Rieckrick, in *Chinese Economy Post-1978: A Comparison of Views* submitted to the Joint Economic Committee of the US Congress, Nov. 8, 1978. "MFN Effects" are estimated increases in imports from the PRC that would have taken place in 1974 and 1975 if Chinese goods had received MFN tariff treatment at the time. They are based on estimated classifications of US demand for Chinese products in specific BITC groupings and give an indication of areas where MFN impact might be greatest.

Methodology: Ad valorem equivalents are unweighted averages of all 7-digit TBUS commodities within the 3-digit groups (goods admitted duty-free also included). Source was *Tariff Schedules of the United States Annotated (1978)*. Tariffs applicable only in Canada were omitted. The 7-digit TBUS commodities were aggregated into 3-digit BITC groupings using the definitions in U.S. Department of Commerce, Bureau of the Census, *U.S. Foreign Trade Statistics Classifications and Cross-Classifications, 1974*.

Source for items below: See: *Tariff Schedules of the United States, Annotated (1978)*.

to be to cause those two to begin exporting items with higher value, leaving the market for cheaper goods to the mainland Chinese. This pattern has occurred before—first with Japan and then with Singapore and to some extent Hong Kong, which began producing electronic goods and higher quality textile goods in response to increased competition from lower-priced goods from Taiwan and South Korea.

Greatest Impact: New Products

Many of the items those two suppliers are now exporting are among those which importers will begin to look to the PRC for once MFN status is implemented. Items which now have prohibitively high tariffs under Column II—especially light manufactures—will become profitable to import when China

has MFN. Among the light industrial items that might be imported in larger quantities: sporting equipment, toys, light machine tools, hand tools, small transistor radios, nuts and bolts, ball bearings, furniture, footwear, and some canned foods, such as mushrooms.

Other products that will become profitable to import include pottery, new jewelry, certain chemical products, essential oils, and certain minerals and metals. (See box on "US Tariffs on Chinese Exports with Potential in the US Market," which also lists one study's estimate of the likely dollar increase in certain imports, based on 1974-75 data.)

Goods already being imported into the US in large quantities will be affected by MFN only slightly, perhaps 5-7 percent according to one study. Of these, the items most affected will be those which the Chinese

were temporarily supplying at particularly low rates in order to get a foothold in the US market, such as carpets, tungsten ore, and basketware. (See box on "Tariffs on Leading Chinese Exports to the US.")

Imports of certain textiles are likely to rise also, although the US government slapped a quota on five apparel items on May 31. Talks will continue on quantitative restrictions for these and other textile products. Among the textile items likely to be affected by extension of MFN to China are household linens, silk fabrics, finished silk goods, underwear, and cotton fabrics.

National Council Estimates

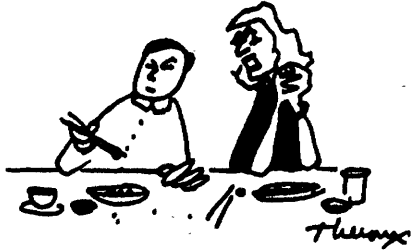
All in all, imports from the PRC are likely to increase gradually, perhaps 25-30 percent over two to three years, rather than causing an immediate impact. Taking this as a reasonable range, the National Council predicts that MFN status for the PRC will mean anywhere from a minimum of \$400 million to a maximum of \$1 billion in extra imports of Chinese goods over the years 1980 to 1982. (See accompanying box, "Impact of MFN on Total Imports from the PRC.")

The Council's low estimate of an increase of \$400 to \$500 million in imports due to MFN extension assumes a conservative 17 percent annual rise in imports from the PRC. The higher estimate of \$800 million to \$1 billion in added imports from China assumes that the US will buy a increasing percentage of China's growing export total.

Constraints on China's Export Ability

A word of caution about the potential level of Chinese exports to the US is in order: several factors limit the Chinese ability to expand exports rapidly. Chinese Vice Minister for Foreign Trade Chen Jie was quoted as saying that how quickly Chinese exports to the US will expand "depends on the needs of the US and on our capability." Limitations on Chinese export capability include:

- shortcomings in domestic transportation and electric power, along with competing demands for these resources from agriculture and other industries;
- rising domestic Chinese demand for many items China would like to export, such as petroleum and building materials;
- supply and availability constraints;
- difficulties in complying with US federal regulations and standards, especially those of the Food and Drug Administration, the Toy Safety Act, and the US Department of Agriculture;
- a need to adapt to the US market expectations on packaging, labeling, range, and style;
- rising protectionism in the US, likely to put further limits on Chinese exports of textiles and possibly footwear.



"Tell me, Mr. Li, how does one say 'ten appetit' in Pinyin?"

It will probably take the Chinese at least two years to be able to gear up to overcome these hurdles. As one step, the Chinese have decided they will probably open offices in the US for their foreign trade corporations dealing in foodstuffs, light industrial products, silk, arts and crafts, and textiles, according to Chen Jie. They have also appointed one member of their commercial staff in Washington to take care of advertising of Chinese products in the US, to make more Americans aware of their products.

Since the Chinese are now more open to using US private labels and to designing goods to specification, Chinese goods are likely to become accepted more quickly in the US once MFN goes into effect. □

IMPACT OF MFN ON TOTAL US IMPORTS FROM THE PRC

PROJECTED US IMPORTS FROM CHINA
(in million US \$)

	Without MFN		Counting in Impact of MFN**
	Low Estimate*	High Estimate**	
1979	\$ 400	\$ 530	—
1980	\$ 468	\$ 600	\$ 586-\$1,040
1981	\$ 548	\$1,050	\$ 685-\$1,595
1982	\$ 642	\$1,380	\$ 805-\$1,755
1980-1982	\$1,658	\$3,200	\$2,079-\$4,180

Additional trade resulting from extension of MFN, over three years, 1980-1982:

- a) \$416-688 million, based on low estimate of total US imports from China (\$1,658 million).
- b) \$809-986 million, based on high estimate of total US imports from China (\$3,200 million).

* Estimated US imports from the PRC, assuming 17% growth per year.

** Estimated US imports from the PRC, assuming a rising US share of China's exports: 4% in 1979, 5% in 1980, 6% in 1981, and 7% in 1982.

*** assuming a 25-30% increase caused by US extension of most-favored-nation (MFN) status to the PRC.

"As far as the volume of trade between our countries is concerned, surely it would not be less than our trade with Japan."

Vice Premier Deng Xiaoping
to Secretary of Commerce,
Juanita Kreps, Beijing,
May 10, 1979.

1978

Sino-US trade \$1.15 billion
Sino-Japanese trade \$5.08 billion

- The National Council projects that China's total trade will reach \$63 billion by 1985, with the PRC's exports growing at an annual average rate of 17 percent, and imports by 18 percent during 1979-85.

- China's total import bill during 1979-85 is estimated at \$164 billion.

- China can remain financially prudent—borrowing only \$18 billion over the next seven years—and still import Western technology worth approximately \$40 billion while keeping its debt service ratio no higher than 18 percent.

- Invisibles items in China's balance of payments will probably net an additional \$12 billion in hard currency revenues during 1979-85, although grain purchases costing over \$1 billion annually are likely to continue through 1985.

- US-China trade will be at least \$3.5 billion by 1985, assuming the US share of China's total two-way trade remains the same as it is now, but could rise to as much as \$8 billion.

- China's accumulated imports from the US during 1979-85 are estimated at \$23 billion, while estimated total US imports from China over the same period add up to \$11 billion.

CBR Forecast

China's Trade Through 1985

CHINA'S EXPORTS AND IMPORTS THROUGH 1985

The National Council estimates that China's total foreign trade will increase at an annual average rate of 17 percent during 1979 through 1985, and that the PRC will achieve \$63 billion in two-way trade by 1985. This figure, which is based on an analysis of past trends and Chinese policy pronouncements through March 1979, assumes that exports will grow rapidly in the next two years in order to earn foreign exchange to meet China's growing capital goods import bill.

During 1981-82, however, exports are expected to slow as China turns its attention inward to the problem of absorbing approximately \$26 billion of capital goods and technology imports that will by then have entered the PRC.

About \$10 billion of these high-technology items were contracted for in 1978, according to a recently published National Council study. An equivalent value of contracts can be expected in 1979, if China is to reach its capital construction objective of importing, and setting up, a total of about \$50 billion in Western plants and equipment by 1985, the final year of the country's current 8-year development plan.

Imports are projected to grow faster than exports, and reach \$51 billion by 1985. As a result of China's

ambitious import program, the trade balance is likely to be in the red during 1979-84. In the past China rarely tolerated trade deficits for long, but the government has altered its self-reliant policies on loans, foreign investment, and tourism, to mention just a few recent examples, and a change of stance with regard to protracted—but modest—trade deficits is possible.

Trade deficits are expected to be covered by loan drawings, amounting to about \$15 billion during 1979-85. At this level of borrowing debt service payments will rise to 15 percent of China's hard currency exports in 1979—unless the \$6 billion short-term facility currently under negotiation with Japanese banks is rolled over next year, or converted to long-term credits. Otherwise, China's debt service ratio will remain under 10 percent, the same modest level as in 1978.

In the near future China can look forward to substantial foreign exchange earnings from tourism, transport services, and other credit items in its balance of payments that in past years contributed little hard currency income.

The magnitude of these invisible items is such that henceforth current account surpluses may be realized despite persistent deficits on China's trade account. These new revenues are the result of recent policy choices, reflecting the government's new determination to enlarge its merchant marine, exploit the country's tourist potential, and encourage overseas Chinese to increase their remittances, invest in factories, and buy homes for their relatives in China.

US-CHINA TRADE—\$3.5 TO \$6 BILLION BY 1985

Assuming that America's share of the China market remains unchanged, total US-China trade will increase by 17 percent per annum and reach \$3.5 billion by 1985. But the US share in China's exports and imports will undoubtedly increase in the years following the normalization of relations, and total Sino-American trade is more likely to approach \$6 billion by 1985.

This will occur if the US export share in China's trade doubles by 1985—a level that is still far short of parity with Japan's share in the China market which the PRC has indicated is the long-run level also desired with the US—then US exports to China would be around \$5 billion by 1985, comprising 16 percent of China's imports in that year.

US imports from China in 1985 should reach almost \$3.2 billion, assuming that China's exports increase at an annual average rate of 59 percent during 1979-85. (PRC exports to the US grew by 51 percent annually during 1975-78.) This figure is 10 percent of China's export market, also well below Japan's current share of 19 percent. Given these conservative growth parameters, total US-China trade of \$8 billion would represent an annual average rate of increase of 39 percent during 1979-85. Of the total, US food exports to the PRC will top \$2 billion by 1985, and US imports of Chinese manufactured goods will pass the \$1 billion mark, assuming these two categories have the same trade shares in 1985 that they do now, of 44 and 32 percent, respectively.

PROJECTED AMERICAN EXPORTS TO THE PRC, 1985, BY CATEGORY¹

Category	Total, 1985 (millions of US \$)	Percent
Food & Live Animals	\$2,190	44
Crude Materials, Inedible, Except Fuels	1,340	27
Machinery and Transport Equipment	550	11
Chemicals	350	7
Animal and Vegetable Oil and Fats	250	5
Manufactured Goods of Chief Materials	150	3
Miscellaneous Manufactured Articles, n.e.c.	100	2
Mineral Fuels, Lubricants, and Fatted Products	10	.2
Items and Transactions Not Classified	40	.8
Totals	4,980	100 %

¹ The values, %s, and percentages for each category are based on 1978 import breakdowns published by the Department of Commerce and trade projections prepared by the National Council. Not elsewhere classified.

PROJECTED AMERICAN IMPORTS FROM THE PRC, 1985, BY CATEGORY¹

Category	Total, 1985 (millions of US \$)	Percent
Miscellaneous, Manufactured Articles, n.e.c. ²	\$1,020	32
Manufactured Goods by Chief Materials	930	29
Crude Materials, Inedible, Except Fuel	570	18
Chemicals	360	11
Food and Live Animals ³	280	8
Animal and Vegetable Oil and Fats	30	1
Beverages, Tobacco, Machinery and Transport Equipment	10	.3
Items and Transactions Not Classified	20	.7
Totals	3,190	100 %

Total projected US-China Trade in 1985: \$8,170 million.

¹ The values and percentages for each category are based on 1978 import breakdowns published by the Department of Commerce and trade projections prepared by the National Council. ² Not elsewhere classified.

CHINA'S PROJECTED EXPORTS AND IMPORTS THROUGH 1985
(In million current US dollars)

Year	A		B		C	
	China's Exports (toB)	Growth Rate (percent)	China's Imports (toB)	Growth Rate (percent)	Total Trade (A+B)	Growth Rate (percent)
1978	10,200	26	10,100	66	20,300	39
1979	12,800	25	13,200	31	26,000	28
1980	16,900	24	18,300	38	34,200	32
1981	17,500	10	22,100	21	39,600	16
1982	18,200	10	26,100	14	44,300	12
1983	22,100	15	26,100	4	48,200	9
1984	26,900	20	27,600	7	54,500	13
1985	31,900	20	31,100	12	63,000	16
TOTAL (1978-85)	146,600	17*	168,700	19*	308,600	17.6*

* Annual average growth rate, 1979-85.

KEY FINANCIAL VARIABLES IN ESTIMATING CHINA'S FOREIGN TRADE, 1978-85
(In million current US dollars)

Year	Services and Transfers						Current Account Balance (D+J)
	D	E	F	G	H	I	
	Trade Balance (toB) (A-B)	Net Tourist Revenue	Net Transport Revenue	Overseas Chinese Remittances	Net Foreign Aid	Net Services and Transfers (E+F+G+H)	
1978	100	300	240	400	- 220	720	820
1979	- 400	390	300	480	- 220	930	530
1980	- 2,400	500	360	520	- 220	1,190	- 1,240
1981	- 4,800	570	400	590	- 220	1,340	- 3,260
1982	- 5,900	860	440	680	- 220	1,560	- 4,340
1983	- 4,000	800	500	770	- 220	1,850	- 2,150
1984	- 1,300	1,010	600	860	- 220	2,270	970
1985	800	1,260	720	1,000	- 220	2,760	3,560
Total (1978-85)	- 17,900	5,190	3,320	4,990	- 1,540	11,870	- 5,930
Year	Cash and Payments					Change in Foreign Exchange Reserves (Increases -) (J + (K+L) + (M+H))	
	K	L	M	N			
	Loan Drawings	Loan Repayments	Down Payment Credits	Progress Payments	Capital Good Imports on Credit		
830	- 750	—	- 1,470	- 370	940	1978	
2,080	- 1,660	500	- 1,000	- 250	- 200	1979	
2,820	- 1,820	1,080	- 870	- 170	- 200	1980	
3,080	- 790	1,500	- 270	- 60	- 200	1981	
3,040	- 170	1,670	—	—	- 200	1982	
2,230	- 790	1,210	—	—	- 500	1983	
1,070	- 1,920	580	—	—	- 700	1984	
250	- 2,780	170	—	—	- 1,200	1985	
14,570	- 8,790	6,710	- 1,940	- 680	- 2,390	TOTAL (1978-85)	

Assumptions and Methodology

- A Exports increase rapidly during 1975-80 in order to obtain hard-currency revenues needed to purchase capital goods imports. During 1981-85, the rate of increase slackens owing to the greater domestic need for resources to complement high-technology imports that by then will be entering China's ports in larger volume. After 1985, exports again increase rapidly in order to overcome new shortages, and to meet 1980 targets.
- B Imports constitute a residual category, dependent upon foreign exchange earnings from exports, investments, loans, and charges in monetary reserves. This approach coincides with the routine of centrally planned economies, in which imports are used to fill critical gaps in the state plan. The level of imports depends upon whether foreign exchange-generating sectors achieve their targets.
- C Items A + B.
- D The 1980 trade surplus is due mainly to a build up in foreign exchange reserves during 1984-85.
- E The total number of tourists and overseas Chinese that visited China in 1978, according to two different official reports, was 400,000 and 700,000. Using the lower figure, total tourist expenditures were about \$200 million in 1978, assuming an average foreign exchange expenditure per person of \$50 per day over 10 days. During 1979-85, projected expenditures increase by 5 percent annually, while the number of tourists is assumed to increase at the same rate as exports.
- F About 70 percent of China's foreign trade is currently carried in PRC-owned vessels, according to one authority. Based on this estimate, a figure for net revenues from transport services was obtained for 1979, and projected in line with export growth.
- G Overseas Chinese remittances were estimated to be approximately \$400 million in 1978. The Chinese government wishes to increase this figure to \$1 billion, according to reports in Hong Kong. Assuming that this target is achieved by 1985, remittances will increase at an average annual rate of 17 percent.
- H China's annual aid disbursements during 1975-77 averaged \$220 million. After declining from higher aid levels during 1970-74, aid outlays have remained fairly steady, and it is likely that these modest commitments will continue through 1985.
- I Items E + F + G + H.
- J Items D + I.
- K Credits are assumed to be drawn at the time of delivery of capital goods imports on a pro rata basis. During 1979-85, these imports will total at least \$40 billion, according to National Council estimates. Of this total, \$10 billion was contracted for in 1978, while the remainder will probably be contracted for during 1979-85. One-third of these imports were purchased on 5-year credits; it is further assumed that two-thirds involved prepayment.
- L Payments begin the 6th year after importation, followed by equal installments through year nine. Interest charges of 7.25 percent are compounded annually.
- M In accordance with balance of payments procedures, down payments are entered in the capital account as debit items, and as an offsetting positive change in reserves. (Decreases in foreign currency reserves are customarily indicated by a positive sign.) In later years, items previously paid for must be entered in the capital account in the year the imports are debited in the merchandise trade account.
- N Ten percent down payments are calculated for capital goods imported on credit, and 20 percent for items involving progress payments.
- O China's foreign currency reserves in 1978 were over \$2 billion, according to Vice Premier Li Xianglin. This party estimates that during 1984-85, if not earlier, China will endeavor to build up its reserves in order to restore the 10 percent ratio of reserves to imports it currently maintains. In keeping with standard balance of payments notation, increases in foreign currency reserves are indicated by a minus sign.

PROJECTED US-CHINA TRADE, 1978-85
(in billion current US dollars)

Year	US Exports to China	Share PRC Imports (percent)	US Exports from China	Share PRC Exports (percent)	Total US-China Trade	Growth Rate (percent)	Share of China's Total Trade (percent)	
							US	Japan*
1978	0.82	8	0.32	3	1.14	205	5.5	24
1979	1.37	10	0.53	4	1.90	66	7.1	24
1980	2.01	11	0.80	5	2.81	48	8.2	24
1981	2.85	12	1.05	6	3.70	32	9.3	24
1982	3.27	13	1.35	7	4.62	25	10.4	23
1983	3.85	14	1.77	8	5.42	17	11.2	22
1984	4.17	15	2.39	9	6.56	21	12.1	21
1985	4.98	16	3.19	10	8.17	25	13.0	20
TOTAL	22.92	—	11.40	—	34.32	33**	—	—

* Japan's 1979 share of two-way trade is projected in line with its average share during 1974-78. During 1980-85, its share is expected to decline 3-6 percent.

** Annual average growth rate, 1978-85.

Sources: Trade projections, and an explanation of underlying assumptions and methodology, may be obtained from the National Council.

ANALYSIS OF TOTAL SINO-US TRADE, 1978

Table 1
SINO-AMERICAN TRADE,
1971-1978

(\$ millions, % change)

	1971	1972	%	1973	%	1974	%	1975	%	1976	%	1977	%	1978	%
US Exports	--	83.5	--	740.2	+1088	818.1	+11	303.6	-63	136.4	-56	171.3	+27	823.6	+381
US Imports	4.9	32.4	+561	84.9	+100	114.7	+77	188.4	+38	201.0	+27	202.7	+1	324.1	+60
Total	4.9	95.9	+1857	805.1	+740	933.8	+16	481.9	-81	336.4	-27	374.0	+11	1147.7	+207

* 1971 % percentage

Table 2
AMERICAN EXPORTS TO THE PEOPLE'S REPUBLIC OF
CHINA 1977 AND 1978, BY CATEGORY
(\$ millions)

Category	Total 1978	Total 1977	% Change 1978 over 1977
Food and Live Animals	\$382.25	\$ 0.03	1,207,400.0
Beverages and Tobacco	0.0	0.0	--
Crude Materials, Inedible, Except Fuels	223.9	52.35	327.7
Mineral Fuels, Lubricants, and Related Products	1.77	0.6	196.0
Animal and Vegetable Oils and Fats	37.78	31.99	18.0
Chemicals	80.49	19.80	206.6
Manufactured Goods by Chief Materials	25.30	10.84	133.3
Machinery and Transport Equipment	93.01	51.56	80.3
Miscellaneous Manufactured Articles, nec ¹	13.71	4.54	201.9
Items and Transactions, Not Classified	0.04	0.03	33.3
TOTAL	8818.241	\$171.32	377.6%

¹ The total corrected report figure is \$223.8 million. The values for each report category are based on uncorrected reports for individual commodity shipments. The discrepancy will be resolved in August when the US Census issues corrected figures.

² nec = not elsewhere classified

Source: Sino-US Trade Statistics 1978 (S.R. #24)

Table 3
AMERICAN IMPORTS FROM THE PEOPLE'S REPUBLIC OF
CHINA 1977 AND 1978, BY CATEGORY
 (\$ millions)

Category	Total 1978	Total 1977	% Change 1978 over 1977
Food and Live Animals	\$ 25.99	\$ 25.72	1.0
Beverages and Tobacco	0.61	0.32	90.6
Crude Materials, Inedible, Except Fuels	57.99	44.05	31.6
Mineral Fuels, Lubricants, and Related Products	negl.	0.95	—
Animal and Vegetable Oils and Fats	3.28	0.06	5,376.6
Chemicals	34.23	21.79	57.0
Manufactured Goods By Chief Materials	95.10	49.56	91.8
Machinery and Transport Equipment	0.48	0.55	-14.5
Miscellaneous Manufactured Articles, nec*	105.38	58.01	81.6
Items and Transactions, Not Classified	0.91	1.66	-82.4
TOTAL	\$323.98†	\$202.66	59.8%

† This total represents uncorrected Customs value data. The authoritative figure for total imports is based on FAS (Free Alongside Ship) values. This figure, which has been corrected, is \$324.1 million, but has not been broken down into product categories.

* nec = not elsewhere classified

Table 4
TOP FIFTEEN US EXPORTS TO CHINA, 1978

Category	Value	Percent of Total Exports
Wheat, unmilled, not donated	\$250,174,410	30.4
Cotton not carded, 1 inch to 1 1/8 inch	140,398,065	17.0
Yellow corn, not donated	111,725,822	13.6
Polyester fibers, noncontinuous form	44,299,341	5.4
Oil and gas drilling machinery parts, not specified	31,449,897	3.8
Soybean oil, crude, degummed	28,117,742	3.2
Diammonium phosphate fertilizer	19,748,952	2.4
Cotton, other, 1 1/8 inch or more	16,878,927	2.1
Soybeans, not specified	15,300,134	1.9
Urea	15,174,623	1.8
Rock drills, bits, core bits, and reamers	13,018,750	1.6
Tallow, inedible	11,857,449	1.4
Diesel engines, not specified, 1001-1500 horsepower	4,506,455	0.5
Copper, unalloyed, unwrought	4,369,715	0.5
Organophosphorous insecticides, not specified	3,818,538	0.5
TOTAL US EXPORTS	\$823.6 million*	

* nec - not elsewhere classified

Table 5
TOP FIFTEEN US IMPORTS FROM CHINA, 1978

Category	Value	Percent of Total Imports
Print cloth shirting, with cotton, not fancy, colored or bleached nec*	\$20,218,536	6.2
Tin other than alloys, unwrought	15,498,584	4.8
Feathers, not meeting federal standards	15,281,964	4.7
Fireworks	12,095,781	3.7
Antiques other than furniture or silverware	10,826,402	3.3
Downs not meeting federal standards	9,851,853	3.1
ABC sheeting, white cotton, not fancy, colored or bleached, carded	8,024,216	2.5
Baskets and bags, bamboo	7,269,499	2.3
Bristles, crude or processed	7,016,426	2.2
Cashews, shelled, blanched or otherwise preserved	6,599,621	2.0
Tungsten ore	5,832,284	1.8
Floor-covering pile, hand inserted, valued at over 66.27c per sq. ft.	5,777,925	1.8
Men's cotton shirts	5,664,241	1.8
Cotton gloves, no fourchettes	5,559,495	1.7
Tea, crude or processed	4,762,665	1.5
TOTAL US IMPORTS	\$324.1 million†	

* nec - not elsewhere classified
† Corrected figure

MAJOR US SALES TO CHINA 1973-1978

1. AGRICULTURAL COMMODITIES

Illinois Agricultural Services Co. (US)	Breeding swine (437)	\$0.17	10/78
(US)	Breeding swine (760)	NVG	10/78
(US)	Corn (1.1 million mt)	\$111.7	1978
(US)	Wheat (2.3 million mt)	\$291.2	1978
(US)	Cotton (126.9 thousand running bales)	\$157.3	1978
(US)	Soybeans (57,000 mt)	\$15.3	1978
(US)	Soybean oil (44,000 mt)	\$26.1	1978

2. AGRICULTURAL MACHINERY

Deere & Co. (US)	Tractors and farm implements	\$1	2/78
Caterpillar (US)	5 model D-9 tractors	\$1	2/78
	28 model D-7 tractors	NVG	9/78
Valmont Industries (US)	Center pivot irrigation systems, pumps, power units, spare parts	\$1	11/78

3. CHEMICAL PLANTS AND EQUIPMENT

Kellogg Continental (51% owned by Pullman's Kellogg division of the US) Dutch State Mines (DSM) Verenigde Machine Fabrieken	Three urea plants 480, 000 each (DSM's Stami-carbon process)	\$34	Late January 1973. Guilders. Payment to DSM over four years. Start up 1976.
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M. W. Kellogg (Division of Pullman, Inc.)	Three Ammonia Plants 330,000 (Kellogg)	\$70	6/29/73. Completion 1976. Spot cash: no financing involved. Normal terms, aprox. 20% down, 70% on completion, 10% on start up.
Kellogg Continental (51% owned by M.W. Kellogg of Houston) DSM	Five Urea Plants, 480,000 each (DSM's stam-carbon process)	\$56	Late August 1973. 1976-77 startup.
M.W. Kellogg	Five Ammonia Plants 330,000 (Kellogg)	\$130	11/8/73. Beginning 1976, startup to dovetail with previous Kellogg plant sales. Cash, as in earlier contract.
Marubeni Corp., JGC, Stone & Webster (Japan, US)	Ethylene plant at Daqing (300,000 ton/yr) Stone & Webster license for process engineering services and construction management	\$125	7/28/78
Davy Powergas; Johnson Matthey, Union Carbide (UK, US)	2 oxo-alcohol plants: 70,000 ton/yr, 1 at Daqing, site for second undisclosed	\$74.5	8/78

Pullman-Kellogg (US)	Engineering, procurement and construction advisory services for petrochemical processing facility (production of metacresol and butyl hydroxy toluene)	NVG	12/22/78
Constructors John Brown, Union Carbide (UK, US)	High-density polyethylene plant (140,000 mt/yr), Union Carbide's licensed gas-phase technology (Shandong)	\$51.5	12/19/78
4. <u>CHEMICALS</u>			
Phosphate Chemicals Exports Association, C. Itoh & Co. (US)	Phosphate fertilizer (90,000 tons concentrate super-phosphate 60,000 tons ammonia phosphate)	\$13.2	10/21/78
5. <u>COAL, OTHER MINERAL MINING DEVELOPMENT AND TECHNOLOGY</u>			
6. <u>CONSTRUCTION EQUIPMENT</u>			
Dupont (US)	2 metric tons of commercial explosives (Tovex water gel)	\$0.005	8/78
Caterpillar (US)	40 pipe layers, model 572; 20 pipe layers, model 571	\$9 (including tractors)	9/78
WABCO (US)	57 75-ton dump trucks	NVG	9/78

Ingersoll-Rand (US)	2 large, all purpose drills, accessories; also compactors for road construction	NVG	10/2/78
7. <u>CONSTRUCTION MATERIALS AND PLANTS</u>			
8. <u>ELECTRONICS</u>			
Fluke International (US)	Test and measurement	NVG	3/78
Analog Devices (US)	Integrated circuit components	\$0.5	1/78
Sperry Univac (US)	2 computer systems; 1100/11 unit processor and 1100/12 multiprocessor	\$6	6/29/78
Magnavox Marine Systems (US)	Electronics equipment	NVG	3-8/78
B&P Sales (US)	a) Data acquisition systems, associated transducers and instrumentation for gas turbine testing system b) Engineering study for specialized instrumentation to be added to data systems	\$2	10/78
Control Data Corp. (US)	12 CDC Cyber computers for geophysical exploration	\$69	12/28/78
IBM (US)	IBM 370/138 computer for compressor plant	\$2	5/78 (subject to COCOM)

Daedalus (US)	Airborne scanners for mineral resource exploration	\$2.8	12/24/78
Ebara-Infilco (US) and Japan Electrostatic Precipitation (Japan)	Factory drain treating system, electrostatic precipitation dust collector--to accompany TV picture tube plant	NVG	11/28/78
9. <u>FOOD PROCESSING AND PACKAGING</u>			
Coca-Cola (US)	Exclusive rights to sell NVG cola, shipment of bottled canned Coke, construction of bottling plant		12/13/78
10. <u>IRON ORE AND PIG IRON PRODUCTS</u>			
11. <u>MACHINERY</u>			
12. <u>MACHINE TOOLS</u>			
Gleason Works (US)	Machines, tooling for manufacturing automotive, tractor axle gears (47 units)	\$7.5	2/78
Bullard Co. (Division of White Consolidated) (US)	Machines, tooling (vertical boring mills)	\$3	3/78
Lees-Bradner (Subsidiary of White Consolidated) (US)	Model HT thread-milling machines	\$0.14	3/31/78
Barber-Colman Co. (US)	Horizontal gear-hobbing machine	\$0.13	3/78

Lucas Division of Litton Industries (US)	Numerous contracts for machine tools	\$4.5	3/78
Farrrel Co. Rochester Division (Subsidiary of Emhart Corp.) (US)	Large, verticle boring mill	\$1	3/78
13. <u>METAL MINING AND PROCESSING</u>			
Kaiser Engineers (US)	Feasibility study for development of 2 iron ore mines (Nanfen, Shijiaying)	NVG (Total cost of project unknown)	11/20/78
Bethlehem Steel (US)	Preliminary study for development of iron ore mine, beneficiation and pelletization plants (Shui-zhang)	NVG (Total cost of project over \$500 million)	11/20/78
Fluor Corp. (US)	Planning agreement for design and management of copper mines and concentrator	\$10 (Total cost of project over \$800 million)	12/7/78
14. <u>MILITARY EQUIPMENT</u>			
15. <u>MINING EQUIPMENT</u>			
Bucyrus-Erie (US)	a) 7 blasthole drills, other equipment; b) Spare parts for blasthole drills and electric power shovels	a) \$6 b) several hundred thousand \$	5/31/78 2/78

Orenstein & Koppel, (W. Germany), WABCO (US)	Ten RH75 hydraulic face shovels, 75 payload dump trucks	\$41.8	10/78
Joy Manufacturing Co. (US)	Continuous coal miners, shuttle cars	\$6	11/78
Joy Manufacturing Co. (US)	Coal loading machines, spare parts	\$1.25	12/27/78

16. NON-FERROUS METALS AND PRODUCTS

17. PETROLEUM AND NATURAL GAS DEVELOPMENT AND REFINING

Lurgi and Zimmer (West Germany) Amoco (US)	Petrochemical complex with 36,000-ton per year TPA unit and 40,000-ton per year polyester fiber unit. Amoco to supply tech- nology for TPA section with the construction by Lurgi. Zimmer to handle both construction and technology for poly- ester fiber section.	DM 92 mil. (39.1 mil.)	Contract signed 5/77 to be completed in 1978
Ingersoll-Rand (US)	Power recovery equip- ment, which converts waste gases from cat- alytic crackers into mechanical energy with an Ingersoll-Rand power recovery expansion tur- bine, an axial flow com- pressor, and auxiliary equipment.	\$3-4 mil.	Contract signed 7/77; delivery by late 1978

Hughes Tools (US)	Tool joints for attachment to oil field pipes	\$1	1/78
Grant Geophysical (US)	Geophysical survey vessel (subject to export controls)	NVG	1/78
Georex (subsidiary of French Co. CGG) (US, France)	Geophysical survey vessel (subject to export controls)	NVG	1/78
B-J Hughes Baker Trading Co. (US)	a) Petroleum handling tools (onshore and offshore) b) Cementing equipment for National Supply rig	a) slightly less than \$0.1 b) \$0.5	early 1978
Marathon LeTourneau (US)	2 jack-up rigs (Class 82-SD-S)	\$46	5/11/78
Bethlehem Singapore (US Singapore)	Jack-up rig (BethDrill JU-250)	\$20-25	4/10/78
Reed Tool, Baker Trading Co. (US)	Drill bits (3 other contracts)	\$4.5 NVG	5/78 1978
Hughes Tool (US)	Drill bits and cutters	\$10	5/78
Mertz, Inc. (US)	Servo-hydraulic vibrators for onshore drilling	\$7	6/78
Cameron Iron Works (US)	Drilling packages for 2 Chinese rigs under construction	\$0.7	7/78

Geosource, Inc. (US)	Geophysical equipment (4 contracts)	\$15	10/78
National Supply (Armco) (US)	Oil-well drilling equipment for Gulf of Bohai (5 electric-pow- ered offshore rigs, 2 jacking systems)	\$30	7/78
Ingersoll-Rand (US)	Power recovery system for refinery	\$3	8/78
Reda Pump Co., TRW (US)	Electric submersible pumps	\$1.25	early October 1978
Thermotics, Baker Trading Co. (US)	Secondary recovery equipment	\$2	11/78
Texas Instruments (US)	5 seismic recording systems	\$4	11/78
Rolligon, Baker Trading Co. (US)	Rough terrain vehicles for oil field transport	\$5-10	11/78
Geospace Corp. (US)	Geophysical equipment, (assistance in training and installation)	\$2.7	11/78
Contintental-Emsco (subsidiary of LTV) (US)	2 1,500 horsepower diesel-powered land rigs with 20,000-30,000 feet drilling capability and 5 offshore rigs	\$40	12/16/78
Greerco (US)	10 wax molders	\$6.8	12/20/78

Cameron Iron Works (US)	20 blowout preventers for land, jackup, work-over rigs	\$6	12/78
Kuster Co., Baker Trading Co. (US)	Downhole instruments (3 contracts)	NVG	1978
Baker Packing, Baker Trading Co. (US)	Well completion equipment	NVG	1978
Christensen Diamond Products, Baker Trading Co. (US)	Drilling equipment (3 contracts)	NVG	1978
Bowen Tools, Baker Trading Co. (US)	Fishing tools (4 contracts)	NVG	1978
Vector Cable Co., Baker Trading Co. (US)	Electric cable (2 contracts)	NVG	1978
BWT Technology, Baker Trading Co. (US)	Well testing equipment (2 contracts)	NVG	1978
Reed Tool Co. (Mining division), Baker Trading Co. (US)	Shaft boring equipment	NVG	1978
Gray Tool Co., Baker Trading Co. (US)	Well head equipment	NVG	1978
18. <u>PHARMACEUTICALS</u>			
19. <u>PORTS AND RELATED EQUIPMENT</u>			
Ellicott (US)	Dredgers	\$2.5	12/78
20. <u>POWER</u>			

21. SCIENTIFIC INSTRUMENTS

(US)

Medical instruments;
ventilators and other
equipment used in post-
operative care; heart
surgery equipment

NVG

3-10/78

Spectra-Physics (US)

Scientific equipment

\$0.05

Spring 1978

Bently Nevada (US)

Diagnostic equipment,
rack systems for use
on power-generating
test stands

NVG

5/78

22. SHIPPING

23. STEEL AND STEEL PRODUCTS

24. STEEL PLANTS AND EQUIPMENT

25. TELECOMMUNICATIONS

US Geological Survey (US)

Earth science in-
formation gathered
by LANDSAT over USSR

\$0.105

10/78

26. TEXTILE PLANTS AND EQUIPMENT

Prestige Sportswear (US)

Continuous fusing
machines and garment
manufacturers forms
for making women's wear

Buyback
arrangement

11/78

Oxford Industries (US)	Apparel-finishing equipment, including fusing machines, for corduroy men's suits.	Buyback arrangement	11/78
27. <u>TEXTILE PRODUCTS</u>			
28. <u>TOURISM</u>			
29. <u>TRANSPORTATION EQUIPMENT</u>			
Calavar Corp. (US)	Firebird 150 fire engine	NVG	8/78
Ford Motor Co. (US)	700 light and heavy-duty pick-up trucks	\$4-5	11/78
Boeing Co. (US)	3 very-long-range 747 SP jetliners	\$156 (for 3)	12/15/79
	10 707-3205	\$125	1973
30. <u>MISCELLANEOUS</u>			
Technicolor Ltd.	35mm Motion Picture Processing Plant	\$8.5	7/19/73 Cash deal, 50% down, 40% on delivery, 10% on acceptance.
Marine Office of American (MOAC) (Subsidiary of Continental insurance) (US)	MOAC to be claims agent in US for People's Insurance Company of China	NVG	8/14/78
Encyclopedia Britannica (US)	2,000 copies of 19 reference books	NVG	9/7/79

THE NATIONAL COUNCIL FOR UNITED STATES-CHINA TRADE,
Washington, D.C., December 17, 1979.

HON. RUSSELL B. LONG,
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR LONG: The Minerals and Metals Subcommittee of the Importers Steering Committee of the National Council for U.S.-China Trade would like to express its strong support for passage of the Trade Agreement between the United States and People's Republic of China. The Minerals and Metals Subcommittee is composed of 32 companies involved in the trade of metals and minerals with the People's Republic of China. We feel that Congressional approval of the Trade Agreement and granting of Most Favored Nation Tariff status to China will further remove barriers to the establishment of normal trading relations with China and will foster a spirit of co-operation and goodwill between the U.S. and China which will benefit not only the trade of metals and minerals, but also American export business and the U.S. economy.

China's metal and mineral resources are extensive. China is known to have the world's largest deposits of antimony with reserves of 3.5 to 4 million tons. China's tungsten reserves are probably in excess of 100 million tons, representing more than three-fourths of the world's known resources. In addition, China has substantial reserves of tin, molybdenum, fluorspar, asbestos, manganese, bauxite, talc, salt, rare earths, and rare metals.

At present the Schedule II tariff rates for some Chinese materials, such as tungsten ore and lead-bearing ores, are twice the Schedule I rates, while the Schedule II duties for other products, such as columbium, molybdenum and other base metals, are as much as five times the Schedule I rates. The granting of MFN tariff status to China will allow U.S. importers to diversify their imports from China and to import certain items that they previously did not import at all or imported only in small quantities because of prohibitively high tariffs. The granting of MFN will bring the price of Chinese goods in line with other sources in Asia and throughout the world, and help to keep world prices down.

U.S. imports from China include many of the strategic metals and minerals stockpiled by the U.S. Government for national security purposes, such as tin, tungsten, antimony, graphite, zinc, talc, mercury and columbium. In times of dwindling world supplies of raw materials, the United States must not overlook China's importance as a source of supply. The granting of non-discriminatory tariff status and the establishment of strong trade relations with China will bode well not only for U.S. importers but also for our national security during periods of tight supply.

Although China's metal and mineral reserves are world-class, its mining and metallurgical industry is underdeveloped, and China must import certain raw materials and manufactured products. In 1978 the Chinese imported from the United States quantities of magnesium, ferrovanadium, copper and other metals and minerals in addition to a wide variety of rolled steel, cast iron, forged steel, and aluminum products. China has traditionally viewed trade in bilateral terms, and the passage of the Trade Agreement and MFN for China will encourage the Chinese to consider U.S. firms as a source of supply for the raw materials and manufactured products China must buy.

Realizing the need for developing its resources for domestic use and export, China is asking American firms to assist in the development of its mining and metallurgical industry. A number of U.S. companies including Pullman-Kellogg, Bethlehem Steel, Kaiser Engineers, U.S. Steel, Fluor Corporation, Alcoa, Kaiser Aluminum, and Reynolds Aluminum have either submitted bids or won contracts to help in the modernization of China's mining and metallurgical industry. Yet the competition for U.S. firms in this development is very stiff. Japanese companies and West European consortia, backed by low-interest government loans, have succeeded in concluding a number of significant deals with the Chinese. Only with passage of the Trade Agreement and the granting of Exim Bank credits for U.S. exporters can U.S. participation in China's economic development be realized to the fullest.

We appreciate this opportunity to explain the reason for our support of the normalization of trade relations between the U.S. and China, and we urge you to act in support of the swift approval of the Trade Agreement now pending before Congress.

ERIC HO,
WILLIAM RUDOLF,
Cochairmen, Minerals and Metals Subcommittee
of the Importers Steering Committee.

DECEMBER 5, 1979.

MEMBERS OF THE MINERALS/METALS SUBCOMMITTEE

Eric Ho, AMAX, Inc. George M. Krieger, ACLI International, Inc. Ms. Gail Kedrus/Mr. Stephen Soule, Allied Stainless, Inc. Charles T. Thompson, American Coldset Corporation. W. J. Simon/Kurt Reinsburg, Associated Metals and Minerals. Adolph E. Sinkow, Brotherston Hospital Supply Company. Dante Marioli, Cabot Corporation. Gregory W. Mandeville, The Carborundum Company.

Olof Lindstedt/Paul Spooner, Chemical Bank. Sammy Chao/Lawrence Chao, China Native Products, Inc. A. Chin, C-Tran International, Inc. Judy Poon, China Translation & Printing Services, Inc. Rodney C. Vickers, Chromalloy American Corporation. E. J. Byrnes/W. S. Roberts Clark International Marketing SA. H. Bauer, Cometals Inc. Valentin Nan Yeh, Da Sing Corporation.

Robert D. Tibbs, Dresser Oilfield Products International. Marc Beck, East Asiatic Company, Inc. Gordon L. Smith, Florist's Transworld Delivery Association. C. J. Wang, International Corporation of America. Charles Silberman, International Hardware Imports, Ltd. Charles S. Kim, Intrac Corporation. Victor Besso, Intsel Corporation. Albert Ping/Peter Lee, C. Itoh & Company (America), Inc. Julius Klugmann, Julius Klugmann International Corporation. David C. Buxbaum, May Lee Industries. Michael Menkin, Michael Menkin, Inc. M. E. Miller, Miller Supply Corporation. James E. Crawford, Jr., Monsanto. K. K. Cheng, Osborne Engineering Company, Inc. William Rudolph, Philipp Brothers. John Cohn, Rockwell International. John A. Chambers, Satra Corporation. Frank C. Siegel, Frank C. Siegel. Charles A. Marsh, South Carolina State Port Authority. Boris Sokoloff, Union Carbide Corporation. Joseph Radcliff, United International Trading Company. Solomon H. Stern, Solomon H. Stern.

HAARMANN & REIMER CORP.

Springfield, N.J., November 12, 1979.

CHAIRMAN, SENATE COMMITTEE ON FINANCE,
Washington, D.C.

DEAR MR. CHAIRMAN: This letter is written on behalf of the officers and employees of Haarmann & Reimer Corporation, a Delaware Corporation with offices and manufacturing facilities in New Jersey and South Carolina.

Haarmann & Reimer Corporation is a domestic manufacturer of aroma chemical, flavors and fine-fragrance compounds. We supply to major producers of prepared foods, personal care products, cosmetics, toiletries and fine perfumes, to name a few.

I welcome the opportunity afforded me to comment on the U.S./China trade treaty now under consideration by the Senate Finance Committee. Although I have no knowledge of the details of the trade agreement, I understand that ratification of the treaty would grant the People's Republic of China most-favored-nation status. I further understand and support the President's motives in developing better relationships with the People's Republic of China. With this regard for the intent of the treaty, and at the risk of stating the obvious, I take this opportunity to address problems of great import to Haarmann & Reimer Corporation.

The People's Republic of China is primarily an agricultural economy; the stated goals of the Chinese leaders are directed first along agricultural lines. For evolution and development of technology, the Chinese are expecting to import knowhow and equipment through sales to the West of goods produced in surplus, primarily of agricultural origin. Certain of these agriculturally-derived products for sale by the People's Republic of China in our country are similar or identical to products manufactured or otherwise produced by our company. It is this matter of our competing in a free market with goods manufactured and priced by a controlled economy such as that of the People's Republic of China which is of utmost concern to us here.

Let me be specific: In early 1978, we inaugurated in Charleston, SC, a new and highly-sophisticated manufacturing plant for the production of synthetic menthol. Since early this year, we have encountered serious difficulties in the US market resulting from the introduction into this market of quantities of menthol from the People's Republic of China at prices significantly below those previously seen. This menthol, produced by extraction in the People's Republic of China from their domestically-grown peppermint oil, is directly competitive with our synthetically-produced material. We will not elaborate on all of our difficulties with this one particular commodity but it serves as an interesting example of the potential problems of trade with a controlled economy where no consideration need be given

to question of cost, supply and demand or other factors affecting the viability of a company such as ours, operating in a free-economy.

We welcome competition in the U.S. market place or, for that matter, throughout the world where free-enterprise governs business principles. However, while we believe that we are competitive in a free-market economy, obviously such cannot be the case when faced with imports from a controlled-economy such as that from the People's Republic of China.

In conclusion, I urgently request that, while deliberating the pros and cons of this treaty, serious consideration by the committee be given to the difficulties and points I have presented above.

I thank the committee for the time and consideration given to the thoughts I have expressed above.

Sincerely,

J. M. ADAMS.

STATEMENT OF THE AMERICAN MUSHROOM INSTITUTE

The statement on behalf of the American Mushroom Institute urges that this Committee give careful consideration to the import sensitivity of processed mushrooms and the advisability of exchanging information or this problem with the People's Republic of China to avoid future consultations and actions.

The American Mushroom Institute (AMI) is a nationwide trade association consisting of over 300 growers who account for approximately 95 percent of the mushrooms grown in the United States, and 18 processors, accounting for approximately 75 percent of the mushrooms canned in the United States. The AMI is thus representative of the domestic mushroom industry and qualified to speak for its members in matters of collective concern.

The impact of increased imports of processed mushrooms has become critical. The International Trade Commission has reported to the President that over the five crop years, 1974-75 to 1978-79, imports of canned mushrooms have increased 72 percent (from 50.1 million pounds to 86.2 million pounds) and the ratio of imports to consumption rose from 40 percent to 47 percent. The number of domestic processors has decreased from 29 firms in 1975-76 to an estimated 17 in 1978-79. This has caused unemployment and operating losses in the domestic mushroom industry.

The Far East has been the source of the rapidly increasing imports of canned mushrooms with Taiwan, Republic of China; Republic of Korea and Hong Kong accounting for 95 percent of total imports in the most recent crop year 1978-79. In this connection it should be noted that mushroom industries throughout the world are complex; they have inter-dependent and competitive parts.

In the early history of U.S. mushroom production, virtually all were consumed fresh and, because of extreme perishability, close to the production source. This is still true of most fresh mushroom consumption. Because of inherent production fluctuations, fresh mushroom supplies are sometimes above and sometimes below regular demand with attendant price fluctuations.

With the advent of processing techniques, surpluses of fresh production could be channeled into cans. This event evened out supplies and tended to stabilize prices. Eventually, a canning industry per se came into being with its own specific demand. Today mushroom growers view the fresh market and the processing market as separate entities. Because processed mushrooms do not have the perishability problem, growers in normal times could sell all the fresh mushrooms the market would bear, realizing they could find processors to absorb the balance at remunerative prices.

Both fresh and processed markets serve the same classes of users—individual consumers and processors of end products containing mushrooms as an ingredient.

This description of mushroom production and utilization is true of virtually all of the countries throughout the world which have mushroom industries. Notable exceptions, however, are Taiwan, Korea, Hong Kong and the PRC. Their mushroom canning industries were established solely for export.

Dried cultivated mushrooms have an important place in Chinese cuisine, but the species used, *Cortinellus Edodes*, is not the same as the *Agaricus Bisporus*, which is the cultivated mushroom grown for export as canned mushrooms. The fact is that no domestic demand exists for mushrooms of the *Agaricus* type in the Far East. Not only are these mushrooms alien to the diets of the people of these countries, but 99 percent of the population could not afford to buy them. What little production consumed internally is principally by tourists and other visitors.

As to market disruption caused by increased imports this Committee is urged to consider the following:

When imports were 40 million pounds in 1971-72 the domestic industry requested the President to use Section 204 of the Agricultural Act of 1965 to negotiate orderly marketing arrangement with Taiwan and Republic of Korea.

In June 1973 the International Trade Commission reported to the President the viability of the U.S. mushroom canning industry was being threatened by increased imports and serious consideration should be given to some form of relief.

When imports rose to 50 million pounds in 1974-75 the domestic industry petitioned the USITC for relief. The President ordered fast processing of adjustment assistance for mushroom growers, processors and workers.

Finally in 1975-76 when imports rose to 57 million pounds (67 million for calendar 1976) the President through the Special Trade Representative asked the ITC to reexamine the situation, particularly in regard to remedy.

In January 1977 the Commission found imports had caused serious injury and recommended a tariff rate quota of 48 million pounds.

In March 1977 the President chose not to proclaim the recommended tariff adjustment and to rely upon voluntary restraints by Taiwan and Korea and the monitoring of future imports to avoid disruptive impacts on the U.S. market.

On August 10, 1977, the domestic industry, citing the failure of the voluntary assurances (imports increased 21 percent in 1976-77 over 1975-76 and totaled 69.4 million pounds), again petitioned the President to use his discretionary powers under Section 204 to negotiate an orderly marketing arrangement. This Petition is apparently under consideration along with the monitoring and surveillance of the Special Trade Representative and the International Trade Commission.

Imports have continued at a disruptive rate in the last two crop years 1977-78 (91.9 million pounds) and 1978-79 (86.2 million pounds), particularly as shipments from Hong Kong were added to the total. The ITC reported that imports accounted to 52 percent of apparent consumption in the second quarter of 1979. If the observed trends continue (imports in the third quarter of 1979 exceeded the same period of 1978) this ratio will increase.

Certainly this appears to be the market disruption envisaged by the President in his Memorandum of March 10, 1977, and the Market Disruption Notice of the Office of Special Representative for Trade Negotiations of June 8, 1977. (Copies attached.)

Under the circumstances the American Mushroom Institute has urged the Special Trade Representative to expeditiously consult with the Governments of the Republics of China, Korea, and Hong Kong to remedy this market disruption, preferably by the use of Section 204 of the Agricultural Act of 1956.

As to Hong Kong, Ambassador Strauss on February 27, 1979 advised Senator Richard S. Schweiker,

"I should also note that we share your concern about the increase in mushroom imports from Hong Kong. In our consultations with the Taiwanese Government we were informed that Hong Kong was repacking mushrooms from Taiwan with those from the People's Republic of China and exporting them to the United States. Thus, we have requested the Customs Service to investigate the correct origin of mushrooms classified in our import statistics as being imported from Hong Kong."

Mushrooms are not grown in Hong Kong, however, bulk processed mushrooms imported from Taiwan and the People's Republic of China, either in brine or frozen, are repacked in Hong Kong and shipped to the U.S. The ITC reported imports from Hong Kong to be 963 thousand pounds in 1976-77; 7.4 million pounds in 1977-78; and 12.6 million pounds in 1978-79.

On April 5, 1979 the Commissioner of Customs advised Senator Schweiker that four out of the five mushroom canners in Hong Kong (Four Seasons Canning Factory, Ltd.; The Chance Food Products Industrial Company (H.K.), Ltd.; Manchester Food Products Factory, Ltd.; and New Pacific Canners' Food & Can-Manufacture Industrial Company, Ltd.) imported mushrooms in brine from the People's Republic of China, canned these mushrooms and exported them to the United States. The Commissioner has ruled that there was a substantial transformation of these PRC mushrooms which allowed them a Most Favored Nation (MFN) dutiable status. A penetration of the U.S. marketplace by the PRC, which began in 1976 with indirect exports through Hong Kong is only a prologue as to what can be expected if increased direct exports from the PRC are attracted by MFN rates of duty.

Although exports of canned mushrooms from PRC to the U.S. are not dutiable at MFN rates they are dutiable at low CXT rates in the EC. The current statutory rate in the U.S. for canned mushrooms is 10 cents per pound plus 45 percent ad valorem while the EC (CXT) rate is 23 percent ad valorem. The PRC's dominant share of EC imports of canned mushrooms (other than from EC countries) illustrates the increased pressure of the U.S. market to be expected if the Agreement on Trade Relations Between the United States and the People's Republic of China designating

MFN rates for the PRC is approved since the U.S. MFN ad valorem equivalent rate of 13 percent is approximately 40 percent lower than the EC rate.

PERCENT AND THOUSAND POUNDS OF IMPORTS OF CANNED MUSHROOMS BY THE EC FROM PRC

	1972	1973	1974	1975	1976	1977	1978
Percent ¹06	17.2	48.8	42.7	59.9	50.7	39.3
Thousand pounds	249	14,273	47,542	36,039	35,679	33,772	40,188

¹ Excludes intra EC trade.

Over the last four years PRC has been the principal third country supplier of canned mushrooms to the EC.

This was achieved first by low prices and later by a special trade agreement. In 1970 there were no exports of canned mushrooms from PRC to the EC. Apparently the PRC determined that it was in its national interest to enter this market and readily increase its exports of canned mushrooms. The PRC, as a non-market economy, chose price as the means to enter the EC marketplace. Consider the following price and quantity relationships for the period 1972-74.

IMPORTS AND PRICES OF CANNED MUSHROOMS IMPORTED BY THE FEDERAL REPUBLIC OF GERMANY

(Pounds in thousands)

	1972		1973		1974	
	Pounds	Amount ¹	Pounds	Amount ¹	Pounds	Amount ¹
People's Republic of China	249	\$0.41	14,273	\$0.27	47,549	\$0.38
Taiwan.....	37,375	.47	56,317	.41	34,850	.45
Republic of Korea.....	2,315	.48	11,453	.38	13,452	.42

¹ Amount is price per pound.

Note.—Converted from metric tons at 2,204.6 pounds per metric ton, and from DMarks per kilogram at rates of exchange for the corresponding years reported by the International Monetary Fund.

In this three-year period the PRC, paying the same MFN rate of duty as other Far Eastern suppliers to the EC, set its prices at levels sufficiently low to increase its share of extra-EC imported canned mushrooms from 0.6 percent to 48.8 percent.

It should be noted that the EC has a major mushroom canning industry of its own in France and the Netherlands. When imports from the Far East absorbed 40 percent of the market in 1974, restrictions were instituted by means of a minimum import/price licensing system provided for in EEC regulation No. 2107/74. Subsequent regulations specified import quotas in terms of historical percentages in certain calendar reference periods. Commission Regulation No. 1102/78 suspended the issuance of import licenses for canned mushrooms effective May 26, 1978. Included in this Regulation was an exception for the PRC because that country voluntarily agreed to limit its exports to the EC. This special agreement created a market in the EC of roughly a 60 percent EC and 40 percent PRC country basis. However, on July 20, 1979, on account of the substantial number of applications for import licenses for mushrooms from the PRC, the EC issued Regulation No. 1525/79 suspending such imports from that country. (Copies of the above Regulations attached.)

This EC ban of imports of canned mushrooms from South Korea, Taiwan and the PRC has caused a diversion of canned mushroom shipments from the EC primarily to the United States. Increased market disruption has been the result; further market disruption is certainly threatened.

While the AMI is not advised of the specific intentions of the PRC as to exports of canned mushrooms to the United States, if H. Con. Res. 204 is approved, trade information indicates that imports would increase rapidly and constitute an additional significant cause of material injury to the domestic industry. Perhaps the most authoritative source for the impact of MFN on the future trade of the United States with the PRC is the China Business Review published by the National Council for U.S.-China Trade (1050 17th Street, N.W., Washington, D.C. 20036). In the July-August 1979 edition of this Review the following statements were published:

"Most importers of Chinese products are still uncertain about what effect the extension of MFN tariff status will have on their businesses, but most agree that it will definitely do nothing but help.

"It should unquestionably open up a load of opportunities, especially in areas where duties were prohibitive. It will be a real stimulant to our business," said a representative from one of the largest US importers of PRC goods.

"Some of the anticipated effects are:

"The Chinese will probably raise their prices on most items, although not by the full amount of the tariff differential.

"Several importers have already signed contracts with the Chinese for such goods as *canned mushrooms* or carpets—items with prohibitively high Column II tariffs—by agreeing to pay higher prices, including the duty, for these items than they would if they bought them from other countries. The Chinese in turn agreed to sell at a lower price than normal, with the difference being the amount of the tariff. (Emphasis added.)

"When MFN comes into effect, those with long-term contracts in which the Chinese have agreed to these lower prices stand to gain tremendously. The Chinese have written into some contracts a clause eliminating special discount prices if MFN is granted. Even so, importers in these cases will benefit because they have some assurance of supply during the early time period when other importers are just starting negotiations on these goods.

"Items which now have prohibitively high tariffs under Column II—especially light manufactures—will become profitable to import when China has MFN. Among the light industrial items that might be imported in larger quantities: sporting equipment, toys, light machine tools, hand tools, small transistor radios, nuts and bolts, ball bearings, furniture, footwear, and some *canned foods, such as mushrooms.*" (Emphasis added.)

The PRC has exported canned mushrooms directly to the U.S since 1971 and indirectly through Hong Kong since 1976. Direct exports have been restrained primarily by the statutory or non-MFN duties; indirect imports through Hong Kong have increased at a rapid rate.

PRC, benefiting from EC/MFN rates is now the largest exporter from the Far East to the EC. What are the chances that if U.S./MFN rates were applied to PRC exports of canned mushrooms to the U.S., the PRC would become the primary supplier of this article to the United States?

Excellent; since opportunity and incentive are outstanding. The opportunity will appear in the form of a duty reduction from 10 cents per pound on drained weight plus 45 percent ad valorem to 3.2 cents per pound on drained weight plus 10 percent ad valorem. The incentive is the most urgent need of PRC to earn dollars with which to pay for imports.

The PRC a few months ago outlined her import needs for development goods and services from the United States but has since sharply scaled back the prospective imports until ways can be found to pay for them. Shipments of canned mushrooms to this country will be one of those ways.

In summary:

The U.S. mushroom industry is import sensitive.

U.S. International Trade Commission found that increased imports of canned mushrooms has seriously injured the like domestic industry—January 1977.

President of the United States directs International Trade Commission to publish quarterly reports on import penetration of canned mushrooms, and STR to monitor imports of canned mushrooms and consult with governments of supplying countries if such imports become a disruptive factor in the U.S. market—March 1977.

STR reports that Governments of Republic of China and Republic of Korea have given assurances future exports of mushrooms from their countries will not disrupt the U.S. market—June 1977.

When the monitoring reports showed imports increasing substantially in the 1977-78 monitoring year (July 1-June 30), STR expressed concern informally to the Government of Taiwan in March and again in August. Formal consultations were held in Washington in October in conjunction with meetings on other trade matters—Twenty-third Annual Report of the President of the United States on the Trade Agreements—1978.

The Economic Development Administration, U.S. Department of Commerce, approved a \$249,917 grant for a program of technical assistance to help the domestic mushroom industry overcome problems related to imports—September 1979.

The President in his letter to the President of the Senate transmitting the proclamation extending nondiscriminatory treatment to the products of the People's

Republic of China, and the text of the Agreement on Trade Relations between the two countries stated:

"It includes safeguard arrangements to ensure that our trade with the People's Republic of China will grow without injury to domestic firms or loss of jobs for American workers."

The safeguard arrangement in the Trade Agreement under consideration by the Committee (S. Con. Res. 47) provides in part:

"The contracting parties shall exchange information on any problems that may arise from their bilateral trade, and shall promptly hold friendly consultations to seek mutually satisfactory solutions to such problems."

It is respectfully urged by the American Mushroom Institute that the Subcommittee on International Trade request the Office of the United States Trade Representative to exchange information with the People's Republic of China as to this problem coincident with the consideration by the House of Concurrent Resolution 204 in the view of avoiding rapid increased exports of canned mushrooms to the United States if MFN rates of duty were assessed on its exports of canned mushrooms to the United States. Such consultation would avoid intensifying the existing market disruption caused by an unreasonably high level of imports of canned mushrooms. An already seriously injured industry beset with continued market disruption should not be subjected to rapid increases in imports of canned mushrooms before consultations would be triggered by the terms of the Trade Agreement. Information on this problem should be exchanged with the PRC at the earliest possible time.

presidential documents

Title 3—The President

Memorandum of March 10, 1977

Decision on Mushrooms Under Section 202(b) of the Trade Act of 1974

Memorandum for the Special Representative for Trade Negotiations

THE WHITE HOUSE,
Washington, March 10, 1977.

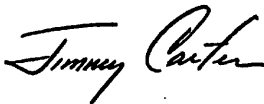
Pursuant to Section 202(b) of the Trade Act of 1974 (P.L. 93-618, 88 Stat. 1978), I have determined the action I will take with respect to the report of the U.S. International Trade Commission (USITC), dated January 10, 1977, concerning the results of an investigation on mushrooms. This investigation was undertaken at the request of the Special Representative for Trade Negotiations.

I have determined that import relief for canned mushrooms is not in the national economic interest. The principal reasons for that determination include: (1) recent improvements in the domestic mushroom industry, including higher sales, production, and profits as a result of strong demand for mushrooms; (2) the high cost to U.S. consumers of the import relief recommended by the USITC and the relatively limited number of additional jobs such relief might create; (3) the existing availability of expedited adjustment assistance for workers and firms in the industry; (4) the potential retaliation against our own exports which import relief might engender, as well as the adverse foreign policy repercussions; (5) the existing voluntary export restraints agreed to by the principal foreign suppliers of canned mushrooms (the Republics of China and Korea); and (6) my intention to monitor canned mushroom imports and consult with the principal exporters, with a view toward avoiding disruptive impacts on the U.S. market.

You should convey to the Governments of the Republic of China (Taiwan) and the Republic of Korea that their assurances with respect to mushroom exports to the United States during the 1976/77 marketing year should be maintained.

I have asked the U.S. International Trade Commission to publish quarterly reports on mushroom imports; domestic producers' production, sales and stocks; and U.S. consumption. The STR should continue to monitor imports of canned mushrooms on a weekly basis. In the event that imports become a disruptive factor in the U.S. market, you should request consultations with the government(s) involved.

This determination is to be published in the FEDERAL REGISTER.



(FR Doc. 77-7697 Filed 3-11-77; 12:56 pm)

29347

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS**MUSHROOMS****Market Disruption**

President Carter decided on March 10, 1977 that import relief on mushrooms is not in the national economic interest. He also directed the Office of the Special Trade Representative (STR) to continue monitoring imports and domestic market conditions and to request consultations with the Governments of the Republics of Korea and China in the event imports become a disruptive factor in the U.S. market. In accordance with the President's decision and directive, the STR notified the respective governments of the U.S. Government's intention to monitor imports and to seek consultations should problems arise and of the U.S. concern that their mushroom exports not disrupt the U.S. market.

The Governments of both the Republic of China and the Republic of Korea have informed the U.S. Government that:

1. The assurances given to the U.S. Government in September 1976 that exports of mushrooms during the marketing year July 1, 1976 to June 30, 1977 would not disrupt the U.S. market will be maintained.
2. Future exports of mushrooms from their countries will not disrupt the U.S. market.
3. If problems of market disruption due to imports in the U.S. market should arise, the Governments will consult and cooperate with the U.S. Government.

WILLIAM B. KELLY, JR.
Chairman, Trade Policy
Staff Committee.

(FR Doc. 77-16188 Filed 6-7-77; 8:15 AM)

FEDERAL REGISTER, VOL. 42, NO. 110—WEDNESDAY, JUNE 8, 1977

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REGULATION (EEC) No 2107/74 OF THE COMMISSION
of 8 August 1974

laying down protective measures applicable to imports of preserved mushrooms

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community;

Having regard to Council Regulation (EEC) No 865/68 (1) of 28 June 1968 on the common organization of the market in products processed from fruit and vegetables, as last amended by Regulation (EEC) No 2429/72 (2);

Having regard to Council Regulation (EEC) No 1427/71 (3) of 2 July 1971 introducing protective measures for products processed from fruit and vegetables, and in particular Article 1 (2) thereof;

Whereas imports into the Community of preserved mushrooms during the 1973 marketing year amounted to some 40 000 metric tons; whereas this figure is considerably higher than the figure for previous years; whereas, furthermore, the figure for the first six months of 1974 is some 53 % higher than the figure for the corresponding period of 1973;

Whereas the offer prices from third countries are 20 to 30 % less than the cost price within the Community industry for preserved mushrooms; whereas, consequently, the trend of imports from third countries may aggravate the difficulties facing Community producers as regards production and marketing;

Whereas massive imports from third countries at very low prices create a situation on the Community market where products of Community origin lose trade outlets; whereas during the first half of 1974 stocks of some 20 000 metric tons of preserved mushrooms produced in the Community were in fact found to exist on the Community market; whereas these stocks are considerably larger than those recorded in previous years; whereas, furthermore, by reason of the increased volume of imports stocks are likely to increase in the coming months;

Whereas an assessment of the situation on the market, the main points of which are outlined above, leads to

(1) OJ No L 153, 1. 7. 1968, p. 8.
(2) OJ No L 264, 23. 11. 1972, p. 1.
(3) OJ No L 151, 7. 7. 1971, p. 5.

the conclusion that imports threaten the Community market with serious disturbances which could jeopardize the objectives of Article 39 of the Treaty; whereas, in these circumstances, it is necessary to take protective measures;

Whereas the effect of the protective measures should be to restrict imports so that they can be absorbed by the Community market without worsening the situation thereon;

Whereas for this purpose imports should be restricted by recourse to a system of import licences which will be issued as the situation on the Community market allows; whereas, in order to cope with a difficult situation on the Community markets, the period of validity of these licences should be limited;

Whereas imports originating in third countries willing to maintain a certain price level should not be included in the system of import licences;

Whereas recourse to a system of import licences makes it necessary for Member States to make prior provision for its establishment; whereas consequently this system may not be applied immediately but only with effect from 26 August 1974;

Whereas, in order to take account of existing trade relations and to ensure that the Community importers concerned are fairly treated, the restriction on issuing licences to applicants should be based on factors relating to a reference period; whereas for this purpose use should be made either of the month of 1973 for which applications are lodged or of the average of the corresponding months from 1971 to 1973 if this average exceeds the quantity imported in 1973;

Whereas the system of import licences must not result in excluding from the trade persons who have not carried out commercial transactions in preserved mushrooms during 1971, 1972 and 1973; whereas, consequently, it should be possible, within limits, to grant them import licences,

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HAS ADOPTED THIS REGULATION:

Article 1

1. From 26 August 1974 all imports into the Community of preserved mushrooms (subheading 20.02 A of the Common Customs Tariff) from third countries shall be subject to the submission of an import licence.

2. Member States shall issue the licence under the conditions laid down in Article 2, on application by the party concerned, irrespective of the place of his establishment within the Community.

The licence shall be issued for imports to be effected during the month for which it was drawn up. It may, however, cover the month preceding or the month following the month in question in respect of the quantity for which it was issued. It shall be valid for imports to be effected in the Member State which issued it.

3. When application for a licence is made, the quantities of products to which it relates shall be indicated.

Each application shall be accompanied by the lodging of a deposit of 1 unit of account per 100 kilogrammes net weight, which secures the obligation to import during the period of validity of the licence and which shall, except in case of *force majeure*, be forfeited in whole or in part if importation is not effected within this period or is only partly effected.

4. The import licences shall not be required for imports originating in third countries to be specified which are willing and in a position to guarantee that on importation into the Community of products originating in their territory the price will not be below a certain minimum level and that all deflection of trade will be prevented.

Article 2

1. At the end of each week Member States shall notify the Commission by telex of:

- (a) the quantities, shown for each month, in respect of which import licences have been applied for during the week;
- (b) the quantities, shown for each month, in respect of which import licences have been issued during the week.

The information required under (a) shall be notified for the first time on 16 August 1974.

2. On the basis of the notifications provided for in paragraph 1 the Commission shall assess the situation and decide as provided in Article 3 on the quantities of products for which licences shall be issued.

3. The Commission shall reach a decision during the week following that in which the quantities applied for are notified to it. If, however, during the week in question the Commission has not acted on this, the conditions in force before the import licences were issued shall be maintained.

4. Up to the quantity specified in the application, import licences shall be issued for the quantities laid down by the Commission. They shall be issued during the second week following that during which the quantities applied for are notified to the Commission.

Applications for quantities exceeding those specified by the Commission shall for this reason be rejected.

Article 3

The Commission shall lay down the quantities of products for which the licences are issued by fixing a percentage to be applied to the reference quantity laid down each month for each particular applicant.

This reference quantity shall be equal to:

- the quantity of preserved mushrooms imported by the Community in 1973 during each month specified in the application, or
- the average quantity of this product imported into the Community during each month specified in the application for 1971, 1972 and 1973 if this average exceeds that specified in the first indent.

Imports originating in third countries fulfilling the conditions of Article 1 (4) shall not be taken into account when the reference quantity is being determined.

Article 4

When applications for licences are made by persons who have not imported the products in question into the Community during the period 1971—1973, these applications shall, by way of derogation from the abovementioned provisions, be granted in respect of not more than 5% of the average quantities of products imported into the Member State and converted to the authorities of the latter in each month of 1971, 1972, and 1973 corresponding to those specified in the application. Imports originating in countries fulfilling the conditions of Article 1 (4) shall be excluded when these average quantities are being calculated.

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Import licences corresponding to these applications shall be issued within 10 working days following the lodging of the applications and in the chronological order in which they were lodged. One and the same application may not be allotted quantities exceeding 2% of the average quantities of products imported into the Member State and mentioned in the preceding subparagraph.

Article 5

1. Each Member State shall lay down the reference quantities:

- (a) for the quantities of products which were imported into that Member State during the reference period corresponding to each month specified in the application:
 - (aa) by reference to the documents supplied by the applicant certifying these operations and,
 - (bb) by reference to the documents which he has at his disposal and which relate to these operations;
- (b) for the quantities of products which have been imported into another Member State during the reference period corresponding to each month specified in the application:
 - (aa) by reference to the document supplied by the applicant certifying these operations and giving an undertaking that an application for these quantities has not been and will not be made in a Member State other than that for which the documents are provided, and
 - (bb) by reference to the documents issued immediately, on application by the party concerned, by the authorities of the importing Member States certifying these operations.

2. Member States which issue the documents mentioned in paragraph 1 (b) (bb) shall ensure that applications for licences have not been made previously to their own authorities for the quantities of products imported during the reference period for which the documents were requested.

They shall take all necessary measures to ensure that the quantities of products which are the subject of these documents are not taken into consideration for laying down the reference quantity used for calculating the quantities for which import licences will be issued by their own authorities.

Article 6

The issue of the import licence shall include:

- the right to import not more than 105 %,
 - the obligation to import not less than 95 %
- of the specific quantity of the product chosen during the period of validity of the licence.

The rights and obligations arising from the licences shall be transferable.

Article 7

The import licence shall mention:

- (a) the name and address of the applicant;
- (b) the description of the product, the Common Customs Tariff subheading within which it falls and its reference number in the goods nomenclature for foreign trade statistics of the Member State in question;
- (c) the country of origin of the product;
- (d) the quantity of the product expressed in kilogrammes, net weight;
- (e) the month for which it was issued.

Article 8

The deposit referred to in Article 1 (3) may be lodged in cash or in the form of a guarantee given by an establishment complying with the criteria laid down by the Member State from which the issue of the licence is requested.

Article 9

1. Without prejudice to Article 10:

- (a) the deposit shall be forfeited in whole when the obligation to import has not been fulfilled during the period of validity of the licence;
- (b) the deposit shall be forfeited in part if the quantity imported is more than 5% less than the quantity indicated in the licence. The amount of the deposit withheld shall be calculated by reference to the difference between the quantity indicated in the licence less 5% and the quantity actually imported.

2. The deposit shall be immediately released:

- (a) in respect of applications withdrawn no later than the week following that during which they were lodged;
- (b) if Article 2 (2) applies, in proportion to the quantity for which an application has not been granted.

Article 10

1. On application by the party concerned, the Member State which issued the import licence shall decide that the obligation to import is cancelled and that the deposit shall not be forfeited:

(a) when importation cannot be effected during the period of validity of the licence as a result of circumstances considered to constitute a case of *force majeure*, or

(b) for quantities of products which the party concerned has imported or has had imported into the territory of the Community free of customs duties or charges having equivalent effect and which have left the territory of the Community for consumption in a third country.

2. The importer shall, by means of the appropriate documents, furnish proof:

(a) of the circumstances considered to be a case of *force majeure*;

(b) of the period during which the products were brought into Community territory while customs

duties or other charges having equivalent effect were suspended, of their departure from Community territory and their free circulation in a third country.

3. Member States shall inform the Commission of circumstances recognized as a case of *force majeure*.

Article 11

For the purposes of this Regulation, 'net weight' means the weight of the product excluding immediate packaging.

Article 12

This Regulation shall enter into force on 9 August 1974.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 8 August 1974.

For the Commission

P. J. LARDINOIS

Member of the Commission

**COMMISSION REGULATION (EEC) No 1102/78
of 25 May 1978**

adopting protective measures applicable to imports of preserved mushrooms

**THE COMMISSION OF THE EUROPEAN
COMMUNITIES,**

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) No 516/77 of 14 March 1977 on the common organization of the market in products processed from fruit and vegetables⁽¹⁾, and in particular Article 14 (2) thereof,

Whereas the import licences issued and the applications made for licences, up to 23 May 1978, show that preserved mushrooms to a total quantity of 40 914 tonnes have been or will be imported in the period to the end of the month of July;

Whereas this quantity is greatly in excess of the quantity of approximately 32 900 tonnes imported during the whole of 1977; whereas large numbers of licence applications continue to be received;

Whereas the offer prices for a large quantity of these third country products are 20 to 30 % less than the cost price in the Community preserved mushroom industry; whereas consequently the trend of imports from third countries may aggravate the difficulties facing Community producers as regards production and marketing;

Whereas under these circumstances products of Community origin are losing their outlets on the Community's markets; whereas Community market figures for the first months of 1978 show that the level of preserved mushroom stocks in the Community is 40 to 50 % higher than it was in 1977; whereas there is a risk of the level of these stocks rising as sales diminish over the next few months because of the increased volume of imports;

Whereas an assessment of the situation on the market, the main points of which are outlined above, leads to the conclusion that imports threaten the Community market with serious disturbances which could jeopardize the objectives of Article 39 of the Treaty; whereas, in these circumstances, it is necessary to take protective measures;

Whereas the effect of these protective measures must be to prevent the market situation worsening because of excessively large importations;

Whereas for this purpose the issue of import licences should be suspended and all pending applications rejected;

⁽¹⁾ OJ No L 71, 21. 1. 1977, p. 1.

Whereas this suspension should not apply to licences for the importation of products originating in third countries which are able to ensure that exportations to the Community do not exceed certain levels; whereas in order to supervise these importations it should be made compulsory for the name of the country of origin to be entered on the licence application and the licence itself;

Whereas at the present time the Commission has been able to accept that the People's Republic of China is able to ensure that its exports to the Community do not exceed a quantity acceptable to the Commission; whereas the issue of import licences for preserved mushrooms originating in this country should therefore be permitted,

HAS ADOPTED THIS REGULATION:

Article 1

1. The issue of import licences for preserved mushrooms (subheading 20.02 A of the Common Customs Tariff) is suspended from 26 May 1978.
2. Licence applications pending on this date shall be refused.

Article 2

1. The provisions of Article 1 (1) shall not apply to import licences for preserved mushrooms originating in third countries which the Commission accepts as being able to ensure that their exports to the Community do not exceed a level agreed by the Commission.
2. When application is made for an import licence for preserved mushrooms originating in a third country benefiting under the terms of Article 1 the name of the country of origin shall be entered in box 14 of the licence application and of the licence.

Article 3

The People's Republic of China shall benefit under the terms of Article 2.

Article 4

This Regulation shall enter into force on 26 May 1978.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 25 May 1978.

For the Commission

Finn GUNDELACH

Vice-President

**COMMISSION REGULATION (EEC) No 1525/79
of 20 July 1979**

amending for the third time Regulation (EEC) No 1102/78 adopting protective measures applicable to imports of preserved mushrooms

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) No 516/77 of 14 March 1977 on the common organization of the market in products processed from fruit and vegetables⁽¹⁾, as amended by Regulation (EEC) No 1152/78⁽²⁾, and in particular Article 14 (2) thereof,

Whereas Commission Regulation (EEC) No 1102/78 of 25 May 1978⁽³⁾, as last amended by Regulation (EEC) No 951/79⁽⁴⁾, suspended the issue of import licences for preserved mushrooms; whereas, however, by virtue of Article 2 of the said Regulation, this provision does not apply to products originating in countries which are able to ensure that their exports to the Community do not exceed a certain level;

Whereas Article 3 of the said Regulation enabled products originating in the People's Republic of China to benefit from the provisions of the said Article 2;

Whereas, on account of the substantial number of applications for import licences for preserved mush-

rooms from that country, the Commission is bound to record that the conditions for non-application of the protective measures in respect of imports of those preserves into the Community are no longer fulfilled; whereas Article 3 of Regulation (EEC) No 1102/78 should therefore be temporarily suspended,

HAS ADOPTED THIS REGULATION :

Article 1

1. Article 3 of Regulation (EEC) No 1102/78 is hereby temporarily suspended.
2. Applications for import licences for preserved mushrooms (subheading ex 20.02 A of the Common Customs Tariff) pending on the date of entry into force of this Regulation shall be refused.

Article 2

This Regulation shall enter into force on the day of its publication in the *Official Journal of the European Communities*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 20 July 1979.

For the Commission

Finn GUNDELACH

Vice-President

(¹) OJ No L 73, 21. 3. 1977, p. 1.
(²) OJ No L 144, 31. 5. 1978, p. 1.
(³) OJ No L 139, 26. 5. 1978, p. 26.
(⁴) OJ No L 120, 16. 5. 1979, p. 14.

U.S. Council for an Open World Economy

INCORPORATED

7216 Stafford Road
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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, in support of the trade agreement with the People's Republic of China, in hearings before the Subcommittee on International Trade of the Senate Finance Committee, November 15, 1979

The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall public interest. The Council speaks for no private, commercial interest.

The Council is in basic support of the recently negotiated trade agreement with the People's Republic of China (PRC), and, as part of that agreement, of extending nondiscriminatory ("most favored nation") treatment to PRC goods entering the United States.

Congressional action to approve these measures should not be delayed pending PRC negotiation of an export control arrangement on shipments of textiles to the United States -- export controls which the United States has sought from that country, along the lines of export restraints the United States has negotiated with other countries that ship significant quantities of textiles to our domestic market. Delay in concluding an "orderly marketing agreement" on textiles with the PRC does not leave the United States without means to curb textile imports from the PRC when these increase at such a rate as to be deemed "disruptive". The United States has already taken such action on certain categories. Approval of the overall trade agreement could well set the stage for concluding the desired textile agreement, in addition to the other advantages of such Congressional action.

We regret that the textile matter has come up at all as a dispute between the United States and the PRC, just as we regret the overall textile-trade-control policy within which textile imports from the PRC must take their logical, nondiscriminatory place. We regret such measures, not out of absolute opposition to trade controls under all circumstances (much as we don't like trade restrictions on legitimate commerce), but rather because such controls in this instance (as in too many others) are not established or sought as only temporary, emergency components of a coherent, balanced, constructive

adjustment strategy addressing the real problems and needs of the particular U.S. industry. There have been special U.S. import controls of one kind or another on textiles for nearly a quarter of a century -- yet, there is still no coherent, balanced, constructive adjustment strategy addressing the real problems and needs of the textile industry in the overall public interest including the enlightened self-interest of the industry itself, its workers and their communities. Reform of the way our government concerns itself with the international competitive problems of this country's weaker industries is long overdue. Both in economic and other terms, the nation can ill afford the costly distortions that characterize current approaches to these trade issues.

We also take this opportunity to urge Congress and the President to reform Title IV of the Trade Act of 1974 so as to authorize the President to extend nondiscriminatory (MFN) treatment to a "non-market economy" if he has substantial reason to believe that the easing of that country's emigration controls (the objective of the statute's constraints on extension of MFN to such countries) warrants such treatment. The statute's current requirement of explicit, formal assurances by those governments on emigration policy is seen by some of those countries as exactions that belittle their sovereignty (whatever the merit of such a reaction). The statute's current requirement could be counterproductive on various policy fronts, including the emigration issue itself. Changes in Congressional procedures with respect to review of MFN treatment for non-market economies may also be desirable.

I am appending a personal note, which I am confident is also the view of our Board of Trustees. I do so as a longtime student of Cambodian affairs, as senior author of Cambodia, Its People, Its Society, Its Culture (published in 1957), and as a concerned American. Although recommending approval of a trade agreement of great value to the PRC, I am grievously mindful of the fact that the current, horrendous tragedy that has befallen Cambodia and caused such anguish around the world is primarily the product of the Pol Pot regime, whose preponderant source of support was the PRC. I cannot, callously, block the unspeakable tragedy of Cambodia from my thoughts about the development of trade relations with China. But nor should such extraneous issues be allowed to obstruct progress toward building a better, more just world order, including a constructive, productive relationship with the People's Republic of China.

Before the
UNITED STATES SENATE
Committee on Finance
Subcommittee on International Trade

Statement on Behalf of the American Dinnerware
Emergency Committee in Connection with the
Agreement on Trade Relations between the
United States and the People's Republic of China
(S. Con. Res. 47)

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Statement on Behalf of the American Dinnerware
Emergency Committee in Connection with the
Agreement of Trade Relations Between the
United States and the People's Republic of China
(S. Con. Res. 47)

SUMMARY

This statement is submitted on behalf of the American Dinnerware Emergency Committee (ADEC), whose members account for approximately 85% of the earthen tableware articles produced in the United States, in opposition to approval of the extension of nondiscriminatory (most-favored-nation) treatment with respect to the products of the People's Republic of China (PRC) as provided in a bilateral commercial agreement between the United States and the PRC signed on July 7, 1979 and transmitted by the President to the Congress on October 23, 1979.

The U.S. earthen tableware industry has a history of being "import sensitive", and has already been the recipient of import relief under both the Trade Expansion Act of 1962 and the Trade Act of 1974. More recently, a new nomenclature and tariff structure were created to restore the original tariff protection that had been eroded through inflation over the years. However, import penetration is still extremely high at 70%. The People's Republic of China is already exporting significant quantities of low and middle value chinaware to the United States, even with a duty rate in excess of 70% ad valorem.

Extending most-favored-nation treatment to the PRC would be an open invitation for them to increase their exports and flood our markets with their products. The U.S. earthen tableware industry can not withstand any increase in import penetration.

We urge that either the agreement with the PRC be rejected or that provision be made to protect the U.S. earthen tableware industry from increased imports that may result from approval of the agreement.

Statement on Behalf of the American Dinnerware
Emergency Committee in Connection with the
Agreement on Trade Relations between the
United States and the People's Republic of China
(S. Con. Res. 47)

This statement is submitted on behalf of the American Dinnerware Emergency Committee (ADEC), whose members (listed on the cover page) account for approximately 85% of the earthen tableware articles produced in the United States, in opposition to approval of the extension of nondiscriminatory (most-favored-nation) treatment with respect to the products of the People's Republic of China (PRC) as provided in a bilateral commercial agreement between the United States and the PRC signed on July 7, 1979 and transmitted by the President to the Congress on October 23, 1979.

The U.S. earthen tableware industry has a history of being extremely "import sensitive" within the meaning of the Trade Act of 1974.^{1/} The industry first obtained import relief under the Trade Expansion Act of 1962,^{2/} which relief was extended (in part) for three years in 1976 pursuant to the Trade Act of 1974.^{3/} At the time of the initial finding of injury due to increased imports the industry was the first in the history of the Trade Expansion Act of 1962 to receive a majority recommendation from the (then) U.S.

^{1/} Sec. 503; 19 U.S.C. 2463.

^{2/} Sec. 301; 19 U.S.C. 1901 (repealed).

^{3/} Sec. 203(h) (3); 19 U.S.C. 2253(h) (3)

Tariff Commission that relief be granted.^{4/} In 1976, the industry was the first to receive an extension of the original relief under the Trade Act of 1974.^{5/}

More recently, in 1978, pursuant to a Presidential directive issued with the 1976 proclamation, a new nomenclature and tariff structure were created covering imports of ceramic products "in order to close tariff loopholes and change obsolete descriptions brought about by currency changes and inflation."^{6/} It is hoped that this new nomenclature will restore the original tariff protection that existed when the tariff schedules of the United States were devised in the early 1960's.

While the industry has made significant gains in its attempt to compete with imports during the course of the events mentioned above, the fight is not yet over. Import penetration in the market supplied by the U.S. industry (which we have defined as "popular priced" ceramic tableware) is still extremely high at 70%.^{7/} Among Free World countries, Japan, Korea, and Taiwan have historically accounted for the bulk of these imports.^{8/}

^{4/} TC Publication 466, Feb. 1972.

^{5/} Presidential Proclamation 4436, April 30, 1976.

^{6/} Ibid.

^{7/} See Table I, attached.

^{8/} See Table II, attached.

It is significant, for purposes of the Congressional resolution at issue here, that the PRC has also been an important source of supply, in recent years exporting as much as, or more than, Taiwan to this market.^{9/} And it has been able to do this with duty rates that are between 2 to 3 times as high as those for most-favored-nations.

The bulk of imports from the PRC in recent years have been entered under TSUS item numbers 533.73 and 533.75, nonbone household chinaware not in sets of the lowest and middle value categories, and TSUS item numbers 533.63 and 533.65, nonbone household chinaware in sets of the lowest and lower value categories. These classifications currently carry a duty rate of 10 cents per dozen plus 70% ad valorem. Even with such a high duty rate, these imports are substantial, and they compete directly with U.S. producers of earthen tableware in the low to middle value categories, a market where the U.S. industry is particularly vulnerable.

The production of ceramic articles is a comparatively simple process, and is well suited for lesser developed countries that have a large and relatively cheap labor supply, and a source of energy to fire kilns. Mainland China clearly meets this description. If most-favored-nation treatment is accorded the PRC, we believe it will be an invitation for them to increase their exports and flood our markets with their products. The U.S. earthen table-

^{9/} Ibid.

ware industry cannot withstand any increase in import penetration of its market.

For this reason, we appeal to the United States Congress to reject the agreement with the People's Republic of China unless some provision is made to protect the U.S. earthen tableware industry from any increased imports that may result from approval of the agreement. Such a provision could be in the nature of the agreement that the Executive Branch has worked out with the U.S. textile industry, whereby unilateral restraints on certain textile products have been imposed.

We are well aware that provision exists in the Trade Act of 1974 for an industry to petition for import relief from market disruption caused by imports from a communist country.^{10/} The U.S. earthenware industry has been down this road before, and it has been successful. However, we submit that the import penetration in the U.S. market is already so severe, and the economic condition of the industry at such a low ebb, the industry should not be forced to pursue an expensive and time-consuming course of action to obtain relief from imports when Congress can make the appeal for relief unnecessary by taking the requested action on the resolution. We ask that American jobs and American firms not be sacrificed in the endeavor to solidify ties with the People's Republic of China.

^{10/}

Sec. 406; 19 U.S.C. 2436.

TABLE 1

POPULAR-PRICED CERAMIC TABLEWARE (FOOD AND DRINK WARE HAVING AN EXPORT VALUE OF EARTHENWARE FROM \$6 TO \$45 PER 77-PIECE NORM AND MUGS \$1.00 TO \$7.00 PER DOZ.; AND CHINAWARE FROM \$8 TO \$56 PER 77-PIECE NORM AND MUGS \$1.25 TO \$8.75 PER DOZ.) PERTINENT INFORMATION ON U.S. PRODUCERS, IMPORTS AT ESCAPE-ACTION RATES AND TOTAL IMPORTS 1/, EXPORTS, APPARENT CONSUMPTION AND RATIO OF IMPORTS TO APPARENT CONSUMPTION, 1974-1978, AND IMPORTS FOR JANUARY - JUNE 1978 AND 1979

YEAR	U. S. INDUSTRY			POPULAR-PRICED IMPORTS 3/						EXPORTS	APPARENT CONSUMPTION	RATIO OF COMPETITIVE IMPORTS TO CONSUMPTION
	WORKERS	SHIPMENTS	AVERAGE PROFITS ON SALES BEFORE TAXES	EARTHENWARE AND STONWARE		CHINA		ALL IMPORTS				
				Escape Action	Total	Escape Clause	Total	Escape Action	Total			
	(number)	(mil. of doz. pcs)	(percent)	(quantity in millions of dozen pieces)						(mil. of doz. pcs)	(mil. of doz. pcs)	(percent)
1974	4,659	9.39	6.1	2.50	10.47	.85	4.73	3.35	15.20	.02	24.57	62
1975	4,400	10.07	8.3	2.09	11.31	.66	3.99	2.75	15.30	.07	25.30	60
1976	4,468	9.16	8.3 ^{4/}	1.00	14.83	.87	5.94	1.87	20.77	.13	29.80	70
1977	4,210	9.88	8.5 ^{4/}	.32	17.95	.65	6.69	.97	24.64	.19	34.33	72
1978	3,920	8.97	5.9 ^{4/}	.23	14.71	.22	5.75	.45	20.46	E.24	29.19	70
Change from 1977 - 1978	-7%	-9%	---	-28%	-18%	-66%	-14%	-54%	-17%	+26%	-15%	---
January - June 1978	---	---	---	.15	7.39	.15	2.96	.30	10.35	---	---	---
January - June 1979	---	---	---	<u>5/</u>	5.24	<u>5/</u>	2.19	<u>5/</u>	7.43	---	---	---
Change from Jan.-June 1978 - 1979	---	---	---	---	-29%	---	-26%	---	-28%	---	---	---

See footnotes on page 2

POPULAR-PRICED CERAMIC TABLEWARE (FOOD AND DRINK WARE HAVING AN EXPORT VALUE OF EARTHENWARE FROM \$6 TO \$45 PER 77-PIECE NORM AND MUGS \$1.00 TO \$7.00 PER DOZ.; AND CHINAWARE FROM \$8 TO \$56 PER 77-PIECE NORM AND MUGS \$1.25 TO \$8.75 PER DOZ.) PERTINENT INFORMATION ON U.S. PRODUCERS, IMPORTS AT ESCAPE-ACTION RATES AND TOTAL IMPORTS ^{1/}, EXPORTS, APPARENT CONSUMPTION AND RATIO OF IMPORTS TO APPARENT CONSUMPTION, 1974-1978, AND IMPORTS FOR JANUARY - JUNE 1978 AND 1979

FOOTNOTES

- 1/ Includes imports from non-MFN countries.
- 2/ U. S. industry statistics do not include Cannonsburg Pottery, a member of ADEC through September 1975.
- 3/ Popular-priced imports included for 1974: 25% of item 533.25, 100% of item 533.26, 72% of item 533.28, 42% of item 533.31, 10% of item 533.35, 80% of item 533.36, 65% of item 533.38, 75% of item 533.63, 100% of item 533.65, 60% of item 533.66, 85% of item 533.71, 80% of item 533.73, 80% of item 533.75, 10% of item 533.77, and 100% of items 923.01 - 923.15. Because of increased prices, popular-priced ware in 1975 through 1977 included: 20% of item 533.25, 100% of item 533.26, 80% of item 533.28, 45% (70% after April 1976) of item 533.31, 10% of item 533.35, 85% of item 533.36, 75% of item 533.38, 60% of item 533.63, 100% of item 533.65, 65% of item 533.66, 90% of item 533.69, 85% (90% after April 1976) of item 533.71, 85% of item 533.73, 85% of item 533.75, 25% of item 533.77, and 100% of items 923.01 - 923.15. Further changes in tableware prices caused popular-priced ware in 1978 and 1979 to include: 20% of item 533.25, 100% of item 533.26, 60% of item 533.28, 90% of item 533.31, 10% of item 533.35, 85% of item 533.36, 50% of item 533.38, 50% of item 533.63, 100% of item 533.65, 100% of item 533.66, 90% of item 533.69, 80% of item 533.71, 90% of item 533.73, 90% of item 533.75, 70% of item 533.77, and 100% of the escape classes 923.01 - 923.15 (which ceased to exist October 6, 1978).
- 4/ ADEC members only.
- 5/ Included in total.

NOTE: Shipments do not parallel employment, because of variations in year-end inventories and in productivity.

SOURCE: Computed from statistics supplied by the U.S. International Trade Commission, samples of imports analyzed by the U.S. International Trade Commission, and information supplied by members of ADEC.

TABLE 2

U. S. Imports of Popular-Priced Ceramic Tableware by Country: 1976 - 1978

(Quantity in Thousands of Dozen Pieces)

	<u>Earthenware</u>			<u>Chinaware</u>			<u>Total</u>		
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Argentina	***	21	1	0	0	***	***	21	1
Brazil	81	78	107	43	27	136	125	105	243
China (Mainland)	33	21	15	572	848	771	605	869	786
China (Taiwan)	113	334	565	138	182	271	251	516	837
Czechoslovakia	0	***	***	35	38	44	35	38	44
France	19	28	15	34	35	55	53	63	70
Germany (East)	***	***	0	4	16	42	4	16	42
Germany (West)	77	64	108	543	208	73	620	273	181
Hong Kong	4	15	11	24	50	22	28	65	35
Ireland	89	136	143	4	21	3	94	157	147
Italy	112	180	96	13	12	12	125	192	109
Japan	10,353	12,793	10,110	4,859	5,302	4,807	15,212	18,094	14,917
Korean Republic	921	1,654	1,503	22	29	11	943	1,683	1,513
Norway	4	3	2	1	***	3	6	4	4
Philippine Republic	3	64	65	4	3	3	6	67	69
Poland	***	***	***	159	108	233	159	108	234
Romania	116	172	108	0	9	53	116	181	161
Spain	19	23	20	***	2	***	20	25	21
Sri Lanka	0	***	2	105	70	13	105	70	15
United Kingdom	2,779	2,207	1,703	14	11	16	2,793	2,217	1,719
Other	140	151	164	20	26	39	160	177	203
TOTAL	14,862	17,945	14,739	6,596	6,995	6,608	21,459	24,940	21,347

***under 1,000 dozen pieces

NATIONAL ASSOCIATION OF MANUFACTURERS



International Economic
Affairs Department

November 14, 1979

The Honorable Abraham Ribicoff
Chairman, International Trade Subcommittee
Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The National Association of Manufacturers favors adoption of Senate Concurrent Resolution 47, which provides for approval by the Congress of the Administration's proposed proclamation normalizing trade relations between the United States and the People's Republic of China. By its terms the proclamation and the implementing "Agreement on Trade Relations Between the U.S. and the People's Republic of China" would establish conditions for the normalization of trade between the two countries, provide Most-Favored-Nation (MFN) treatment to imports from the PRC, and establish other conditions necessary to facilitate two-way non-discriminatory trade. NAM also supports the President's request for waiver of immigration requirements regarding the PRC, as provided in Section 402 (C) (2) of the Trade Act of 1974.

NAM represents a very large segment of American industry engaged in manufacturing, and has almost 13,000 member companies which produce roughly 3/4 of U.S. manufactured goods output. NAM for a number of years has favored the normalization of trade and other commercial relations with non-market economies--providing such normalization could take place within the framework of U.S. national security and foreign policy interests and be undertaken in a manner consistent with general U.S. trade relations, including the provision of necessary safeguards to deal with problems which might arise due to the differences between the U.S. market economy and those of non-market economies such as import market disruption.

Trade between the U.S. and the PRC has substantially increased over the last several years. In 1977, two-way trade between the two countries totalled more than \$373 million. In 1978, this trade more than tripled, reaching a level of excess of \$1.1 billion, and during the first seven months of 1979 it exceeded \$1 billion. The U.S. had a substantial trade surplus of nearly \$500 million in trade with the PRC in 1978, in contrast with the 1977 deficit of \$41 million. For the first seven months of this year the U.S. ran a \$524 million surplus.

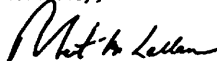
The Honorable Abraham Ribicoff
Page Two

With regard to trade in manufactured goods, NAM's primary concern, two-way trade has grown substantially--from \$210 million, in 1977 to \$421 million in 1978, or an increase of 100%. Notably, while the U.S. ran an overall net trade surplus with the PRC in 1978, the Chinese enjoyed a surplus in its manufactured goods account with the U.S. Between January and July of 1979 however, the situation has been substantially reversed, and the U.S. again has a modest surplus in trade with the PRC.

In spite of this important increase in our two-way trade and the positive experience of FMC Corporation, NAM members see a number of important problems which should be addressed before full-fledged bilateral relations can be viewed as satisfactory. Specifically, we believe that additional governmental and private export credit facilities are needed now; particularly increased loan and guarantee authorization by the Export-Import Bank. While we believe that recent PRC assurances regarding contractual arrangements to private business groups should be viewed with some degree of mixed confidence and caution, this is a favorable development.

In conclusion, we believe that favorable Congressional action on S.Con. Res. 47 will benefit the U.S. Indeed, given the continuing trade deficit which the U.S. has sustained over the past few years, it is NAM's view that no reasonable commercial opportunity should remain unexplored by the United States. From this standpoint, we are confident that expanded bilateral commercial relations between the U.S. and the PRC is in the national interest.

Sincerely,



Robert McLellan
Chairman of the International
Trade Committee and
Vice President of FMC Corporation

STATEMENT
of
Mr. Allan Aves
President
AMERICAN SOYBEAN ASSOCIATION
Before the
SUBCOMMITTEE ON INTERNATIONAL
TRADE
SENATE FINANCE COMMITTEE
U.S. SENATE
Senate Resolution 47
Approval of MFN
for the
People's Republic of China

November 1979

The American Soybean Association appreciates this opportunity to present its views on Senate Resolution 47, legislation which would approve the extension of Most Favored Nation (MFN) treatment to the People's Republic of China.

The American Soybean Association is a national, non-profit, volunteer, single commodity association organized to assure the opportunity of a profitable soybean industry in the United States. The American Soybean Association has approximately 20,000 dues-paying members, but receives funding for its activities from over 410,000 soybean producers in more than 25 states. Primarily, ASA strives to improve the profitability of the U.S. soybean industry through overseas market development programs and through programs of research and education.

Soybeans today constitute America's largest cash crop and are the largest agricultural export commodity. This year American farmers will produce over 2.2 billion bushels of soybeans valued at approximately \$14 billion. Of this production, about 55 percent (1.30 billion bushels) will be sold overseas at a value of about \$8.5 billion. As a result, the American Soybean Association is vitally interested in the trading relations of the United States.

The membership of the American Soybean Association has consistently supported a policy of treating all nations equally in international trading practices. More today than ever, America and American soybean producers operate in a world market. American soybeans are sold throughout the world to countries of widely varying political and economic ideologies. Trade should and must transcend political differences if we are to have a prosperous and peaceful world.

Just as trade was the motivation that led Marco Polo to China in the late 13th century and to the subsequent Western exploration of the world, trade was the stimulus for the PRC's reaching out to the western world in the last decade. The need to trade what one has in abundance for the things one needs is the greatest motivation to peace in the world. Interfering with the ability to trade can only result in political and social disharmony.

Realizing that trade is essential to peace and prosperity in the world, ASA is pleased to give support to Senate Resolution 47. It is important that we not discriminate against the products of the People's Republic of China, a nation representing over one-fifth of the world's population. Granting MFN status to the PRC can only result, over the long run, in a more prosperous America and improved political ties with that nation.

Even though we support the legislation granting MFN status to the PRC, the American Soybean Association does not feel the legislation goes far enough. It is ASA's policy that similar treatment be afforded the Soviet Union, Bulgaria, Czechoslovakia, and East Germany. ASA questions the wisdom of granting MFN status to the PRC without granting equal status to the Soviet Union and its Eastern European satellite countries.

It is true that the United States justifiably has concerns with the military and political activities of the Soviet Union around the globe, especially in the Third World. The American Soybean Association shares these concerns. However, we must not forget that the Soviet Union is a major market for the United States, especially for agricultural products. In particular,

the Soviet Union in 1979 will purchase well above a million metric tons of soybeans with sizeable purchases of soybean oil and soybean protein products. Likewise, exports of soybeans and soybean products to Czechoslovakia, Bulgaria, and East Germany will equal about a million metric tons. With respect to soybeans, all of these nations are larger customers of the U.S. than is the People's Republic of China.

The American Soybean Association values the USSR, Bulgaria, Czechoslovakia, and East Germany as customers just as it values the trading relationship with the People's Republic of China and the other nations of the world. Trade discrimination among these nations because of political differences would not seem to be in the best interest of the American soybean producer or Americans in general. The U.S. may be able to achieve short-term political gains from such a policy, but the American Soybean Association feels that giving all nations equal trading status will ultimately provide the greatest political and economic rewards. Trade is an important avenue of communication and understanding and interference with this avenue will not be conducive to the improved relations with the USSR that we seek and desire.

Therefore, the American Soybean Association supports granting MFN status to the People's Republic of China. In addition, however, ASA urges the Congress to separately grant as soon as possible MFN status to the Soviet Union and it's satelite nations currently not receiving MFN status. ASA believes such a policy can only be in the long-term best interest of America.

Thank you.....