

EXTENDING CHINA'S MFN STATUS

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SECOND CONGRESS
SECOND SESSION

ON

S. 2808 AND H.R. 5318

JULY 30, 1992



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1993

65-392-CC

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-040624-2

5361-26.

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EXTENDING CHINA'S MFN STATUS

THURSDAY, JULY 30, 1992

**U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.**

The hearing was convened, pursuant to notice, at 10:07 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senators Moynihan, Baucus, Mitchell, Riegle, Daschle, Packwood, Danforth, Chafee, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-42, July 27, 1992]

SENATOR BENTSEN ANNOUNCES HEARING ON CHINA'S MFN STATUS, CHAIRMAN NOTES NEED TO EVALUATE CHINA'S POLICIES BEFORE RENEWAL

WASHINGTON, D.C.—Senator Lloyd Bentsen, Chairman, announced Monday the Senate Finance Committee will hear testimony on the President's recommendation that China continue to receive most-favored-nation (MFN) status.

The hearing will be at 10 a.m., Thursday July 30, 1992 in Room SD-215 of the Dirksen Senate Office Building.

"In March of this year, the President vetoed legislation that would have placed additional conditions on renewal of China's MFN, but Members of Congress have an obligation to evaluate for themselves whether China has made progress on human rights, arms proliferation and trade policy," Senator Bentsen said.

"This hearing will give us a chance to look at whether the Administration's current policy toward China is working, and whether the Congress should revoke China's MFN status this year, consider conditional legislation again, or allow the current policy to stand," Bentsen said.

President Bush recommended June 2, 1992 that MFN status for the People's Republic of China be extended for another year. China has received MFN treatment since February 1, 1980. Under the requirements of the Trade Act of 1974 this status can be renewed each year if the President certifies that continuation of MFN will substantially promote freedom of emigration. After the President's recommendation, MFN treatment continues automatically unless Congress intervenes to disapprove the extension.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. This hearing will come to order. If you would please cease conversation.

Last March, the President vetoed legislation that would have set out new terms for extending China's most-favored-nation status this year. In that legislation, the Congress set forth three objectives for U.S. policy toward China in the 1990's. First, we called on China to improve its record on human rights, a record that has so appalled the American people for the last 3 years.

Second, we looked to China to open up its markets to American exporters, rather than hide behind the wall of protection that now

characterizes its trade policy. Finally, we asked China to stop contributing to the proliferation of dangerous weapons to the most volatile areas in the world.

Even though that bill did not become law, members of Congress have the opportunity to make their own decision this year as to whether or not we have seen progress in those areas. Indeed, they have that obligation, because this debate is about more than China's most-favored-nation status. It is about the kind of relationship this country is going to have with China in the decades to come.

I must say, I continue to be troubled about China's attitude toward trade. Last year, our deficit with China was our third largest with any nation in the world. By the end of 1991, it had become the second largest. To date this year, our trade deficit with China is up nearly 60 percent. So, we have seen an incredible escalation in that deficit.

Through are all sorts of trade barriers and administrative controls, China keeps our exports out, while its products have wide access to U.S. markets. China says it wants to be a member of GATT, but it still wants to practice one-way trade policies.

I would be most interested in hearing from the administration witnesses to know whether they are getting the message across to the Chinese that this country is not going to continue to tolerate a one-way street on trade.

Today we are going to hear testimony from a distinguished group of witnesses, and I have deliberately chosen those with wide-ranging views to hear each side of the argument as we approach this decision on China.

Next Tuesday, I intend to take up Senator Mitchell's bill in the committee, so we welcome their views. Before we go on to the witnesses, I defer to my ranking colleague, Senator Packwood, for any comments he might make.

**OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S.
SENATOR FROM OREGON**

Senator PACKWOOD. Mr. Chairman, thank you. This debate presents a more interesting philosophical discussion, and the impact of the news media than, perhaps, any we have had in years. I will be very stark about it: I do not think we would be having this debate but for the television pictures from Tiananmen Square, and the picture of the boy standing up to the tanks.

Almost all of the nations of the world have most-favored-nation status. When we finish giving it to Albania, Romania, and the Commonwealth States of the former Soviet Union, there will be only six countries that do not have it: North Korea, Cuba, Afghanistan, Laos, Cambodia, and Viet Nam.

All the rest of the world gets it. All of the countries of Africa, Syria, Libya, Iran, those bastions of democracy, get it. Japan, that bastion of free trade, gets it. France, one of the world's great, prolific weapons sellers, gets it. The country that was building the Baghdad reactor for Iraq, they get it.

So, the question is, why single out China? The normal standard for most-favored-nation status is, everybody gets it, unless you are a Communist country. If you are a Communist country, you get it if you allow free emigration. Nobody raises the issue about emigra-

tion from China. The problem for China is not that they will not people out, it is that most countries will not let enough of them in.

And that issue is not raised in the most-favored-nation status. We did not see 20,000 people butchered in Hama by President Assad and the town bulldozed down, men, women and children, over a religious difference.

I would judge, had we seen it on television, we would have done everything we could, not just to prevent most-favored-nation status from being extended to Syria, but probably tried to have brought Assad down.

The repression in China was not new, and it did not start with Tiananmen Square. We have known about it for 2 decades. We have known of their weapons sales for the better part of at least 1984 onward.

I asked the Library of Congress to do a Lexis search of just the Washington Post and the Washington Times on articles about Chinese sales of weapons overseas, and especially to the Middle East. For just the 3 years, 1987, 1988, and 1989, they found 47 articles in which it was documented that we knew they were one of the larger arms sales to the Middle East, and, that during the Iran-Iraq war, they were selling to both sides.

So, nothing has happened, or nothing has changed, except the news coverage of Tiananmen Square. If we want to engage in a new debate in this Nation about most-favored-nation status and to whom it should be extended, that is a fair debate.

If we want countries to recognize our Bill of Rights, that is a fair debate. In which case, I cannot think of a single country in Africa that would get most-favored-nation status; none in the Middle East, save Israel. In Asia, maybe half the countries part of the time, depending upon the phase of the governmental moon that they happen to be in at the time. That is a fair debate. If we want to say, perhaps we should condition it upon nations that do or do not sell arms to countries that we do or not like. That is also a fair debate. But, then, we are going to have to look seriously at Western Europe and to whom they sell arms.

No. I would say again, it is the pictures from Tiananmen Square that have caused this debate. We never had it during the 1980's. Every year, from 1980 onward, the President has extended most-favored-nation status to China, and the issue was never even raised in Congress until after Tiananmen Square.

So, now we are down to a debate about China and whether or not China is a unique case and whether they should be treated differently from the rest of the world. Let us not make a mistake. If we do not extend it to them, we will treat them differently than the rest of the world, and differently from other countries who have exactly the same kinds of violations they do in one form or another.

If we want to do that, and if we want to treat China that way, then that maybe is a fair debate also, although we should understand we are doing it differently than with any other country. Then we want to say, we have decided to single China out. All right. Will the extension of most-favored-nation status or the denial of it, or conditioning of it change their conduct? Will we be more likely to influence them if we cut it off or condition it than if not?

Again, let us be very frank about it. China is not a homogeneous country. You have got an entrepreneurial coast, and a relatively conservative inland centered around Beijing and run from there, and the entrepreneurial coast wanting to break free. This is where the reformers are.

I think if we do not extend the most-favored-nation status to China, the ones we hurt the most are the ones that are doing the best they can to bring about the reform in China. We do not bludgeon Beijing, we shackle Shanghai.

So, I would hope we would extend the most-favored-nation status to China without conditions. But, if we are not going to, then I hope we have a debate on not just China, but on whether we going to change the standards by which this particular status is extended to the world.

The CHAIRMAN. I note that the Majority Leader has arrived. And, with his other responsibilities, I am calling on him now for any comment he might choose to make.

**OPENING STATEMENT OF HON. GEORGE J. MITCHELL, A U.S.
SENATOR FROM MAINE**

Senator MITCHELL. Mr. Chairman, thank you very much for your courtesy. I thank my colleagues for their courtesy in permitting me to make a few remarks. I appreciate the committee's action in holding this hearing today on the President's decision to again extend most-favored-nation trade status to the People's Republic of China.

I would like to thank each of the witnesses for their courtesy in appearing before the committee to give us the benefit of their testimony. To those witnesses who I will not be able to hear personally, I apologize in advance. My other duties require me to leave before the hearing is completed. But I assure you, I, and I believe many Senators, will review the record of your testimony carefully.

Mr. Chairman and members of the committee, the President's decision to again grant most-favored-nation trade treatment to China is a decision which I very much regret. I believe it to be mistaken. Indeed, I find it inconceivable that the United States would continue to pursue what is a proven failed policy. It has now been 3 years since the massacre in Tiananmen Square.

Each of those 3 years, there has been mounting evidence of the brutality, the duplicity, and the intransigence of the Chinese Communist leaders. Yet, with each new evidence of brutality, of duplicity, of intransigence, the only response of the administration is to make new concessions.

The answer is not more concessions. It is time to stand up for fundamental American principles of human rights and fair trade. It is time to put American values and American interests first.

In June, with 19 of our colleagues, I introduced S. 2808, the United States/China Act of 1992, which is currently before the committee. The bill conditions the granting of most-favored-nation trading status to China in 1993 on the President's being able, at that time, to report to the Congress that China's leaders have, first, taken appropriate actions to begin adhering to the Universal Declaration of Human Rights in China and Tibet; and are fulfilling their commitment to Secretary Baker to allow the unrestricted emigration of persons subject to religious or political persecution. That

is the first thing that they would be asked to do, by next July. Begin adhering to the Universal Declaration of Human Rights, and keep the promise already made to Secretary Baker.

Second, to provide an acceptable accounting of their citizens detained or sentenced to prison merely for the non-violent expression of their political beliefs, and credibly demonstrate a good faith effort to release those imprisoned for such expression. Not to imprison people for non-violently expressing their political beliefs. How can any American object to that?

And, third, take action to prevent the export of forced labor products to the United States and agree to allow U.S. Customs officials access to places where such products are made. It is already the law in this country that such goods cannot be sold in this country.

So, all this asks is that existing law be enforced as to forced labor products made in China and sold in this country. How can any American object to that? That is what the bill would require. That is all the bill would require. And I find it inconceivable that anyone could object to that.

In addition, the President would need to report to the Congress that the Chinese Government has made significant progress—not accomplished these actions, but merely made progress—in ceasing religious persecution in China and Tibet, ceasing unfair trade practices against American business, and in adhering to the guidelines of the Missile Technology Control Regime and the Nuclear Suppliers Group. If the President could not so report, then, beginning in July of 1993, a year from now, favorable MFN treatment would not be allowed for products and exports of State-owned enterprises, but would continue to be available for products of joint ventures and private enterprises.

This is a reasonable bill. It supports basic American values, while giving the President's policy toward China an additional year to work. I believe it is time to change a failed policy.

It is time to stop making concessions to Chinese Communist tyrants who use unfair trade practices to build up a \$15 billion trade surplus with the United States and who repress the human rights of their citizens at a cost of many thousands of lives.

Now, the argument has been made that other countries violate human rights, and they do; that other countries engage in unfair trade practices, and they do; that other countries sell missile technology and nuclear technology into volatile parts of the world, and some do.

But I challenge anyone here to name any country, other than China, that does all of those things to the degree the Chinese do them. There is no other country which engages in such widespread violation of human rights.

The Dalai Lama of Tibet stood before the Members of Congress, was received by the President. He said that the Chinese Communists have murdered more than 1 million Tibetans. That figure has not been disputed, and I challenge anyone here to dispute that.

And if it cannot be disputed, then I challenge anyone to identify another government which has murdered 1 million people of a neighboring country, and is in the process of committing cultural genocide in that country.

The fact is, there is no other country that has engaged, to the extent that the Chinese have, in unfair trading practices, violating international law and American law, to build up a \$15 billion trade surplus with the United States, including the use of forced labor to sell products in America, thereby undercutting Americans and costing the loss of thousands of American jobs; that also violates the human rights of its citizens and that of a neighboring country; that also sells missile technology and nuclear technology in the volatile parts of the world in direct violation of promises made to the Secretary of State and other American officials. There is no other country that has done all of these things. Some other countries have done some of these things.

I think it is clear. I think the administration's policy is a demonstrable proven failure. And it is also clear that with each new concession, the opposite of what we want to happen happens. The Chinese become more intransigent, more duplicitous, and engage in more egregious practices.

This is a very modest bill. Very modest, in terms of what it would do. It would permit the policy of the President to continue for another year, and, within that year, it would encourage Chinese action to deal with some of these problems in a way that I think offers the only hope for realistic change.

And I want to anticipate the arguments made by the administration that it would not be enforceable because they do not know what the State-owned enterprises are. The Chinese Trade Ministry publishes a list of them. It is a public list. It exists. Our government knows what it is; we all know what it is. So, I hope very much, Mr. Chairman, that our colleagues will report this bill and the Senate will act on it soon.

The CHAIRMAN. Thank you very much, Mr. Leader. Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Mr. Chairman, briefly, I would like to expand, if I may, on the remarks of the Majority Leader, who said of the People's Republic Government, that it becomes more intransigent and more duplicitous, and to comment on a view which I find painful, and would not come easily to me. I would say, as it becomes more intransigent and more duplicitous, our government becomes more complacent and even supine in the face of it.

This was on display in a painful meeting of the committee on foreign relations on Tuesday, the first we have ever had, on Tibet. And the representative from the State Department, the principal Deputy Assistant Secretary of State for East Asian and Pacific Affairs, came before us and presented, as the view of the U.S. Government, the exact opposite of the understanding of the reality in the world that the Majority Leader just represented.

We have talked about what has been on television—what has not been on television is the slaughter of a million Tibetans over the last 40 years in the aftermath of the invasion of the People's Republic of China of Tibet. The State Department knows of no such event.

Here is their phrase. "Tibet suffered terribly, as did the rest of China, from the depredations of the cultural revolution. In 1976 monasteries were destroyed, books were burned, practicing Buddhists were thrown in jail. But that is all over now, and the Dali Lama's picture will be found in government offices."

Now, the point there, I would say to you, Mr. Chairman, that is what is called, in diplomatic negotiations, semantic infiltration. Once you can get the opposite side to agree that Tibet is China, you have won. And the argument then, regarding Tibet, becomes, whether they are being quite harsh, or they are not being harsh.

But you have already conceded that it is China, which it is not. And then you proceed to misrepresent truth. I mean, it is just painful. Our State Department told us—and I see Ambassador Lord out there, I would like to hear his view, and we will—that there does not appear to be a conscious Chinese Government policy of attempting to sinocize Tibet. Sinocize, being the plantation of Han Chinese.

That is an egregious untruth. That is a big lie. There are more Han Chinese in Tibet now than there are Tibetans. The State Department did not have to tell that untruth to us, and solemnly, before the Committee on Foreign Relations Tuesday. This was done. Every member of the committee who spoke responded with incredulity. I just wanted to make that point.

The CHAIRMAN. Thank you. Senator Baucus, any comments you might have.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman, this is not an easy issue to decide; that is obvious from the statements we have already heard this morning. Proponents of the legislation currently under consideration attempt to paint this issue, unfortunately, in black and white. And this is easy to do because everyone in this room has the same concerns about China.

We all remember the vivid images of tanks and the Statue of Liberty on Tiananmen Square. And we all worry that reckless Chinese behavior will put dangerous missiles in the hands of an unstable Middle East regime. And we are all outraged that a Chinese wall of trade barriers blocks U.S. exports at the Chinese border.

But we are not here to decide whether or not we are angry with China; we are angry with China. The issue before us, right now, is how best do we promote reform in China. Unfortunately, when it comes time for formulating policy, the black and white options are rarely available, and this case is no exception. Policy decisions are usually a choice among grays.

China's MFN status is a tempting target. Congress' annual review of China's trading status provides a clear opportunity to cut off or condition MFN as an expression of our anger. But I believe that MFN is the wrong tool for addressing our concerns with China.

Despite its name, MFN is actually the trade equivalent of diplomatic relations. The United States grants MFN to almost every nation in the world, including Iraq, including Libya. And rather than

using trade as a bludgeon, I believe we should use trade as a bridge.

It is no coincidence that the greatest reforms in China have taken place in those areas that trade the most with the West. Ideas are traded along with goods. In Southern China, the people watch CBS and CNN news broadcasts out of Hong Kong. And, in Shanghai, it is stock market speculation that has captured the people's imagination, not lectures on Marx.

In examining our options, it is also important to consider the impact of trade restrictions on the U.S. economy. Congress tried to use a unilateral trade sanction to protest the Soviet invasion of Afghanistan in the late 1970's, and it was American farmers that paid the price. The Soviets simply bought their grain from Canada and from Australia.

The unfortunate truth is that U.S. restrictions on MFN will prompt swift retaliation against U.S. exporters. The Chinese will cut off purchases of wheat from Great Falls, planes from St. Louis, autos from Detroit. The Wall Street Journal, yesterday, estimated that restrictions on MFN could cost the United States 100,000 export-related jobs.

Now, I am not here today to pitch the administration's China policy. In the past, I have often been concerned that the administration has not pushed hard enough to address our concerns with China.

Last summer, these concerns led me to send a letter to the President requesting a new China policy. And, rather than blunt restrictions on MFN, I advocated the use of smart weapons, carefully targeted measures to address our specific concerns with China.

The President responded with a new China policy, a series of new actions. And I believe it is important to recognize the accomplishments of this new policy. At the same time, we must be frank about the areas in which much more must be done.

The best progress has been made in the area of trade. In January, the United States concluded an important agreement with China protecting intellectual property, an action taken under Special 301. To address general trade concerns, the administration initiated actions under Section 301, the largest such case ever undertaken.

In the area of weapons proliferation, the administration successfully pushed China to sign the Nuclear Non-Proliferation Treaty, and to abide by the Missile Technology Control Regime.

I am disappointed with the progress made in the area of human rights. The United States and China are close to signing a memorandum of understanding on Chinese exports of goods produced by prison labor. There have been scattered releases of political prisoners. But, on the whole, the Chinese continue to flout international standards for human rights. I believe the targeted approach represents our best policy option, but much more must be done.

This morning, I am releasing a new letter to the President calling for new targeted actions against China. In the area of trade, for example, I believe the USTR should more vigorously pursue the Section 301 action. There is no reason to drag negotiations out.

Although China has signed the NPT, and appears to be adhering to the MTCR, we must now focus on enforcement. I have called for stricter enforcement of U.S. statutes on proliferation.

I have also called for the administration to initiate negotiations with China on the issue of nuclear testing.

I call for the administration to redouble its efforts on human rights.

While I believe that trade itself helps promote reform, we can do more. For example, my letter calls for an expansion of Voice of America broadcasts into China, and I have requested the administration to seek the formation of a bilateral human rights commission. A commission is no cure-all for human rights abuses in China, but I believe such an organization could provide a forum for making tangible progress in this area.

At one level, I am sympathetic with those who seek to condition MFN. The status quo in China is unacceptable. If the administration does not actively pursue a smart weapons approach to China, I will vote for conditions as the only alternative. But I do believe we have alternatives.

Last year, the administration responded to congressional pressure and adopted a more aggressive China policy. This new policy has achieved important results, but it is a continuing process. And, to work, there must be new steps by the administration addressing our shared concerns about China. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Chafee, do you have any comments you might wish to make?

OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you, Mr. Chairman. First, Mr. Chairman, if I ever establish a memorial award around this place, it is going to be for that person who conceives a better name for most-favored-nation. That term, most-favored-nation, violates the truth in labeling law, if there ever was a violation. It is actually the least favored nation. That is what the term of "most-favored-nation" means.

Second, Mr. Chairman, I do not know why we are doing this once again. I just reviewed the votes that we have had on this subject in 1991 and 1992. On July 2, 1991, we voted on it; on July 23, 1991 we voted on it. In this year, on February 25th, we voted on a conference report; and on March 18th, we voted on a veto override. We hear all this talk about how there is so much work to do around this place, and yet here we are dealing with most-favored-nation with China once again.

Now, Mr. Chairman, I must note that I firmly believe that if we had a trade surplus with China rather than a trade deficit, this legislation would not be up before us, and we would not find many of the current supporters out there who would be in favor of this legislation.

And it seems to me that what the proponents are suggesting is that we enact a freeze on one-fifth of the world's population, just shut them off, back off from any influence that we are currently exerting on China.

I personally think that would be a great mistake. Is everything working out the way we want? No. Is everything working out the way we want in many nations of the world? No.

But I think that what we are accomplishing over there with our trade relationships, as was mentioned by Senator Packwood, is that there is springing up a free enterprise system—particularly in the southern part of the country—and with it some hopes of democracy in the future.

I would also say, Mr. Chairman, that it is frequently cited that there are eight “immortals,” all of whom are over 80 years of age, who are the major leaders of China. Two of them have died since the last vote in the Senate, and the others are not going to live forever.

So, changes will come about in China. But I think for us to erect a Chinese wall between us and China, for us to withdraw from all influence, which I believe would happen if we enacted this legislation, would be a terrible mistake.

So, Mr. Chairman, I regret that we are dealing with this subject once again. And I certainly hope that this measure will not prevail. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Danforth.

OPENING STATEMENT OF HON. JOHN C. DANFORTH, A U.S. SENATOR FROM MISSOURI

Senator DANFORTH. Mr. Chairman, the general issue that has been raised is really an old one, from the standpoint of the Senate Finance Committee. Old, in that ever since I have been on this committee, we on the Finance Committee have been in a running battle with various administrations on the relative role of international trade in the making of American policy. I came here when President Carter came here. And beginning in the Carter administration and on into the Reagan administration and the Bush administration, always there have been arguments about the weight that we should give international trade as a matter of national priority.

And always there have been people who have argued very forcefully, and usually on the basis of great principle, that trade really should be secondary among our National concerns; that foreign policy comes first and that international trade really should be viewed as principally a bargaining chip to accomplish other great national objectives.

As Senator Baucus pointed out, one of the early examples in my tenure here was President Carter's invocation of trade sanctions against the Soviet Union on the occasion of the invasion of Afghanistan. And we hear it over and over again. I understand that. What tools of foreign policy are available? If we do not want to drop bombs on everyone with whom we disagree, then why not impose trade sanctions?

But we, on this committee, have taken the position that international trade is, itself, something that is in the best interests of the United States. It is in the best interests of our people.

And, therefore, international trade should be something more than a bargaining chip, something more than something that can

be anted up to accomplish other objectives, however laudable those objectives are.

And we have argued in our pursuit of a higher rank for international trade—we have argued that we should be very careful about imposing trade sanctions, and we should be sure that the trade sanctions that we impose actually work.

So, we have usually taken the position that the economic interests of our country also should be weighed on the scale, and that the economic interests of the country should not be abandoned unless we are pretty confident that we can get something good in return.

And Senator Mitchell pointed out that, as he argued, that administration policy with respect to the People's Republic of China has been, in his words, a "demonstrable, proven failure." Well, the other side of that coin is to ask, would the withdrawal of MFN status or would any unilateral trade sanctions imposed by the United States be a demonstrable, proven success?

Would we on this committee be willing, for example, to vote for a finding that the withdrawal or the conditioning of MFN status would, in fact, have an effect on the policies of the People's Republic if China? And I would say that the answer to that question would have to be, no; that it would have no effect, whatever.

The United States has not, as a practice, been in the business of withdrawing most-favored-nation status, even against those countries with whom we have the most serious disagreements.

We did not, even in the height of our problems with the Republic of South Africa, withdraw most-favored-nation status. We imposed economic sanctions on South Africa, but they were multilateral, not unilateral sanctions. The same is true with Iraq; the same is true with Iran; the same is true with Libya.

I do not quarrel with the objectives of the advocates of this legislation. They want to change the behavior of the People's Republic of China, and I do, too. But I think this has no possibility of accomplishing the results that are sought; that it would be a major change in the way we do trade policy. And for this committee to sign on would be an exact reversal of our historic role, which has been to elevate the role of international trade, rather than relegate it to secondary status.

The CHAIRMAN. Senator Riegle, would you care to comment?

OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN

Senator RIEGLE. Mr. Chairman, I feel very strongly about this issue. Granting most-favored-nation trading status to Communist China has been one of the biggest mistakes our country has made, and it can be measured both in the economic damage accumulating here in the United States and also the tremendous growth in the trade deficit that we have with Communist China. The United States-China trade deficit is going to be \$15 billion this year. Unconditional MFN serves as an economic program/jobs program for China. As a result, preferential trade treatment of Chinese imports to the United States is causing great damage here.

I would like to point out the lead story on today's AP wire service. It is on the slow down in growth in our economy during the

second quarter of this year. It says, "Economic growth slowed to a crawl again during the April-June quarter, after exhibiting some strength earlier in the year.

"Economic health is measured by the gross domestic product advanced at a seasonally adjusted 1.4 percent annual rate during the second quarter, less than half the 2.9 percent growth rate of the first 3 months of this year."

Further, the story, says: "In the second quarter, in addition to slowed economic growth, there is also a fall in consumer spending." Consumer spending is falling because so many people are out of work or they are afraid they are going to lose their jobs. In addition, there has been no growth in per capita income over the last 3 years in this country. The AP wire story also says: "Trade has also proved to be a drag on the economy. Exports fell at a 3.8 percent rate, while imports increased at a 6.3 percent rate."

The biggest offender in the trade area is Communist China. The Chinese Government manipulates China's currency; Chinese industry uses slave labor, which has been documented, to make products that are exported to the United States. These practices are taking jobs out of Michigan, out of Rhode Island, out of Missouri, and out of every one of the 50 States in this country. There is absolutely no justification for the fact that the trade deficit with China is going to be \$15 billion this year.

In addition, in May of this year, China detonated a one megaton nuclear test. That is seven times the threshold required under international nuclear proliferation obligations.

So, whether you want to focus on human rights violations, what the Chinese are doing in nuclear weapons testing, or what they are doing in trade cheating, it is evident that though all of these activities, China is hurting our country. We have 15 million Americans that are either unemployed, discouraged workers, or under-employed people that cannot find full-time work and are forced to work part-time.

How long are we going to let this go on? Why are we doing a big favor for China with granting MFN? I understand the President has a special feeling with China, especially because he was the envoy over there years ago, and I respect the fact that he held this position for our country. But we cannot look the other way on China's violations of international responsibilities and agreements.

These violations are hurting our country and they are hurting people in our country. As such, there is no justification coming in here and putting a nice face on a China MFN request, while using and a lot of sophistry to defend such an intention. Why aren't we hearing something today about the economic problems in our country?

Why is it that we have to go to bat for the Chinese here? Sure, they are employing their people. A \$15 billion trade surplus in their favor, is evidence of the job situation in China. Do you know how many millions of jobs that draws out of the United States and the damage it does in terms of the loss of capital to our country and economy?

The U.S. economic picture is black: Businesses cannot get loans; people unemployed cannot find work in this country. The Chinese are the most ruthless operators on the face of the earth today. They

certainly rival Saddam Hussein. You take the people that were taken prisoner in Tiananmen Square and are still in slave labor camps and prison camps. Are they just to be discarded here in this discussion? If this is the case then, we have lost our sense here.

I understand our President loves foreign policy and he does not care much about domestic policy. But in the case of China, our foreign policy is hurting our domestic policy. It is hurting the economic situation in our country.

A couple of months ago, there was a news show on national television which portrayed two veterans of Desert Storm who came back to the United States to parades a year ago. Today, they are unemployed, homeless, and living in cardboard boxes in this city, because they cannot find work. At the same time, there is \$15 billion worth of work in the United States-China trade imbalance, now leaving the United States and going to Communist China. There is absolutely no excuse for this economic imbalance between our two countries.

In my own mind, I believe that we pressured the Chinese to support our Iraq initiative in the U.N. Security Council, when they held their vote on this effort. They did not want to vote for the use of force against Iraq. In fact, they were threatening to veto it.

China finally ended up, after a lot of encouragement and so forth, abstaining on that vote, which allowed the U.N. to go ahead with the U.S.-sponsored action in Iraq. Since that time, the United States-China trade deficit has gone right through the ceiling, and we are doing virtually nothing about the trade abuses which contribute to this imbalance.

Beyond the trade and human rights abuses, I want to hear somebody defend China's currency manipulation. Let me hear a defense for that. Even the U.S. Treasury Department has no defense for it. Let us hear a defense for the human rights violations over there. There is no defense for these practices against the Chinese people by their government.

And there is no defense for a \$15 billion trade surplus that is hurting our country at this time. In part, trade and economic issues are the reasons why there is a political revolt under way in the United States today. People are sick of status quo policies, like chronic trade deficits, because they do not make any sense, and they are hurting America. It is time that we change the policies and the people that devise and implement them.

The CHAIRMAN. Thank you. Senator Daschle.

Senator DASCHLE. Mr. Chairman, I have no comments.

The CHAIRMAN. Thank you. Gentlemen, our first panel will consist of Hon. Arnold Kanter, Under Secretary for Political Affairs, and Mr. Ira Wolf, Assistant U.S. Trade Representative for Japan and China. Gentlemen, if you would come forward, please. Secretary Kanter, if you would proceed, please.

STATEMENT OF HON. ARNOLD KANTER, UNDER SECRETARY FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Secretary KANTER. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to appear before you today to discuss the administration's policy toward China, and, in par-

ticular, the President's commitment to unconditional renewal of China's most-favored-nation trade status for another year. I have an opening statement that I would like to make now, but I would ask that my complete statement be entered into the record.

The CHAIRMAN. That will be done.

[The prepared statement of Secretary Kanter appears in the appendix.]

Secretary KANTER. Mr. Chairman, it has been over 3 years since the terrible tragedy of Tiananmen Square; 3 years since the Chinese Government troops fired on defenseless students who only sought the freedom of political expression that we Americans claim as our birthright. Even with the passage of time, those images retain their power and their message.

The United States, as it always has done, will condemn this kind of brutality, whether it takes place in China, or anywhere else. And, as the President and Secretary Baker have emphasized, the promotion of human rights is a cornerstone of our foreign policy around the world, and that includes China.

Indeed, Mr. Chairman, I am here today to discuss what may be a question of strategy and tactics, but surely cannot be one of objectives. I think we can all agree on the basic objectives of our policy toward China: To promote respect for human rights; to encourage responsible and cooperative Chinese international behavior, particularly in the area of non-proliferation; promote peaceful and democratic reform within China, and improve and sustain the trade relationship from which Americans, both producers and consumers, derive great benefit.

Toward these goals, the administration's approach has been one of engagement rather than of confrontation or isolation. We have sought to work actively with the Chinese on addressing specific concerns, while at the same time encouraging the changes in Chinese society that naturally follow from openness to and engagement with the outside world.

This approach has led to results in the areas of human rights, non-proliferation, and trade, that we established as central to our bilateral relations. We have achieved these results, while at the same time promoting and protecting American business and consumer interests.

Now, we recognize that many members of Congress take issue with this approach and argue that a policy of confrontation with, if not isolation of China, would be more effective in bringing about positive change. We respectively, but emphatically disagree.

We remain convinced that China's unconditional MFN status provides our best approach for encouraging both positive change and U.S. interests in China, particularly when coupled with aggressive pursuit of specific issues of concern.

Today, I would like to, first, briefly review the legal requirements for renewing the Jackson-Vanik waiver, and why China has met those requirements. Second, I will discuss why it is in the interest of the United States to renew MFN unconditionally for China. Third, I will explain why conditionality of MFN for China will not work.

And, finally, I want to discuss the main issues of concern in our relations with China: human rights, proliferation, and trade, and

how our targeted approach, mixing appropriate sanctions, as well as incentives, has led to measurable progress in each of these areas.

The Jackson-Vanik Amendment requires the President to determine whether renewal of the MFN waiver for China would substantially promote freedom of emigration from that country. I do not think there is any debate about whether China has met that condition.

In no uncertain terms, the renewal of MFN without condition continues to influence those policies that permit tens of thousands of Chinese every year to choose to leave China permanently and to travel abroad and to gain exposure to the outside world.

Last year alone, China's relatively free emigration policies enabled more than 18,000 Chinese to receive U.S. immigrant visas, and allowed almost 80,000 PRC nationals to study, travel, and do business in the United States.

Indeed, the number of Chinese whom the PRC would allow to emigrate to the United States far exceeds our ability to accept them. But looking beyond the letter of the law, unconditional MFN renewal makes sense because it so clearly serves American interests.

For more than a decade, MFN-based trade with China has opened up business opportunities, benefiting Americans and Chinese alike. But, at least as important, it has opened up China itself. Economic reform and liberalization in China create irresistible pressure for political reform.

Our commercial relations with China have encouraged positive change and helped strengthen the hand of those elements of Chinese society most open to political reform. It may not be a simple equation, but we are confident that entrepreneurship and market-oriented reform in China will lead to meaningful and lasting change in the lives of the Chinese people.

Denial of MFN, or its withdrawal through the imposition of conditions that China's leadership are quite unlikely to meet, would work against our political and our economic interests. It would do severe damage to the development of market-oriented institutions that contain the seeds of political reform in China.

Those in Chinese society—the intellectuals, the students, the managers, the workers, and even some government officials—who are the most dynamic, most open to the outside world, and most committed to the marketplace are precisely those who have the greatest stake in unconditional MFN renewal.

These agents of change and reform inside China are exactly the ones who would be most hurt and most handicapped if MFN were denied. Indeed, the argument for conditionality seems to be based on the premise that MFN is somehow more in China's interest than it is in our own. That simply is not so. To place conditions on MFN would hold our single most powerful instrument for promoting reform hostage to the reactions of the hard-liners in Beijing. We would be handing the opponents of reform their most potent lever.

This year's MFN conditionality proposals implicitly acknowledge that a complete withdrawal of MFN would not serve our interests, and would restrict tariff increases to Chinese State enterprises, but

even this revised version of conditionality would do considerable damage to U.S. interests.

First and foremost, conditionality, even the kind advocated in this year's legislation, is bad trade policy. This committee knows better than anyone that the economic future of the United States depends upon the strong, competitive position of American firms in all regions of the world.

Our trade policy seeks to open and expand markets overseas to ensure that the United States is able to compete on a level playing field for opportunities that will advance the economic well-being of our Nation. Expanded trade generates new business opportunities, and affords consumers better choices in terms of quality, quantity, and price.

We have seen confirmation of this in the recent Chinese agreement to purchase, for the first time, 7,000 vehicles, plus parts and components, from America's big three auto makers, worth an estimated \$130 million. America's aviation industry has also benefited, most recently by the Chinese agreement with McDonnell-Douglas for aircraft worth \$1.2 billion. In short, conditioning MFN to the achievement of particular foreign policy objectives strikes at the core of our commitment to free and open trade.

It is important to remember that removal of MFN, which would be the likely result of conditionality, would hit American consumers hard, particularly less affluent Americans, who are primary consumers of China's low-cost goods. American exporters also would be hard-hit.

As this committee knows, reciprocal tariff treatment is inherently a two-way street. If China, in retaliation, denies the United States MFN, American farmers could lose one of their best export markets to Canadian and Australian producers, and U.S. manufacturers would lose export shares to competitors from Japan and Europe.

Let me reiterate. If we disagree about MFN, it is a disagreement about strategy, not about objectives. The President is convinced that MFN is simply the wrong instrument to bring about the changes that you and we seek in Chinese behavior. And, through concerted and focused efforts, we have made progress on human rights on proliferation and on trade; three things that we have put in the very center of our bilateral relationship.

Let me state unequivocally that the promotion of fundamental human rights is, and will remain, at the forefront of our foreign policy objectives, and this includes China. Those who would try to characterize our opposition to conditioning MFN as somehow representing indifference to the human rights to China are plain wrong.

They also ignore the fact that the administration maintains serious sanctions that are more effective. We have taken the strongest position against China's human rights abuses of any country in the world.

President Bush was the first world leader to condemn the crack-down at Tiananmen Square. At that time, he expressed in no uncertain terms that there could be no business as usual with the Chinese Government under such circumstances. We have not retreated one inch from that statement.

The United States is the only nation today that has not lifted Tiananmen sanctions against China, and refuses to restore normal bilateral relations until the Chinese make substantial progress in protecting basic human rights.

Our Tiananmen sanctions are specifically targeted on human rights issues. Under these sanctions, we have suspended programs for military cooperation; placed an embargo on all sales to China's police and military; we have objected proposals raising COCOM controls on China; our trade support programs, both OPIC and TDP, have been suspended since 1989, and we do not support International Development Bank funding, except for projects that meet basic human needs.

Meetings between Secretary Baker and his Chinese counterpart have focused on human rights, non-proliferation, trade problems, and regional issues, such as the Middle East and Cambodia. I can assure you that those meetings in Beijing last November were not convivial exchanges, but tough working sessions.

We stated our concerns in an open and direct manner, and I personally reiterated those concerns in the strongest terms during my recent visit to Beijing. I can assure the committee that the Chinese know exactly where we stand. I must add that, while a great deal remains to be done on the area of human rights, we have, in fact, seen some results.

We have also produced some progress in the area of weapons proliferation. China's support for global non-proliferation initiatives increased in the last year. Again, as a direct result of high-level discussions with Chinese leaders, assisted by the administration's use of targeted sanctions, China agreed to observe the Missile Technology Control Regime guidelines and parameters. The Chinese have also acceded to the Nuclear Non-Proliferation Treaty. We have worked hard for what has been achieved so far, and, of course, much more needs to be done.

We believe that it is important, for example, for China to adopt international non-proliferation standards, and we will continue to press the Chinese in these areas and to monitor PRC behavior in these areas very closely.

China has played a constructive role in other international fora as well. As a permanent member of the U.N. Security Council, China has cooperated with multilateral efforts to enforce sanctions against Iraq and Libya; they have facilitated the entry of North Korea and South Korea into the United Nations; and they have been very cooperative in opposing North Korean efforts to develop nuclear weapons.

China has contributed in a vital way to the comprehensive settlement of the Cambodia conflict, and has worked hard in recent weeks to try and keep that settlement on track. And we want to encourage these steps by China to act as a responsible member of the international community.

I think that, looking back over the past year, our record of trade policy toward China has been a record of success. Since Mr. Wolf will be covering trade issues in detail, let me just cite one example.

On intellectual property rights, China responded positively to our Special 301 trade investigation, with an agreement in January to improve protection of U.S. patents and copyrights, including com-

puter software. That agreement was very strongly endorsed by U.S. industry, which has subsequently urged continuation of MFN for China.

And, finally, on an issue that cuts across both trade and human rights, I should note that China is addressing our concerns over their prison labor practices. I can announce that we have reached final agreement on a memorandum of understanding that will prohibit exports of prison-labor products to the United States and will provide for U.S. inspection of suspect Chinese facilities. I am scheduled to sign that MOU with my Chinese counterpart next week.

To conclude, Mr. Chairman, let me restate my belief that the administration and the proponents of conditional MFN share the same policy objectives for China. MFN withdrawal, however, will not advance the struggle for political liberty and for economic reform in China. By maintaining MFN, we are helping American businesses, protecting American consumers, and promoting reform in the PRC.

Our persistent efforts are paying off. With MFN, we are making a difference in China. Without it, we risk becoming mere spectators in a country that is home to almost one quarter of the human race. Thank you, Mr. Chairman. And, following Mr. Wolf's statement, I would be pleased to respond to your questions.

The CHAIRMAN. Yes, of course. Mr. Wolf.

STATEMENT OF IRA WOLF, ASSISTANT U.S. TRADE REPRESENTATIVE FOR JAPAN AND CHINA, WASHINGTON, DC

Mr. WOLF. Mr. Chairman, members of the committee, it is a pleasure to be here today. I have a written statement for the record, and I will summarize that very briefly.

[The prepared statement of Mr. Wolf appears in the appendix.]

Mr. WOLF. My focus today will be on the trade aspect of the United States-China relationship. We are strongly opposed to revocation of MFN for China, and to proposals that attach conditions. The current bill would weaken our ability to influence the policies and practices of the Chinese Government, indelibly harm our trade relationship, undermine the ongoing market access negotiations, and deliver a crushing blow to the heart of the most open and free part of China, the south.

Our trade policy toward China has been firm and tough-minded. We have had some important successes, and we are beginning to make progress in discussions on increasing market access for U.S. exports.

Last year, we initiated a Special 301 case on intellectual property rights, and in January the Chinese agreed to overhaul portions of their domestic legislation to provide a legal structure that matches international standards. We are watching implementation of that agreement closely.

On textile trade, we have been trying to resolve our transshipment problems with China. During the past year, the administration acted vigorously, taking measures that included criminal indictments, as well as assigning charges of more than \$1 billion to Chinese textile exports.

On October 10th of last year, we self-initiated a Section 301 investigation on market access barriers. Thus far, we have held five

rounds of negotiations. This afternoon and tomorrow we will hold technical talks in Washington. I will travel to Beijing in August for the next high-level round. We are hopeful that we can reach a solid agreement at that time in Beijing, or, certainly by the statutory deadline of October 10.

If we do not, Ambassador Hills is prepared to take the necessary trade action. With that possibility in mind, in June, USTR published a notice in the Federal Register requesting comments on what action could be taken, including suggestions for products to put on a possible retaliation list. This demonstrates the aggressive and tough stance we are taking toward China.

The bill before the committee would, however, if it becomes law, bring our 301 negotiations to a grinding halt. The proposal to focus MFN revocation on State enterprises is unworkable. The ubiquitous role of the Chinese Government and most facets of trade makes it impossible to sort out the private from the State sector. Customs simply could not enforce these provisions.

Revocation of MFN or conditions would devastate America's trading relationship with China. It would jeopardize the interests of American businesses investing in China, and seriously harm American manufacturers and farmers exporting there.

Last year, the U.S. exported \$6.3 billion to China: Aircraft, computers, chemical fertilizers, agricultural commodities, et cetera. More than 1,700 American companies have invested almost \$5 billion in the Chinese market.

In the past several months, American firms have announced plans for an additional \$350 million in new investment. Revocation of MFN would put these exports and investments in grave danger.

Equally ominous, revocation would open the way for others—in particular, Japan, Taiwan, and the European Community—to move into the Chinese market even more aggressively than they are now. They would supplant us, and it would take us years to regain our current position.

Finally, withdrawal of MFN or attaching conditions would undermine the efforts by reformers in China and entrepreneurs in the United States and Hong Kong to create markets and bring liberalizing ideas to China.

Mr. Chairman, our task is to negotiate market opening and trade liberalization in China. We are doing that in a vigorous manner committed by the President. This bill would work counter to that goal which I believe we all share. Thank you.

The CHAIRMAN. Thank you. Mr. Kanter, I have become increasingly convinced that the administration's policy towards China is not working our economic advantage. The concern is that the administration is ready to lean over backwards to keep from hurting the feelings of the Chinese leadership, even when it means a loss of jobs.

Let me give you an example. The city of Fort Worth has taken some tough hits as we reduce the size of our defense. Carswell Air Force base has been closed. Now, added to that, we have cut backs in jobs at General Dynamics. Yesterday, the announcement was made that they are going to lay off 5,800 workers. Now, I am angry because a lot of that pain could be alleviated.

Three thousand of those workers could be kept on duty if the administration would reverse its longstanding—and I think senseless—policy against the selling of F-16s to Taiwan. Year after year, Taiwan comes to us and tries to buy 60 to 100 F-16s. If I ever saw a dream sale, that is it.

It is not like South Korea that insists on a joint production. It is not like sending planes to the Middle East where you might bring about a substantial imbalance in power. I do not know anyone in authority that thinks Taiwan is going to attack China.

In Taiwan you have a country that has a very substantial trade balance with this country. It is cash rich and ready to buy 60-100 F-16s. That would keep that production line open for years, and keep 3,000 highly-trained, experienced workers with good paying jobs. I do not think the administration's policy is in the best interests of this country. How would you respond to that?

Let me tell you where Taiwan is going. They will just turn around and go to France. And they have, in effect, told us that. They will go buy Mirages. It does not seem to concern France. Do you really think China is going to stop buying from France or selling to France if they sell the Mirages in our place to Taiwan?

Taiwan wants to buy these F-16s right off the shelf. We really ought to reverse that kind of a policy, in my opinion.

Secretary KANTER. Senator, first, let me say that there should be no question about not only our support for and compliance with the Taiwan Relations Act, but also our commitment to help Taiwan meet its legitimate defense needs. That, I hope, is not an issue.

Second, I would say that, in fact, our policy, in response to the Taiwan Relations Act and three communiques has, in fact, produced a real improvement in relations across the straits—politically, security, and economically—in ways that have directly served our political and economic interest. And, so, with that respect, our policy is working.

Finally, I have to say that I think America historically has not regarded the sales of weapons in the same way as it regards the sales of other commodities. We have practiced, in several administrations, a practice of arms transfer restraint: we sell arms when they will enhance regional security and stability.

That continues to be our policy, and it continues to be our policy with respect to Taiwan. We will keep a very close touch on the pulse of conditions in the strait on the military balance in the strait and will do what is necessary, both under the terms of the Taiwan Relations Act, and our sense of responsibility to help Taiwan meet its defensive needs to meet those obligations.

The CHAIRMAN. Mr. Kanter, no one thinks that Taiwan is going to attack China. That is not contributing to a military imbalance that is going to give us problems. The French are going to be delighted to take advantage of a very unrealistic policy on the part of our administration in that regard that will help keep those production lines going.

Obviously, we are reducing our defense effort, and we understand that. This is a sale that I do not think disturbs the military balance at all, and keeps 3,000 people and work and keeps some defense industry going in this country. I strongly disagree with

that kind of an attitude. I do not think it is realistic at all. We will go on to Senator Packwood. I see my time has expired.

Senator PACKWOOD. Mr. Kanter or Mr. Wolf, either one of you, the argument that we will aim this conditional limitation only at State-owned enterprises, and the Majority Leader statement that there is a list—is it that easy?

Mr. WOLF. No. Unfortunately, it is not. We had hoped that we could do this, Senator, when we were working on our Special 301 case. We tried and discovered we simply could not. Basically, the ubiquitous role of the State at all levels—central government, provincial, and local—wraps the entire economy up in a way that makes State and private indistinguishable.

I think the Majority Leader was referring to the recent efforts by China to establish a more central export—focused group of companies. That is, at present, under way. Those companies have not been established, as far as we understand. But that would still only relate to a small part of the export sector.

Senator PACKWOOD. Is there any differentiation, then, in the coastal entrepreneurial areas? Can you really identify businesses there that are totally privately-owned, or strictly Western joint ventures, in which the government has so little involvement that you could say this is not a government-controlled, or government-involved, or government-something-or-other business?

Mr. WOLF. We have not been able to do that. One of the key problems is the use of State trading companies for exporting. Manufacturers, in many cases, do not do their own exporting, even if they are “private.” The definition of private, as we see it, even in some of those entrepreneurial companies, is different than our definition in free market economics. So, we simply found it impossible to differentiate.

Senator PACKWOOD. Do either of you assume, if we deny most-favored-nation status, or if we condition it, that there will be some retaliation from China?

Secretary KANTER. I take it as a given.

Senator PACKWOOD. The Chairman indicated that we ought to sell the F-16s to Taiwan, because if we do not, France will be happy to sell the Mirages. If we deny most-favored-nation or condition it and China retaliates, and will not buy our machinery or our planes, will the European consortium be happy to sell them Air Buses, and France and Germany be happy to sell them machines?

Secretary KANTER. I take that as a given, as well. I should add, by the way, that there has been a lot of talk for a long time about the sale of French Mirages to Taiwan, but no sale appears to be in the offing.

Senator PACKWOOD. I have no other questions. Thank you, Mr. Chairman.

The CHAIRMAN. All right. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Kanter, as I mentioned earlier, I released a letter today to the President outlining areas where I think he can follow-up. I think he has made progress in some areas, and not much progress in others. We're involved in a continuing process, and I urge you to follow-up with the administration to respond to that letter. And I hope that you exceed my expectations.

Mr. Wolf, the trade deficit we have with China is something that we have to work on and reduce. What is your best estimate as to how much of a trade deficit with China is due to Chinese trade barriers, as opposed to other reasons unrelated to trade barriers?

Mr. WOLF. Well, those are figures that we are trying to work on right now. Clearly, there are significant trade barriers; that is what our 301 case is all about. And we are trying to pursue them in all possible ways.

Senator BAUCUS. What is your best guess, though? Out of the \$13-\$15 billion deficit, how much is caused by trade barriers?

Mr. WOLF. I really cannot give you a useful number now, Senator. We are working with American industry to get a better fix on that. And if, in fact, we do reach the point of publishing a retaliation list, it will become apparent at that time.

Senator BAUCUS. Well, what about those retaliation lists? As I recall, when the administration pursued very aggressively Special 301 action against China, that the administration published its list a little late.

That is, I think it was after the deadline expired, or, at least under the law, the administration must wait 30 days after the retaliation list is published before retaliation can actually take place.

Why can the administration not publish the retaliation list now to show China that we really mean business, and also move up the deadline date? We do not need to wait till October. The deadline in Section 301 is an outside deadline on USTR—not China. Why can we not just get moving faster to show that we mean business?

Mr. WOLF. The Federal Register notice we published asking for comments about possible trade action was the first time we had done that at such an early stage. And I think that was a pretty strong signal to the Japanese that we do mean business.

Secretary KANTER. Chinese.

Mr. WOLF. I am sorry. To the Chinese. That we do mean business.

Senator BAUCUS. The same with the Japanese, too.

Mr. WOLF. We are going to see what happens at these negotiations in August. As I said, we would like to be able to settle at that time. If we cannot, then we will be giving serious consideration to publishing a potential retaliation list early enough to put increased pressure on the Chinese to reach agreement at as early a date as possible.

Frankly, the Chinese are likely to go to the end. We have that October 10 date. We will make every effort we can to move it up, but we just have to see how the negotiations go.

Senator BAUCUS. Well, because the Chinese will probably go to the end does not mean the administration of this country has to go to the end. And if it is the judgment of the administration that China will wait until October 10, I strongly urge you, to show to us that you are very serious about this, to publish the retaliation list immediately. And, second, to move up the deadline date and inform China that you are going to move up the deadline date.

Mr. WOLF. We had technical level talks 2 weeks ago in Beijing, and we made some progress. We are hoping that this afternoon and tomorrow, in the technical talks we are holding here, we will make similar progress and it will be a spur to progress in August.

I think there has been more progress in the last month than there was in the earlier days. So, I think we are moving in the right direction. I think the pressure on the Chinese is clear. They see what is happening today, no question about that. And I think they are beginning to react.

Senator BAUCUS. Well, again, I strongly urge you to take the same effective action under regular 301 that you took under Special 301, because that is going to make a difference on how a lot of us view this issue. Thank you.

The CHAIRMAN. Senator Danforth, for any comments.

Senator DANFORTH. Secretary Kanter, the legislation that is being considered would provide for conditional extension of MFN, not withdrawal in and of itself. Do you believe that there is a material difference between conditional extension and flat withdrawal?

I know that when Secretary Eagleburger testified here a year ago, he took the position that the sense of national honor and sovereignty in the People's Republic of China would mean that they could not possibly buckle to conditions, and, therefore, within a period of time, the United States would be forced, for the sake of credibility, to convert the conditional into actual denial of MFN.

Secretary KANTER. Senator, that is our assessment. We think that conditional MFN, as it is included in the bill, would, in effect—and, I think, ironically—set up obstacles—additional obstacles—to getting Chinese movement in precisely the areas in which we all seek improvements in behavior.

In effect, you would be handing to the hard-liners in Beijing a set of arguments for why the Chinese Government should not take action on this issue or that issue, on human rights, proliferation, and trade.

You would be undermining the position of the moderates in Beijing because they would have the added burden of having to defend themselves of buckling under American pressure, of caving to American conditions. And you just disadvantage them in the internal debate and so you make it, frankly, that much harder to achieve the objectives that we all share.

Senator DANFORTH. And do you believe that if they did not agree to the conditions, we would then have to convert the conditional extension of MFN into withdrawal of MFN?

Secretary KANTER. Well, as I understand the terms of the bill, that would be the requirement.

Senator DANFORTH. All right. Now, do you know of any cases in which unilateral sanctions have been efficacious? We have gone to great effort, for example, with respect to Iraq, to try to deal in concert with the rest of the world. This action with China is a unilateral matter, as I understand it.

Maybe you could correct me. But, to my knowledge, other countries are not considering withdrawing MFN status from the People's Republic of China. Do you have a view as to whether unilateral trade sanctions work to change the policies of the country that is the object of this hearing?

Secretary KANTER. Well, first, let me say that far from any other country contemplating withdrawal of MFN or implementing trade sanctions on China, I think there are several countries around the world that are rubbing their hands in some eagerness at the pros-

pect that they would have an opportunity to fill in behind us if, and as we impose sanctions and the Chinese retaliated.

Trade sanctions are always a tricky business. They are often a blunt instrument of uncertain effectiveness. Insofar as the sanctions are imposed unilaterally rather than multilaterally, their effectiveness is even more questionable.

I guess I would say the trade sanctions are always problematic: more effective in some circumstances than others; more effective when targeted than when shot-gunned; and more effective, as I say, multilaterally than unilaterally. I would be very skeptical.

Senator DANFORTH. Well, I would think you could go further than that. I mean, I believe that there have been studies as to the effectiveness of trade sanctions. There are cases where, perhaps, they have had some effect.

But I think even that is contested when they have been multilateral trade sanctions. But I would be very interested in knowing if there are any cases in which the United States, acting all alone, has accomplished the change of policies of other countries simply by imposing trade sanctions.

Secretary KANTER. I would be happy to respond for the record, Senator.

Senator DANFORTH. Do you happen to know, Mr. Wolf?

Mr. WOLF. Are you talking about trade for trade, or trade sanctions for political change?

Senator DANFORTH. Political. Just like this; political objectives.

Mr. WOLF. I cannot give you an example, Senator.

Senator DANFORTH. If you could explore that and get back to us, I would very much appreciate it.

Secretary KANTER. I will.

The reason I offered to provide an answer for the record is simply because I cannot think of any. But I do want to make sure that we do a thorough investigation.

[The information appears in the appendix.]

Question. Are there any cases in which the United States, acting all alone, has accomplished the change of policies of other countries simply by imposing trade sanctions?

Answer. We are hard pressed to find successful examples of the use of unilateral economic sanctions to achieve political objectives. In no case of which are aware have unilateral sanctions delivered the swift stand-alone knockout punch their proponents envisioned. The reason is that third-party complicity and the fungibility of trade make watertight application of economic measures extremely difficult. Moreover, economic sanctions always impose costs on the sanctioning state, chiefly in the form of loss of international markets, sometimes temporary, sometimes permanent.

For these reasons, the United States strongly favors the use of multilateral sanctions, where appropriate, to achieve certain political objectives. Multilateral sanctions have the obvious advantage being less easy to evade, and thus more effective—while at the same time not disproportionately penalizing American commercial interests. While multilateral sanctions are rarely, if ever, a panacea, they can play an important role in achieving key political objectives.

Senator DANFORTH. Thank you.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. Let me ask the following: Do either of you know what the cumulative U.S. trade deficit has been with the rest of the world since 1980?

Mr. WOLF. I would have to go back to add up the numbers.

Senator RIEGLE. Do you have an approximate notion of what it is?

Mr. WOLF. No, sir.

Senator RIEGLE. Do you think it is higher than \$1 trillion?

Mr. WOLF. If you have the figures there—

Senator RIEGLE. I am interesting in knowing whether you know the figure.

Senator CHAFFEE. I missed the question, Senator. What was the question?

Senator RIEGLE. The question is if either of the witnesses know what the cumulative U.S. trade deficit is since 1980.

Mr. WOLF. I do not.

Senator RIEGLE. Well, let me ask you. Do you think it is more than \$1 trillion cumulatively since 1980?

Mr. WOLF. Probably somewhere around there.

Senator RIEGLE. It is more than \$1 trillion. It is \$1 trillion, \$100 billion, plus. I posed the question to you because it is an enormous number.

Now, let me ask you this, in terms of your sense of the economic impact of the U.S. trade deficit. Do you think that a cumulative trade deficit exceeding \$1.1 trillion, that the United States has had with the rest of the world for over a decade, has helped our economy or hurt our economy?

Mr. WOLF. Well, it certainly has not helped. We have got 175 people in our building at USTR working on opening export markets around the world to try to get that cumulative figure down for the next 10 years.

Senator RIEGLE. Well, I think the numbers are pretty discouraging. It is a huge deficit and we continue to run a trade deficit of this extreme size. I just cited to you this morning's data on second-quarter gross domestic product and how the trade problem worsened during that quarter. Were you familiar with that economic information?

Mr. WOLF. I did not see this morning's report.

Senator RIEGLE. Do you fellows generally zero in on the large economic effect of these trade deficits, or do you just always take it country by country?

Mr. WOLF. Well, in my personal case, I am looking at Japan and China.

Senator RIEGLE. I see. Is there somebody in the administration, in the government, that adds it all up?

Secretary KANTER. Certainly, Senator.

Senator RIEGLE. But, I mean, does someone add it all up and convert the trade figures to a policy in terms that would deal with our increasing trade imbalance?

Secretary KANTER. To a global trade policy. Yes, Senator.

Senator RIEGLE. I would assert to you that a cumulative trade deficit of \$1.1 trillion over little more than a decade has really hurt us a great deal. This has caused us to lose millions of jobs in this country, as well as capital.

The capital hemorrhages out of our country as a result of staggering trade imbalances. If the capital leave, it goes to somebody else in another country. They then have the capital, and we have less capital resources, as a nation. You have less capital for use in

the private sector, and you just have less within your Nation as a whole. The cumulative U.S. merchandise trade deficit for 1992 is going to be over \$60 billion.

Now, can you tell me what the estimate is for the U.S. bilateral trade deficit, that you anticipate for 1992 with Communist China?

Mr. WOLF. We are estimating in the range of \$15 billion.

Senator RIEGLE. \$15 billion. Can you tell me what it was last year?

Mr. WOLF. \$12.7 billion.

Senator RIEGLE. So, it is going to rise from \$12.7 billion to \$15.6. Can you tell me what it was in 1990?

Mr. WOLF. \$10.4 billion.

Senator RIEGLE. How about 1989?

Mr. WOLF. \$6.2 billion.

Senator RIEGLE. And 1988?

Mr. WOLF. I need to refer to a different chart.

Senator RIEGLE. Well, 1988 was \$3.5 billion.

Mr. WOLF. Right.

Senator RIEGLE. So, let us take it the other way around. Let us look at that pattern. Starting from 1988—we could go back earlier than that—it was \$3.5 billion. That was the deficit that we had; the \$3.5 billion surplus was in China's favor. Then that figure jumped to \$6.2 billion in 1989; to \$10.4 billion in 1990; and to \$12.7 billion in 1991. Now, you say that latest estimate for the United States-China trade deficit is \$15 billion. Could it exceed \$15 billion in 1992?

Mr. WOLF. It could exceed that; it could be lower.

Senator RIEGLE. I think the expectation of most of the analysts is that the United States-China trade deficit will be at least \$15 billion. Is this estimate current?

Mr. WOLF. Somewhere in the \$15 billion range.

Senator RIEGLE. Now, where does that put China on the list of nations with the largest trade surplus with the United States? Are they now not second of all the nations in the world in terms of the size of the trade surplus they have with us?

Mr. WOLF. That is right.

Senator RIEGLE. So, they have moved into the number two position right behind Japan.

Mr. WOLF. Yes.

Senator RIEGLE. Do you do any economic analysis as to what a \$15 billion trade deficit means to our economy in a 12-month calendar year? I mean, how does the imbalance in China's favor affect the United States? Do you make any effort to look at what the economic impact and damage of a \$15 billion bilateral deficit is and means to the United States?

Mr. WOLF. Well, that is the point of the negotiations with China at the present time.

Senator RIEGLE. I would hope so. But what I am asking you is, do you have any information or analysis that would show what the economic damage is that the United States-China trade imbalance does to our country, especially when China continues to run these large and growing persistent bilateral deficits? Do you have that analysis?

Mr. WOLF. I would have to check to see what we have.

Senator RIEGLE. But, off the top of your head, you do not know?
Mr. WOLF. No.

Senator RIEGLE. It is troubling to me that the economic impact seems to be such a small part of the overall evaluation of our trade policy. These important trade numbers and their economic impact should be considered right up front. I would think that they would be one of the first things you would know and one of the first things you would look at in your efforts to devise U.S. trade policy.

Mr. Chairman, I know my time is up. On a final note, we must recognize that we have a huge economic problem in the context of MFN for China that is damaging our country. The disappointing aspect of this situation is that I do not see a strategy to deal with increasing United States-China trade imbalance. I just think this approach is wrong. I just do not think that we can continue to let these trade numbers increase at such an alarming rate.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I have listened to the questions by the Senator from Michigan, indicating great concern over deficits. And I will not question him; obviously, he is not the witness. But I will point out that in some areas of the world we have tremendous surpluses.

In 1991, we had a \$16 billion surplus with the European Community. I suppose that if one followed the line of thought that it is bad to have deficits, the European Community should be fairly concerned. Presumably the European nations should do something to get rid of these surpluses that the United States is running with them.

Now, I would just like to point out that, if this legislation were to pass, many have predicted that it would affect United States workers and Rhode Island workers in a very direct way.

Headquartered in my State is the world's largest toy company: Hasbro. Like every major toy country in the world, this toy company has factories in the southern part of China. And from there, they obtain parts of toys that are then brought back to Rhode Island, assembled, boxed, and sold, all of which provides a host of jobs for Rhode Islanders.

If this legislation were to pass, that source of supply would not be available to U.S. companies. And every other toy company outside the United States would celebrate because this major U.S. toy company—Hasbro—would no longer have the source of supply it currently has. So, in effect, we in the United States would be shooting ourselves in the foot.

Now, it seems to me there is some confusion here. Some of the questioners on this panel have talked about prison labor and other activities that are deemed improper. But there are ways to get at that: Through trade actions, sanctions, 301, and so forth, rather than through denial of most-favored-nation. Am I correct in that? If I am wrong, I would like to be corrected.

Secretary KANTER. Senator, that certainly is our view. The way to engage objectionable Chinese behavior is to go after that behavior in a targeted, focused way. That is what we are doing on trade issues, that is what we are doing on non-proliferation issues.

I bet you a good lunch that the reason that the Chinese agreed in the end to abide by the MTCR parameters and guidelines was

because we imposed sanctions on them. And when they agreed, they agreed to lift those sanctions. Mr. Wolf can speak in some detail about the specter, if you will, of trade sanctions and getting them to improve their trade behavior. But it is a targeted approach. It is using a rifle, not a blunderbuss.

Mr. WOLF. I also agree with you completely, Senator. That is the point of the 301 case. We are trying to open up those markets in China to our manufacturers, to our exporters. We think the 301 legislation provides us with an excellent tool to do that. We are seeing, in the last month or so, progress. We think that will continue.

On the import side, as you know, we have a textile import program, and we are trying to ensure that the Chinese abide by that program. This is very clearly targeted for the trade area, and we think it is working effectively.

Senator CHAFEE. When you get into situations, as you have mentioned yourself—intellectual property, for example—there are ways to obtain changes. For example there are retaliatory measures that can be taken under our trade laws if there is piracy of intellectual property. Am I correct in that?

Mr. WOLF. Yes. The proof of the pudding is in the eating. We have an intellectual property rights agreement with the Chinese. We used our trade tools, we used them effectively, and it worked. Some might argue that it should have worked earlier, but the point is, it worked. We have an agreement, and we are now monitoring the implementation of that agreement.

Senator CHAFEE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Daschle.

Senator DASCHLE. I guess, with some respect, I would say that is a pretty small indication of success overall. When you look at the dramatic problems we have with human rights, with weapons proliferation, with trade practices, to be able to say, but, look at intellectual property rights, really demeans the whole process in the sense of our longer-term and very expansive goals.

But I would like to ask. One of you mentioned that the best approach is what you called targeted, focused ways of addressing these issues. And, yet, we took the MFN approach with the former Soviet Union; we took the MFN approach with South Africa; we have taken the MFN approach with Chile. We have taken MFN approaches in the past and very clearly have looked at more than just targeted, focused responses to problems there and with some success, would you not say?

Mr. WOLF. Well, I am going to give you a narrow answer, Senator. I will let Mr. Kanter give you the broader response. I think if you talk to American software companies, the recording industry, computer manufacturers, they would tell you that the intellectual property rights agreement that we have with the Chinese is not a small matter, that this does relate directly to the viability of their industry, to their growth, to the jobs in those industries. My reference to success was to the direction we are heading now in our market access negotiations with the Chinese.

Senator DASCHLE. Well, I guess it was more of a comment than a question. But Senator Danforth had asked the question, if you could give us any indication where a unilateral action on the part of the United States has worked.

I would like to also add to that, if you would, as you are providing the committee with an answer to his question, if you could also give us some historical perspective on those occasions when the U.S. took a leadership role, and, having taken a leadership role, other countries followed.

Obviously, with South Africa, I think we can make a pretty good case that the United States did take a leadership role and we saw other countries follow our lead once that was done. I would like very much for you to give us an historical analysis of the role that the United States has taken in other situations similar to this where we have seen our allies follow, rather than compete.

I think the point I want to make in what limited time I have available to me, though, goes to another issue relating to leadership. Somewhere in the halls of Congress over the last few weeks we are once again renewing the debate about what we knew and when we knew it, and the degree to which we assisted Saddam Hussein 3, 4, and 5 years ago.

Obviously, we will have great difficulty in coming to any conclusions about what it was we did. But so much of the discussion about China today is reminiscent of the same debate we had about Iraq 3, 4, and 5 years ago.

We traded with them, we talked with them, and we really ignored a lot of what was happening in Iraq for the very same reasons we are ignoring what is happening in China today.

We were told about human rights violations, and we said, let us talk with them. We were told about the proliferation of weapons, and we said, let us trade with them; that that is the best way to accomplish our mission; that if we do not do it, somebody else will.

And I recall so clearly a debate on the floor just weeks prior to the time we saw Iraq invade Kuwait; where we had a debate about an issue very near and dear to my heart, should we provide them with additional trade in grain. And the argument was, if we do not do it, somebody else will. And we do not want to send them the wrong message, because we want to keep them at the table. And look what happened.

Well, I really fear that that very thing is going to happen again. And if we do not learn from past lessons, then shame on us. If we are not prepared to cope more effectively and consider the consequences of talking, of trading, and of ignoring, then shame on us. And I really do not know.

If you look at the violations in human rights today going on in China, to the extent that we know of them, you cannot draw any distinction whatsoever between what is happening in Iraq today and what is happening in China today.

And, yet, our policy towards China is so different than our policy towards Iraq that I dare say you would never know there was any difference in human rights whatsoever. But if you differ with me on that parallel, I would like to know how you would respond.

Secretary KANTER. Yes, Senator. First, let me say that we will enlarge the scope of the response we provide for the record, as you requested. Let me just say, now, that it is not a matter of the United States going it alone, but rather a matter of the United States exercising leadership.

We do that around the world. We do it on sanctions. We did it on sanctions against Iraq, we did it on sanctions against Libya, we did it with respect to South Africa; none of which, I would hasten to add, involved MFN, where we will be high and dry. So, I want to distinguish between American leadership which we have, are, and will continue to exercise, and MFN, which, frankly, is a non-starter.

With respect to parallels between Iraq and China, I am sorry. I just reject it. It is not a matter, first of all, of ignoring what is going on in China. In my oral statement today and my written statement in more detail, I think it makes very clear that we have acknowledged, addressed, gauged, and targeted Chinese behavior across the board that we find objectionable.

We do it not just by talking, but by sanctioning, by being tough, by being tough on trade. Tiananmen sanctions are because of human rights. The sanctions imposed on China because of missile proliferation got their attention. They are now abiding by the MTCR guidelines and parameters.

So, it is not a matter of talking and ignoring. It is not a matter that someone will fill in behind us if we leave. It is a matter of exercising leadership. But I readily acknowledge the policy of comprehensive engagement rather than isolation. If we walk away, it is, frankly, a repudiation of our leadership.

Mr. WOLF. Again, to look at it from the trade focus, Southern China is a very different place than it was 5 years ago, and an extraordinarily different place than it was 10 years ago.

And a good part of that change has come about because of the development of entrepreneurs, the influence from Hong Kong, the influence of American investment, American exports. As China evolves over the coming years, the changes in Southern China will have a significant impact, we believe, on that development.

Senator DASCHLE. Well, I am out of time. I thank you for your answers. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, gentlemen. Thank you for your testimony. We have as our next witness, Hon. Winston Lord, the former Ambassador to the People's Republic of China, now the chairman of the Carnegie Endowment National Commission on America and the New World.

STATEMENT OF HON. WINSTON LORD, FORMER AMBASSADOR TO THE PEOPLE'S REPUBLIC OF CHINA (1985-1989), AND CHAIRMAN, CARNEGIE ENDOWMENT NATIONAL COMMISSION ON AMERICA AND THE NEW WORLD, NEW YORK, NY

Ambassador LORD. Mr. Chairman, members of the committee, I am pleased to appear before you to discuss American policy toward China and the issue of MFN trade. I have a written statement that I would like to submit for the record. I have reduced it down to a manageable length for my opening verbal comments.

The CHAIRMAN. That will be done.

[The prepared statement of Ambassador Lord appears in the appendix.]

Ambassador LORD. In discussing these issues, we must keep in mind the larger implications of our deliberations. The world we have known for half a century is gone, a new one is emerging. Fa-

miliar landmarks are shifting before we can change our thinking. What America does at this critical juncture affects not only the business at hand, but the enterprise of the 21st century.

And as we cross this threshold into a new era, our steps take on added significance. Will we show others around the world that we have a coherent vision of the world and America's place in it? Will we pursue our goals with steadiness and sophistication? Or will we tack with the winds, back off in the face of belligerence, or be bought off by transparent ploys?

This new environment summons continued American leadership, albeit of a different kind. What will not change will be the need to fuse realism and idealism to promote our interests and project our values. Supporting the spread of freedom around the world does both. Free countries respect human dignity; free countries do not launch aggression on one another; free countries make better economic partners.

Of course, we should not press others to adopt an American model. Each nation must find its own path of freedom. Of course, we have other interests in foreign policy. With repressive governments, we will need a case by case approach tailored to the political context.

But we should be consistent in our public statements. We must avoid blatant double standards. And we can find ways to deal pragmatically with harsh regimes without abdicating our ideals. Such questions extend far beyond our China policy, but that policy, in turn, will illustrate our future course in the world.

Mr. Chairman, I am here as a Republican who has served administrations of both parties, from President Kennedy to President Bush, most recently as Ambassador to China, as an advocate for improving Sino-American relations for more than 2 decades.

I am here as a close associate of Dr. Henry Kissinger, and a central participant in President Nixon's policies on China and other issues. Thus, I do not believe I can be accused of ignoring real politik.

I am here as a believer that China will be a very important country for America and the world. I am here as a generalist on foreign policy who brings a global perspective; a strong supporter of open markets and trade; and a skeptic of congressional micro-management of foreign policy.

But I am here, also, Mr. Chairman, to support legislation which would make conditional the extension of MFN trade status to China.

I believe the approach of S. 2808 and the closely related H.R. 5318 is the best one now available on this issue to help the Chinese people, serve American interests, and strengthen our bilateral ties over the long-term.

More fundamentally, it will project a strong and purposeful America in a radically changed world. Now, to provide the context for this particular topic, my statement briefly discusses overall American policy toward China.

First, I ask the question whether China will be important. Contrary to conventional wisdom, with the disappearance of the Soviet threat, that China will not be important in the coming decades, I believe it will be extremely important, and I explain why.

Then I discuss the current Chinese scene. Recently, China, led by Deng Xiaoping in the twilight of his career, has once again been emphasizing economic reform. Political repression, however, continues unabated. There has been no progress on human rights in China since the June 1989 massacre, since the beginning of these annual debates on United States-China trade.

The administration's policy has failed in this area, starting with the egregious secret pilgrimage to the Middle Kingdom by the President's National Security Advisor, while blood was still being washed off Beijing streets.

The Chinese regime has been playing a cynical shell game. Every now and then, usually on the eve of a Congressional debate, it releases a few prisoners, announces new purchases of American goods, or makes some other cosmetic gestures.

Meanwhile, new prisoners are rounded up and old ones receive stiff sentences. The administration dutifully notes progress. The Chinese rulers dutifully note that the administration will protect them from the Congress.

Other witnesses and organizations can document extensively the myriad continuing human rights abuses in China, and I describe these briefly. I know Lane Kirkland will be talking to you. I would like to point out that the workers in China get the worst treatment of all. They do not get the international attention that students get, and they deserve it.

But, rather than elaborating on subjects where others are more authoritative, let me simply sketch a profile of what can happen to a Chinese citizen who puts up the wrong poster, for example, or happens to be in the wrong place at the wrong time.

Close surveillance of him and his friends; detention without notification or charge; wretched jail conditions and torture; sham secret trial with preordained sentence; prison labor for export. Finally, release from prison to find not only that he cannot get a job, but his family has no home.

And, finally, I discuss in my statement here the future in China, whether or not it will move toward a more free society. Now, Deng Xiaoping and other Chinese leaders believe that a combination of loosening economic reins to improve the conditions for the Chinese people and tightening political reins to crush dissent can preserve Communist rule in the future.

They are wrong. My statement suggests why. I conclude that once the prestigious first-generation revolutionary leaders leave the stage, the prospects for freedom should brighten. This may not happen immediately, there may be an interim regime or two. But the forces that I have described will gather momentum, and China will catch up with history.

This, then, is the context for American policy toward China. First, it will be an important country in the emerging new world. Second, it is currently governed by a regime that abuses its people and international standards. And, third, within a few years, however, it will move toward greater political freedom.

Now, I have sketched this context, because it is important in terms of our overall policy on the MFN issue. Taken together, the factors that I have described suggest that the United States should

conduct a nuanced policy toward Beijing until a more humane government emerges.

Our options are not confined to either to shunning or absolving China. We hear the straw man from the administration, that we are going to isolate China if you criticize their policy.

We need a holding action that deals soberly with the government, while providing hope for the people. We need both to condemn repression and preserve links with progressive forces which are the foundations for our longer term ties.

Our challenge, in short, is to forge a policy that both conducts requisite business and honors our ideals, one that can carry us through a bleak today toward a brighter tomorrow. And this suggests a policy along the lines, again, that my opening statement outlines with some concreteness.

I conclude that, above all, in dealing with China, we should drop the administration's appalling and shameful double standard which suggests the Chinese, unlike other Asians, or Europeans, or Latins, or Africans, or Americans, cannot afford—indeed, do not really want—to embrace liberty. I believe the Chinese people hold the same aspirations as others around the globe.

Now, as part of this overall policy toward China I have described, I believe we should extend MFN trade treatment for a year with realistic conditions.

Reasonable people can disagree on this issue. One can stand for human rights in China and still urge renewal. One can consider Chinese relations important, and still urge removal. I oppose the two extremes of revocation and unconditional extension. And, again, my statement explains why I oppose these two extremes.

Accordingly, I favor conditional renewal of MFN. I believe this represents the brightest chance of minimizing the drawbacks of the two extreme options. More positively, it is best suited to promote our various interests, geopolitical, economic, and humanitarian. It would arm the administration to encourage human rights, rather than forfeiting the most powerful instrument available.

In principle, I believe conditions for MFN renewal should be limited to emigration, human rights, freedom of expression and related areas, and my statement explains why. And for all of those reasons, I counseled last year against expanding conditions into areas like trade and proliferation. I urged that we vigorously pursue such problems through other vehicles. And, I must say, Senator Baucus was very instrumental in pushing the administration on some of these other questions.

And during the past year, the administration, thanks to the pressure from the Congress, and, in order to preserve MFN, has, indeed, made promising advances on several fronts through such means. I wish they would show such fervor and determination on human rights questions, Mr. Chairman.

But, in any event, with this apparent progress, I can now support the approach in H.R. 5318 and S. 2808. For the current legislation does not really impose new conditions on China in trade and proliferation. In effect, it merely requires the Chinese to implement commitments they have already agreed to during the past year.

If Beijing fulfills its firm pledges on nuclear and missile proliferation, on intellectual property rights and prison labor, for ex-

ample, it presumably would pass the legislative test in these areas. If it reneges, then it should be held accountable.

In addition, the language of the pending legislation allows leeway in determining whether sufficient progress has been made in the course of the year. While the objectives are clear, avoiding the use of absolutes and inserting the phrasing "overall significant progress" before many of the conditions, make the goals attainable.

In short, given the intense Chinese interest in preserving MFN treatment and the flexibility of the legislation's wording, the administration should be able to extract meaningful progress on human rights. And this, in turn, would permit the extension of MFN again a year from now. And I flatly reject the administration's views that you cannot use this for leverage, or that it will not work.

By the way, the Chinese Government does not only mistreat its own citizens. Just in recent months we have seen Western journalists roughed up, embassy visitors detained, Senators denied visas, and the Secretary of State given false promises on emigration.

A key new feature of legislation this year limits the revocation of MFN to articles produced, manufactured, marketed, or exported by Chinese state-owned enterprises. This is a very constructive step.

It would erase or ameliorate many of my concerns which I share with the administration about the loss of MFN treatment, such as hurting the very forces in China which we ought to encourage, and inflicting damage on an innocent Hong Kong.

Private companies, collective enterprises, and foreign joint ventures would continue to receive MFN treatment. Thus, this stipulation is clearly desirable. The only question is whether it is doable. I treat this in my statement, Mr. Chairman.

What we are hearing, once again, is a smoke screen from the administration; anything that might offend the Chinese is impossible to carry out. I just do not think that this is an impossible task.

It seems to me that enforcement of this provision certainly will not be perfect, given the ambiguities of the Chinese scene and the likelihood of cheating, but a good faith effort by the administration should be sufficient to meet the basic objectives of the legislation.

The House and Senate bills appear to be roughly similar. I just note, quickly, two provisions that are different that I want to underline my views on, again, spelled out in my statement. First, I think it is very important to include as a condition the cessation of jamming of Voice of America.

And, second, I think it is very important that we underline our concerns about Hong Kong's future, and I strongly support Senator McConnell's bill. And I understand the administration favors that legislation.

In conclusion, Mr. Chairman, overwhelming majorities in the House and Senate, including Members of the President's own party, believe the administration's policy on human rights in China has failed, and that a new one must be tried. I hope this year's more nuanced approach by the Congress will attract enough votes to override a prospective Presidential veto.

And I hope that the President, facing this prospect in a politically charged season, will then accept the legislation and join the

Congress in presenting a common front toward China. This would have a salutary impact upon Beijing's rulers.

In dealing with this important country and brutal regime, American can both project its ideals and promote its interests. The Chinese people will, of course, determine that great nation's destiny. But the Havel, Walesa, and Sakharovs of the world have testified that America's voice gives hope to those struggling in the dark.

We can help ease the path to freedom in China. A freer China will enhance our bilateral relations and erase a bitter issue in our National debate. And a freer China will be a more positive, powerful contributor to a new world order.

When China reflects the popular will, it will be a more responsible global partner. When it reduces commercial barriers, it will be a more expansive economic partner. And when it respects human values, it will be a more natural political partner. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Ambassador, your insight into that country is very helpful to us, and I am appreciative of your testimony. One of the things that has surprised me in testimony that we have received here was that some of the reformers were testifying that, if we put conditions on MFN, then they would lose face in China and that they really did not support conditions. We had some of that testimony here. Do you think that if we put such conditions on MFN it would be damaging to the cause or the influence of the reformers?

Ambassador LORD. Just the opposite. I think it would help the reformers. First, let us distinguish what was not made clear earlier this morning. We are not talking about revocation—at least in my view. I want to extend MFN. I hope it can be done. We are talking about using it for leverage for realizable conditions.

And approaching it that way, it will certainly strengthen the moderates and it will weaken the present regime's argument that, no matter what they do at home, it does not entail any international cost.

This is very important, as we head toward a party Congress, with an aging leadership, and a succession struggle under way. So, I do not buy that argument at all, Senator.

The CHAIRMAN. We have a vote in the Senate. Senator Riegle went early and will return. He will be presiding, since I have another commitment. But we will stand in recess now for approximately 10 minutes while Senator Riegle returns from that vote, so that the rest of us have a chance to make it. Thank you.

Ambassador LORD. Thank you.

[Whereupon, the hearing was recessed at 12:10 p.m.]

AFTER RECESS

Senator RIEGLE. Let me invite everyone to find their seat so we may begin. Mr. Lord, let me thank you for your testimony. You said earlier that the legislation contains within it a balance that you consider to be appropriate. I trust you were here earlier when the lead witnesses were here and cross examined.

Ambassador LORD. Yes, I was.

Senator RIEGLE. All right. You may recall that in that cross examination they pointed out that, as one might expect, that there

have been a few token moves recently by the Chinese leaders to try to buy a little good will, and to possibly head off this conditional MFN legislation.

Reference was made to the fact that the Chinese Government recently announced that it was going to buy a few cars and trucks from the United States, totaling about \$150 million. When you have a \$15 billion trade deficit with a country, as we do with China, which has a surplus in its favor, and if you take and apply \$150 million of new purchases of a U.S. product by the Chinese, against a \$15 billion deficit with the United States, how big a dent does that put in our deficit?

Ambassador LORD. Very slight, indeed. Even as releasing a few prisoners while the Chinese round up others and sentence innocent people puts a very slight dent—in fact, no dent at all—on the human rights front. It is a typical cynical game, as I suggested in my statement, usually just before a Senate or House vote where Beijing throws out a few goodies. The administration then proceeds to inflate their significance, and, once again, the President's veto is upheld.

Senator RIEGLE. Well, I see the same pattern at work here now. This involves sort of a public relations campaign to try to dress up and obscure the major problems and that exist in the United States-China relationship.

I think we have got to change our policy in this area to deal with the problems discussed here today. Do you have sufficient background regarding the economic impact of trade deficits to be able to speak knowledgeably about what a \$15 billion a year trade deficit means to our economy?

Ambassador LORD. Well, I know it is extremely significant in terms of the loss of jobs, the slow-down of growth. In all fairness, of course, exports can help jobs and growth. So, what you have got to do, as you have suggested, is get a level playing field. And I note in this respect, Mr. Chairman, that the administration has kept saying the Chinese will not move if you impose these conditions. And I agree, it is modest compared to the overall problem, as you have pointed out.

But they did move when we got somewhat tough on trade negotiations and on missile issues. And the administration was claiming credit for using the threat of sanctions to get movement out of the Chinese. That is fine in these areas, but when it comes to the ones in this legislation, including human rights, the administration says it will not work. So, you cannot have it both ways.

Senator RIEGLE. Yes. Well, the Bush administration is very weak on this issue. It has a weak policy toward China vis-a-vis the U.S. economy. The Bush administration has allowed China to turn America into an economic doormat. I believe that you cannot have the growth in a trade deficit such as we were citing earlier, especially over such a short space of time without economic consequences. I think the United States-China deficit will be higher than \$15 billion this year.

Here we sit in the United States with widespread unemployment, more people losing their jobs all the time, consumer confidence now going down very sharply. We had the second-quarter

growth information come in. The U.S. GDP was very weak, and had dropped from the first quarter.

Any time we allow another country to build up huge trade surpluses with us, especially when a lot of it is built on trade cheating, like currency manipulation and the exploitation of workers, as you point out, this does great damage in our country.

I was struck by a thought as you were delivering your prepared statement. If the Chinese Government is exploiting its workers by having them under inhuman working conditions, or even compelling people who are in prison to produce goods that then go into the international market and are sold, to the extent that they abuse their workers and those goods leave the country, the abuse, in effect, moves out around the world. In turn, that abuse ends up, indirectly affecting American workers.

If our workers lose their jobs as a result of a flood of imported Chinese goods that are coming out of a badly flawed work system, it not only allows the continuation of those bad practices in China, but it ends up damaging workers in this country. Does it not?

Ambassador LORD. Absolutely. And, again, this was an issue where we did not get tough until the last year or so because the votes were getting closer and closer in the Senate on overriding a Presidential veto. And it again reminds me of this argument about whether we have leverage with the Chinese. We are China's number one export market. Twenty-six percent of their exports come to us.

Senator RIEGLE. Yes.

Ambassador LORD. They have this huge surplus that is growing, as you have suggested. It is crucial to their development, which, in turn, is crucial to their trying to maintain control over the people in terms of giving them a better life. Now, if that is not leverage, I do not know what is.

Senator RIEGLE. Well, the suggestion was made by the administration witnesses that the Chinese would just take their big trade surplus either home with them, or take it somewhere else.

There is no other country that I know of that would tolerate such a massive trade imbalance as we have with China. Is that a reasonable assumption? Where would the Chinese take their huge trade surplus? Where would they dump off \$15 billion of domestic production? What other country would take China's surplus exports?

Ambassador LORD. Well, they would have trouble getting further into the European/Japanese markets to the extent they have gotten in here. Now, to be totally comprehensive in my view, I would like to solve this problem by expanding their market rather than closing ours. And I have pointed out that I do not wish to see MFN taken away, but I do want to use it for leverage.

And I think those people in this country who are hurt by open trade—and some are; I think they are a minority versus those who gain jobs through exports—deserve training, adjustment assistance, education, and help. No question about that. I am for open trade, however.

Senator RIEGLE. Of course, we are not providing that in this country.

Ambassador LORD. No, we are not, and I think we should do that.

Senator RIEGLE. Yes. Yes.

Ambassador LORD. I just want to make clear that I would prefer to solve this Chinese surplus through opening up their markets, which are very restrictive, rather than closing down ours.

Senator RIEGLE. Well, you only can do that with a fair trade regime. Establishing such a regime would require China to set up worker adjustment assistance. In addition to that program, there is a whole series of other adjustment mechanisms that would be needed to ensure fair and balanced trade with the United States.

If you do not have such mechanisms in place and one country is able to run up a massive surplus in its favor—like the \$15 billion United States-China trade imbalance for 1992— and, in turn inflict great economic damage on a country with a more open market, like the United States. The \$15 billion is a net deficit for our economy.

Despite the fact that anything that we are selling them, is subtracted from the trade equation, there is still \$15 billion of products left that they are shipping in here. This large U.S. trade deficit takes jobs away from our people and it also drains capital out of our system.

In effect, it is exporting \$15 billion in scarce capital from the United States to Communist China. The capital flowing from the United States to China is enormously valuable to that country. But, by the same token, it is part of why our economy is so anemic right now. If we were able to do that work, produce those goods or equivalent goods in this country, keep that \$15 billion here moving around in our own society, there is a tremendous multiplier that goes with that capital.

More specifically, one person's job in the United States tends to create the next person's job, and our workers take their wages and spend them on things that creates the jobs of other American workers.

In effect, everybody's job in our country ends up being tied together. Therefore, it is terribly damaging when you have \$15 billion worth of jobs high-tailing it out of the United States in a 1-year period of time.

Ambassador LORD. If I could quickly comment on that.

Senator RIEGLE. Yes.

Ambassador LORD. Again, you have underlined why we do have leverage on this question. This is very important to the Chinese. With all due respect to some other witnesses, I have dealt with the Chinese for over 20 years. I met with Chairman Mao five times more than any other American except Dr. Kissinger. I met with Cho En Lai hundreds of hours, Deng Xiaoping, the same; every Chinese leader, as well as the Chinese people. So, I think I have some feel for how the Chinese will respond. And with this kind of leverage, with reasonable conditions, as I have suggested—and that is why I support this legislation—there is no question in my mind that the Chinese will make some moves.

Senator RIEGLE. Yes.

Ambassador LORD. And we can preserve MFN a year from now; have our cake, and eat it, too, which is my position.

Senator RIEGLE. Well, let me pursue that one bit further, because I think your experience is very valuable. If we do not use the leverage and apply constructive pressure to deal with these abuses by the Chinese Government, and we are weak about it, and we look the other way, thereby allowing them to continue to balloon their trade surplus, what is the message that the Chinese leaders take from our lack of action, and how is that likely to affect their behavior?

Ambassador LORD. With the Chinese—and I am a strong supporter of improving our relationship; I have worked for this for 20 years.

Senator RIEGLE. I understand.

Ambassador LORD. But they understand, like most countries, firmness. They do not understand weakness.

Senator RIEGLE. Yes.

Ambassador LORD. For example, if you massacre thousands of people and the President sends his National Security Advisor secretly 3 weeks later, they do not consider that a strong policy. Similarly, on economic and other issues, it is not the way to deal with the Chinese.

Senator RIEGLE. Will a policy of weakness by our government encourage a continuation of trade and worker abuses in China?

Ambassador LORD. Yes. And conversely, when you get firm, like we did on intellectual property rights—and I understand it is a good agreement—or if you begin to get firm on prison labor, you make some progress.

Senator RIEGLE. Right.

Ambassador LORD. And it is interesting that, again, just as the vote comes up, we finally have an agreement on that. If you get firm on some of these issues, they will respond.

Senator RIEGLE. Yes.

Ambassador LORD. Now, I have been against piling on so many conditions so rigidly in one bill for 1 year that it would take away MFN de facto.

Senator RIEGLE. Right.

Ambassador LORD. But this bill does not do that.

Senator RIEGLE. No, it does not.

Ambassador LORD. I think it is a reasonable compromise.

Senator RIEGLE. Well, what is significant to me is that, as someone who has been very active in this area, you have altered your view on U.S. policy with regard to China. You now look at this issue, along with its dynamic balance and feel that we have to strengthen our China policy or we are not going to get the proper results. I believe the bottom line of what I hear you saying is that we have got to strengthen our policy because we cannot continue with our current weak policy which offers no encouragement to the Chinese to change their behavior in trade, nuclear proliferation, and human rights practices.

Ambassador LORD. Absolutely. The first year this debate started after Tiananmen, after much soul searching, I came out for unconditional extension of MFN. At the same time, I recommended that we take some unilateral steps separately to make clear that this did not mean that we were not strongly in favor of democracy and human rights.

And I laid out a series of unilateral steps to put the extension in context. Those steps were not taken, MFN was renewed unconditionally, and the Chinese have continued repression now for 3 years. So, I have shifted my position.

I am still against taking away of MFN if we can possibly help it, because I think some of the arguments about hurting the wrong people in China, hurting an innocent Hong Kong, hurting American economic interests, are correct. But I also think we should use our leverage—tremendous leverage that we have got—and I think, as I have said now, twice, we can move the Chinese on some of these issues and still preserve MFN a year from now.

Senator RIEGLE. But only with a stronger policy.

Ambassador LORD. Absolutely.

Senator RIEGLE. Yes. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I must say, I have great trouble following the Chairman's line here. The accent seems to be that there is something per se immoral in a trade deficit. If there are immoral factors such as prison labor contributing to that trade deficit, it seems to me they should be discussed as freestanding matters. But to harp on the subject of the deficit as something that automatically is wrong—that I do not understand.

I would like to explore your thoughts, Mr. Ambassador. If you want to achieve something, then why do we not really get tough? Why do we not deny MFN for China until they shape up and follow what you seek? Your requirements are on page seven and on page eight. So, what is the matter with doing that? In other words, do not make it conditional, just come right out and deny MFN altogether.

Ambassador LORD. Well, I have laid out my arguments against both extremes: the unconditional extension, and, in this case, what you are talking about, revocation. I do not want to revoke MFN for the reasons I lay out here, and I just suggested you could set back the entrepreneurs, the reformers in China by hitting them, although this bill strives to limit that damage by targeting state enterprises. You would hurt an innocent Hong Kong. There are a lot of reasons why I do not want to revoke MFN.

Senator CHAFEE. Yes. But if you follow your line of thinking—and correct me if I am wrong—what you are saying is, they respect power. They do not like weakness.

Ambassador LORD. Right.

Senator CHAFEE. One could argue that the real power is to deny MFN, thus showing who is boss here.

Ambassador LORD. Well, as so often in diplomacy, you do need a balanced approach to be effective. If you just revoke it, in addition to all of the bad consequences that I have laid out in my statement and I have just rehearsed, you also will use your leverage up.

I mean, you have thrown away your one strong leverage, you have revoked it. And they will not be making any further concessions on human rights, or anything else, because they have already lost what they care most about.

Senator CHAFEE. No. Obviously, the predicate would be that you do this and you get your most-favored-nation restored.

Ambassador LORD. Well, I do not think it would happen. I think in that case, they would decide in terms of face and other reasons

not to make these kinds of concessions once it has been taken away from them.

In my reading of the Chinese, if you have this threat hanging over them for a year and you have reasonable conditions, you can make concrete progress, which is what I am interested in, not just making myself feel good.

So, I think it is important that we have a year to use this leverage and get practical progress on human rights and other conditions. If you take it away immediately, you do not have that leverage. And that is why I oppose that option.

Senator CHAFEE. If I understand what you were saying, I think it was on page seven of your testimony, you do not subscribe to all of the factors that are in Senator Mitchell's legislation, S. 2808. Am I incorrect in that?

Ambassador LORD. My view is this, Senator. For several reasons, I would prefer that the conditions were in the emigration, human rights, and related fields. Number one, because of legislative precedent, the Jackson-Vanik history. I do not want to load too many conditions in one place. Number two, if you put too many conditions on a bill, the Chinese may not move, figuring they cannot earn their way back no matter what they do. And you could have de facto revocation of MFN; I am against that.

And, number three, very frankly, from a tactical standpoint, although I leave this to the Congress, that it seems it is easier for a President to uphold a veto when there are lots of conditions than if there are modest conditions, and we have seen that the last 2 or 3 years.

However, having said that—and that still being my principle—I can live with this legislation for several reasons. In these areas outside of human rights—like trade and proliferation—the Chinese have already moved, to a certain extent.

So, it is a matter of upholding their commitments so we can measure that over the next year. And if they renege on their solemn pledges, then, of course, they should be hurt. But we are not asking them to do new things, essentially, on trade and proliferation. We are saying, all right, there has been progress, now you implement it. So, therefore, I can live with it.

And, second, this bill does target state enterprises only. Thus, I can support this approach, although, in principle, I would prefer to have it confined to the human rights area and pursue trade and proliferation through 301 and other diplomatic channels, as I urged last year.

Senator CHAFEE. It seems to me that the fundamental difference between your approach and that presented by the 2 previous witnesses is: What would happen in the event that most-favored-nation with conditions is passed.

The preceding witnesses certainly stated or implied that were we to pass a most-favored-nation extension with conditions, that the Chinese would consider it to be an infringement on—I do not want to go quite so far as to say sovereignty but at least on its capabilities. In any event, that they would retaliate by saying a conditional bill is just the same as being denied most-favored-nation, and they would then cease relationships with the United States. You think that is an exaggeration, apparently.

Ambassador LORD. Oh, absolutely. Again, what are we asking for in this legislation? Accounting for those who have been held for 3 years, and release of prisoners. It does not even say release of all prisoners, it says, "release of prisoners." Now, those are the only firm conditions explicit in this legislation, as I understand it. Accounting and release of prisoners in exchange for a \$15 billion surplus. I think we can expect them to meet that.

All the other conditions have the phrasing in front, "significant progress toward," which gives the administration, if it chooses to use it, strong leverage to get some progress, some flexibility a year from now to decide whether there has been significant progress, and for the Senate and House to review that.

So, it is ridiculous to say that the Chinese are going to consider this the same as taking away MFN. It is just intellectually dishonest. Not to mention the fact that we have been firm in other areas and they have moved, so let us try it in this area. Certainly, we have not succeeded on human rights by not trying it up till now.

Senator CHAFEE. Well, I have a little trouble with your testimony in that you say when we have been firm they have moved, but then you kind of dismiss the successes we have achieved through trade actions, and 301, and so forth. In other words, I think you rather brush aside the achievements that have been made in intellectual property, and so forth. You urge toughness, yet, when we do act tough and get something, you say that would have come about anyway, apparently.

Ambassador LORD. With all due respect, that is not my position, Senator, and I have not said that. I happen to believe the intellectual property rights agreement was significant. I agree with Senator Riegle that, in the overall scheme of things, it is not huge, but it is significant.

And I think we have made progress on missile and nuclear proliferation with the Chinese, although we have to see how well they implement these. My point was just the opposite: that it shows that if you are firm by threatening, you can make progress. On the intellectual property rights, specific retaliation—which, by the way, the administration was able to define so it would not hurt Hong Kong and it could determine what kind of companies produce what kind of products. So that suggests that where there is a will there is a way to implement this bill's provision about state enterprises. When we got firm like that, indeed, the Chinese did move.

So, I am saying, let us apply that same principle to the human rights area where they have not moved, where they have been giving us cosmetic gestures which the administration inflates and where the situation is as bad as it was 3 years ago. And do it with realistic conditions, however. I do not want to lose MFN. I want to make that clear again.

But I do not think we are going to lose MFN when the Chinese care so much about this trade, when it is so important to their political and economic situation, and when the conditions say "significant progress" and are moderate in every other way.

Senator CHAFEE. I would lay stress on your testimony on page four where you say: "In a modern, interdependent world it is impossible for long to practice open economics and closed politics." And, as you know, many of us feel very strongly here that what

has been achieved in the southern part of China toward open economics is a tremendous step forward.

That has come about because of investment that has been made, because of activities emanating principally from Hong Kong that have brought what we might call an entrepreneurial class in that section of China. I believe that we are making progress, and that the steps that are proposed have a good change of endangering what has taken place. Thank you, Mr. Chairman.

Ambassador LORD. Well, a quick comment, if I could. I agree with you, Senator. That is why I do not want to lose MFN. That is one of the main reasons. I think this is a constructive process. So, I am not arguing to lose MFN. And, furthermore, this bill would protect private enterprises and entrepreneurs.

Senator CHAFEE. I just would like to say, Mr. Chairman, finally, that there have been statements here to the effect that denial of most-favored-nation has worked in this place and that place, and reference was made to South Africa. We never denied most-favored-nation to South Africa. I think the record should show that, and I think the previous witnesses also indicated that.

Senator RIEGLE. Ambassador Lord, in conclusion, let me just say that I think you have given us very valuable and important testimony today. I am particularly struck by the fact that, as you point out, it is not as if the Chinese can take their \$15 billion trade surplus away from the United States and dump it on some other country. No other country in the world would tolerate this kind of trade imbalance and could not tolerate it. Other countries would not allow damage resulting from large trade imbalances to be done to their own work force and their own economics, unfortunately, as a result, China does not have any other place to unload all of its surplus production right now, other than the United States.

In watching the pattern of the United States-China trade imbalances, it is clear to me that the Bush administration has made America an economic doormat for Communist China. It is just that simple, and the numbers show it. It is a situation that is getting worse and is causing economic damage to accumulate in our country. This damage is related to the abuses that are going on in China. The abuses carried out by the Chinese Government are coming through the trade channels and creating a form of abuse here in the United States. These trade abuses must be stopped. Thank you very much for your testimony.

Ambassador LORD. Thank you.

Senator RIEGLE. Let me now call on our final witness this morning, President Lane Kirkland, who serves as the International President of the AFL-CIO. Let me just say, before Mr. Kirkland gives us his observations and comments, that I believe the AFL-CIO has been the leading force on behalf of workers' rights around the world, and helping to hasten the end of Communism and the aspects of it that suppress people as much as any institution I know. The international focus of the AFL-CIO is often not given the important attention that it deserves.

During the many years prior to your presidency, and maintained and strengthened during your presidency, there has been great concern about the well-being of workers in this country and workers in all countries, as well as the relationship between American

workers and workers in other countries. Your efforts and those of your organization have been an enormously constructive force for good in the world as a whole, and for our people here in America. We are very grateful for your efforts and their results. We would like to hear from you now.

STATEMENT OF LANE KIRKLAND, PRESIDENT, AFL-CIO, WASHINGTON, DC, ACCOMPANIED BY BOB McGLOTTEN, LEGISLATIVE DIRECTOR, AFL-CIO, WASHINGTON, DC

Mr. KIRKLAND. Thank you, Mr. Chairman. In the interest of time, I will somewhat abbreviate my statement. But you have the full statement, I believe, before you. I have with me Bob McGlotten, legislative director of the AFL-CIO.

Senator RIEGLE. We welcome him, as well.

Mr. KIRKLAND. Mr. Chairman, members of the committee, thank you for the opportunity to testify on what the AFL-CIO considers to be a most critical trade issue before the Congress, and that is the question of whether to extend most-favored-nation status for the People's Republic of China.

For us, this is not a difficult question to answer; the law is clear. It requires any country with a non-market country to, among other things, permit freedom of emigration before it can receive MFN.

Who, if anyone, will state for the record that the Beijing regime permits freedom of emigration to anyone in that country who chooses to exercise this freedom? Do we have to trot out Fang Lizhi and scores of Chinese students, intellectuals and workers who have fled their own country—without exit visas—in fear for their lives? Or will you take my word and the word of the established record for it?

The plain and simple fact is that China is not in compliance with the law on MFN, despite the proponents' best efforts to make it appear that way. We have a law and order administration in the White House—at least, that is what I remember from the last campaign—so let us have a little law enforcement.

Were that the extent of the law, this would conclude my testimony, Mr. Chairman. But the President's power to waive the requirements forces me to address several issues of so-called "pragmatism" that have been put forth by the proponents of continued MFN for China.

The first is the President's central argument that MFN is promoting the cause of privatization and human rights in China, and that trade should not be used as a lever to promote foreign policy goals.

But the practical fact of the matter is that this strategy does not work to promote freedom and democracy. Very recent history has proven that it is the denial of MFN to dictators that moves their nations toward these ideals and brings liberty to the working masses.

Look at what has happened in the Soviet Union and the countries of the former East Bloc. Look at what happened in Chile. And look at what is happening in South Africa. In these countries, the denial of trade privileges has worked.

On the other hand, China has had MFN since 1980. Yet, the government there continues to deny its citizens even the most basic of human rights. It is not getting any better over there.

We are talking about a brutal dictatorship and a system that includes prolonged detention without trial, forced labor, religious persecution, and the crushing of independent worker and student organizations. People cannot vote. Workers do not have the freedom to organize into real unions. People who dare to speak out are banished, jailed, tortured, or "re-educated."

Chinese citizens who tested these prohibitions on Tiananmen Square 3 years ago found out the hard way about how genuine their government's commitment to reform really is. And when the tanks rolled—after 9 years of MFN for China—the leaders of the Beijing regime were not thinking about trade privileges with the West. They were thinking about their own survival. As they see it, you survive by eliminating those who speak out against you.

When the dust settled and the student and worker activists had all been executed or carted off to the laogais, the regime once again turned its attention to retaining MFN, but, again, only as a matter of its own survival.

Discredited by their own people and desperate for hard currency to alleviate China's huge economic problems, they will turn to any source that will help them survive. That is why, despite their violent opposition to independent groups, they have permitted the establishment of an American Chamber of Commerce in Beijing.

Mr. Chairman, the Chamber is not a beachhead of freedom and human rights, and the much-ballyhooed Guangdong Province near Hong Kong is not the bastion of free enterprise and free markets that the President makes it out to be.

Guangdong Province has more forced labor institutions than any other in China—at least 133 of the nearly 1,000 camps scattered throughout the country. The record is replete with evidence that the political prisoners confined to these slave labor camps have produced and are continuing to produce items for export—items such as textiles, shoes, ceramics, auto parts, and chemicals, to name a few.

We can argue for hours on these practical issues of trade and markets, and on our contention that MFN for China is clearly not in our country's best economic interest. But, when it comes right down to it, is this not, above all, a moral issue?

Somewhere, buried under the discourse on what is good or bad trade policy, and amid the struggle for capital and markets, is there not a basic question about what is right and what is wrong? Should not we, at some point, take a stand in favor of the common rights of humanity rather than the divine right of markets?

We are currently hearing, in this political season, a lot of talk about family values. What values were enshrined in MFN for China? Are they the ones we want to teach our children?

There will always be traders and investors who will take advantage of market opportunities offered by the likes of a Pinochet, a Franco, or, most recently, a Saddam Hussein.

But you, Mr. Chairman—you and your colleagues on this committee and in this Congress—have a higher responsibility. You must stand above the special pleadings of those who have opened

offices in Beijing, or who are doing business in China out of Hong Kong skyscrapers.

Are the American ideals of democracy and justice and basic human decency not worth something more than the profits for a few derived from the exploitation of the repression of a billion people? We think so.

And we believe that the enforcement of our trade laws should reflect our commitment to the advancement of human rights. We believe in that policy because practical idealism has proven to work better than unprincipled pragmatism, and because it most becomes the United States of America. We argue for a doctrine rooted in a universal and enduring proposition—the service of the aspirations of plain working people for freedom, a better life, and a fair share in the fruits of their labor.

To advance these principles in China, there must be freedom of association. The Chinese government, with which our President wants to conduct business-as-usual, does not allow it on their soil. The undeniable fact is that it does everything to smother this freedom and shows no sign of real reform.

So, now is not the time for so-called “pragmatism.” Now is not the time for equivocating and balancing interests. It is the time for standing on principle and doing what is right.

And the right thing to do is to stop the travesty of extending most-favored-nation status to the People’s Republic of China. Thank you, Mr. Chairman.

[The prepared statement of Mr. Kirkland appears in the appendix.]

Senator RIEGLE. Thank you very much, president Kirkland, for such an important and powerful statement. Is it fair to say that when workers are exploited, as they are in China, in slave labor camps and as a result of practices that have been well-documented, that the products of their forced labor are sent out into international markets? In addition, do most of these products end up here in the United States and thereby displacing American workers and taking their jobs? Does the abuse of a worker in China extend to the international trading system and to workers who are unable to find work in the United States? In effect, aren’t Chinese prison labor abuses passed along to American workers who are desperate for jobs, and are they cheated out of work because of Chinese labor practices?

Mr. KIRKLAND. There is no question of that, Senator. I think those who enjoy an American standard of living and think that it is one of the rights of American citizenship ought to understand—and I believe our people understand fully—that there is an implicit bargain in the maintenance of that standard of living. A strong and implicit and inescapable bargain. And the other side of that bargain is that you must accept the right of others who produce goods to enjoy the same standard of living and the same rights and privileges as those which you enjoy.

Senator RIEGLE. Yes.

Mr. KIRKLAND. They are inseparable. I cannot fathom how, in the light of what, to me, seems a simple proposition, the idea that it is any how and in any way in America’s interest to promote and

advance the exploitation of human beings in the name of some economic advantage for a few.

Senator RIEGLE. I was struck by the economic data I cited this morning. Data about the U.S. economy continues to come in each day and each day is usually worse than the day before. I also note that we just had a big plunge in the consumer confidence data.

Today, the gross domestic product information for the second quarter of this year was officially released by the Commerce Department, and it is down sharply from the first quarter. In fact, the growth rate was more than cut in half. When you look at the data, you find that the anemic and limited growth was essentially in inventory.

So, we have a build-up of unsold goods, which has an ominous impact for the future. I also noticed in the AP story, that our economic health has also been made worse by our trade situation, where our exports fell 3.8 percent, and our imports increased by 6.3 percent.

The trade effect on top of the other economic factors is causing damage to our economy. Communist China has now become the country that is second on the list in terms of the size of its annual trade surplus with the United States. Right now, China is behind Japan, who has built up a \$45.6 billion trade deficit with the United States, through documented trade cheating and trade abuse over the years, about which very little has been done.

We have a situation here where the problems that are going on in our own economy and all of the wreckage that we see in terms of high rates of unemployment, people exhausting their unemployment benefits, and homeless veterans now from the Desert Storm war a year ago who were getting parades and who cannot find work today are part and parcel of our economic decline.

I cannot, for the life of me, understand the weakness of our Government when it comes to our economic problems, or United States-China relations. I know the President has a long-time relationship with the Chinese and that he served as an envoy there. As a result, I think he may be inclined to want to accommodate the Chinese when it comes to preferential trading status with the United States.

But, as you point out, there is not a more ruthless crowd of rulers in charge anywhere in the world today. The Chinese leaders rival Saddam Hussein. I have not forgotten what happened in Tiananmen Square, and the people who are still on the run in China today. Some Chinese citizens have not managed to get out of their country, and have been targeted because they were trying to increase their liberties and freedoms, especially the freedom of association and some of the other things that we say we stand for as a democratic nation.

For our government to allow us to become an economic doormat the way we have is damaging our own country's economic situation. Then, over and beyond that, their is hypocrisy, in the talk about family values or the fundamentals of liberty and justice for people. There is not any liberty or justice in China today.

The people who advocate individual freedoms are the ones that are targeted for elimination by the Chinese Government. This is the cold fact of the matter. There are people who have lost their

lives in China or who are now being held as political prisoners, and in many cases are making goods below cost. In effect, these goods are shipped into the U.S. market and steal jobs away from American workers. It is hard for me to fathom a more unprincipled policy, and why we tolerate this. I understand that there are some in the business community who are making money by doing business with China. We have had some examples of those interested in business with China cited here today.

If you go down through the \$15 billion trade deficit that we have with China you will find that there are some American business interests which are benefiting from our trade relationship with China. I am not surprised that the Chamber of Commerce has opened an office in China.

But that is no substitute for decent policies that are rooted in human rights and fundamental guarantees of freedom for people in China, which, in turn, can help protect our Government's guarantees to our own people in this country.

The products of slave labor in China are coming into the United States in the context of a \$15 billion trade surplus, which in effect creates a kind of slave labor in this country. I believe that one follows the other and we cannot disconnect the relationship between Chinese and American workers.

The fact that some manufacturer off in one State are benefiting from trade with China, while we have \$15 billion worth of unemployment in our economy because of this unjustified trade surplus with China is just wrong. U.S. support for the situation in China has got to change. It is my hope that our country is going to help change it.

I just saw the polling data yesterday, as did many others, from the State of California. California has an unemployment rate of 9.5 percent. Workers in California have been damaged, in part, by the flood of Communist Chinese goods coming into our country.

They cannot even pay their bills in that State. They are having to pay people with script, and the banks have now said that they are about to terminate honoring the script. So, they just did a poll in the Presidential race and the Democratic candidate that is the alternative to these policies is more than two to one to in that State, the widest margins they have ever seen.

Now, why is that? It is directly rooted in economic realities and in a kind of blindness behind our trade and economic policies. The Chinese leaders are laughing at the United States. They cannot believe their good fortune as a result of our policies. They cannot believe the weakness of the U.S. trade policies especially.

The notion that they could take the \$15 billion trade surplus that they have with us that is keeping this regime in power over there and go dump it on some other country is absolute nonsense. The Europeans would not allow it mad the Japanese would not allow it.

No other country would allow this trade imbalance because it is an intolerable burden on country's economy. There is fundamentally no justification for the United States to condone Chinese policies in other areas as well, starting with human rights abuses.

The Chinese Communist rulers support U.S. trade policy toward them. They want the Bush administration to continue our current

policy, without conditions. In fact, they want to continue the Bush administration so that our China policy will remain in tact. The Chinese like to see America serving as an economic doormat, as we are at the present time.

So, I appreciate your testimony today, and I appreciate the fact that it dove-tails with the testimony that we just heard a moment ago of a person who is a life-long Republican, by his own acknowledgement, as he testified and served in the Reagan administration, served with Henry Kissinger, and has been involved in American-Chinese relationships over many years. He has come here today, as you have, to support a tougher U.S. policy on China, one which applies conditions to certain areas in an effort to stop economic and other abuses.

I take my hat off to him, because it is not easy to cut against the prevailing view and all of the apologies that are given as Chinese goods flow into the United States and damage the standard of living for our workers. Let me yield to Senator Chafee.

Mr. KIRKLAND. Mr. Chairman, could I make a couple of points? Senator RIEGLE. Yes, of course.

Mr. KIRKLAND. I read the testimony of the administration spokesmen while I was waiting to testify this morning. And there are two or three points in there that I think that I should address.

One. Throughout it is the proposition that human rights liberty and democracy are carried on the wings of trade and capital investment, that that is the instrument through which these values and virtues were advanced. I submit to you, sir, that that is not true. It has never been true, and it is not likely to be true in the future.

The record of those who confine their interests in these things to the advocacy of trade opportunities and investment opportunities has been one of willingness to do business with Hitler, to do business with Mussolini, to do business with Pinochet, to do business with Franco, to do business with Brezhnev, to do business with anybody that would afford them the opportunity.

They have displayed no interest whatever in the issue of human values and human rights. They have been perfectly prepared to profit from the exploitation of human misery, and to do business with the regimes that controlled and repressed the people. That is the record.

It was not the advocates and the agents of investment in capital who brought about the collapse of the Berlin Wall, or who brought about the collapse of the Communist regime in Poland, or anywhere else in Eastern Europe. That arose from the shop floors and from the work places, from the voices, the courage, the daring, and the risk of the lives and liberty of plain, ordinary people.

The forces of capital, and of trade, and of profit were in league with their oppressors. They were not the agents of constructive change, and never have been. It is the people, and the concerns of the people, and their freedom, and their right to associate, and to organize, and to stand on their feet instead of living on their knees, that brings freedom and democracy into the world. And Tiananmen Square is the expression of that, and what followed that is the expression of the other.

Second, there was the repeated reliance upon the technicality of the willingness of the Chinese regime to put laws in place as evi-

dence of reform. I put it to you that it is the essence of regimes of that sort of totalitarian regimes, that they are regimes, not of laws, but of men.

And the continuing essence of that regime is that laws mean what they elect them to mean, what they want them to mean. Those laws mean nothing when they are administered by a group of willful people, unchecked, unrestrained, and unguided by democracy. That has been the case, and it will be the case.

There was another little passing item in that testimony that intrigued me. It was noted as an argument for extending MFN and for relishing this growth in production and Western investment in Communist China.

That it affords a refuge for those manufacturers and producers who have found it too expensive to produce in Taiwan and in South Korea. Think about that. Is that the cause for the support of which America policy should be directed? I think not.

Senator RIEGLE. Thank you. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I would differ from the statement that the Chairman made here that somehow implies that all of the trade surplus results from prison labor. I cannot believe that \$15 billion is from prison labor.

Of course, that is the surplus only. I think we ship about \$6 billion in exports, so the imports total must be something in the term of \$21 billion in order to have the surplus of \$15 billion. And I just cannot believe the suggestion that all of this is directly related to slave labor, prison labor manufacturing.

Mr. Kirkland, you have certainly had a powerful statement here. What do you advocate? What do you think we ought to do?

Mr. KIRKLAND. The denial of MFN to China.

Senator CHAFEE. To do what?

Mr. KIRKLAND. The denial of MFN to China.

Senator CHAFEE. Just deny it.

Mr. KIRKLAND. Yes.

Senator CHAFEE. Which goes beyond what was suggested by either this legislation before us or Ambassador Lord.

Mr. KIRKLAND. That is correct. If the Senate, in its wisdom, wishes to build some sort of a bridge between right and wrong, I suppose that is better than totally opting for wrong. But I think we should take the stand on the side of right.

Senator CHAFEE. I see.

Mr. KIRKLAND. With respect to your earlier point about how much of the trade deficit's total volume is prison labor or slave labor, I suggest to you that that is a little bit academic. The entire country is a prison. Labor is forced, by one means or another.

The right to live and to work is granted or denied at the whim of a regime. It is a prison. People do not have the option as to whether to leave or not, contrary to the assertions about their compliance with the immigration conditions.

The right to emigrate is a privilege granted or withheld by the regime. It is not the right of the individual to decide whether or not it wants to travel or leave. They decide. That is not the intent of the emigration provisions, as I understand them. This is supposed to be a human right inherent on the individual, not a privilege of the State.

Senator CHAFEE. My silence does not indicate agreement with all you have stated. [Laughter.]

Mr. KIRKLAND. I understand.

Senator CHAFEE. There is no point in debating these points back and forth. I want to thank you for your testimony.

Mr. KIRKLAND. Thank you.

Senator CHAFEE. Glad to see you again. Thank you, Mr. Chairman.

Senator RIEGLE. Let me just conclude by thanking you again for testifying at this hearing. I appreciate greatly the three points that you made concerning aspects of the Bush administration's testimony. I think the broad view we ought to apply to our China policy has been narrowed down in recent years, to such an extent, that private, selfish interests are allowed to take precedence over economic reality and human rights.

We are not helping the people of China to obtain their freedom by encouraging the continuation of policies that are in effect in China today, or the weakness in our own policy, which also allows China to continue current policies in trade and human rights.

I have traveled in China, and I have talked to some younger people, who indirectly relayed how much they yearned for freedom: For the right of assembly, the right to seek a job, the right to go or come from their country, or what have you.

What hope they have of achieving these things is really here in the United States. Some Chinese wonder if we could ever muster a majority in this country, to stand with them, as opposed to this handful of ossified, old Communist leadership up at the top of the prison-type system that you described.

I want to send a signal to the Chinese people, to the workers, to the students, to the young parents with children who want to live in a different kind of a system, and want to get out from under this oppression, as other citizens of other nations have managed to do. We will not perpetuate our support for the Chinese system. We will not continue to provide a \$15 billion economic subsidy to keep this crowd in charge and running Communist China. Plain and simple.

This is what happening, and we are taking it right out of the hides of the American people. We are putting \$15 billion worth of capital, and job opportunities on a boat and shipping them right over to China and saying, here is a little gift for you, and we hope that this will somehow work in a beneficial way for the people in China. I'm sure the Chinese leadership is laughing at us for being so naive and continuing our policy toward China. They have never had a better friend than the friend they have in the White House today, and that must change.

I think we are going to see the people in the White House change here shortly. We haven't much time before we can make a change here, and I think a change is coming. A change in U.S. leadership will hopefully result in a change in United States-China policy, and many other policies as well.

So, I thank you for your thoughts. Any final comments you wish to make?

Mr. KIRKLAND. Thank you, Mr. Chairman.

Senator RIEGLE. Thank you, president Kirkland. The committee stands in recess.

[The prepared statement of Senator Hatch appears in the appendix.]

[Whereupon, at 1:15 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, no one here is satisfied with the lack of Chinese progress on human rights—including the President himself whose June 2, 1992, report to Congress makes that abundantly clear.

But undermining the Chinese economy—where the progress is indisputable—is not the way to advance our foreign policy agenda. This is the flaw with the Mitchell bill in my judgment.

I don't argue with the noble interests of my friend from Maine; I am no less concerned than he is with *both* the human rights issue *and* the trade deficit. But look at the approach the bill takes.

- Consider Section 3, for example. In the history of trade and commerce, I doubt if any country has ever made the type of bold, commercial threat seen here: *either you drop your trade barriers immediately or forget about MFN.*
- Worse still, the same section also threatens to withhold MFN unless China "has made significant progress . . . in the purchase of U.S. goods and services."

The bill is telling the rest of the world to forget about the bilateral and multilateral trade treaties, agreements and conventions painfully put in place through years of negotiation and trial. They are suspended in favor of a maverick threat system that agreements are supposed to prevent—we would be spawning an era of commercial anarchy where "might is right." I don't believe for a second that the distinguished Senate Majority Leader wants this, and I respectfully urge my good friend to revise this section of his bill.

The bill also has political defects. Since this is the Finance, not the Foreign Relations Committee, I will focus more on the trade aspects, dismissing the bill's political deficiencies as still another attempt to isolate China from the compelling force of U.S. democratic and economic influence at a time when market trends in China are increasingly robust.

Our foreign policy agenda *can* separate the trade from the human rights and weapons proliferation issues. We should address the latter two in a more appropriate forum, as the Administration is doing—and with some success in the proliferations area.

But on the trade side of the ledger, the Chinese seem to be getting the message. Ambassador Hills has brought back a fairly good intellectual property rights understanding. And I say this as the Senator from a state with substantial interests in the software market—Utah is the home of both WordPerfect and Novell, as well as many other software producers that have suffered heavy piracy losses.

Admittedly, it took the threat of a Section 301 action to get China in line. I have no objection to the use of these remedies, to include the threat of anti-dumping actions, to get unfair traders' attention. Both patents and software will be better protected under the new IPR agreement.

There are still yawning gaps in the Memo of Understanding, and I don't want to gloss over them. For example, if the Chinese do not establish a workable enforcement regime, they can expect to face renewed threats of retaliation by us.

But let me return to the macro-policy implications of this meeting on China MFN. The U.S. economic engine is pulling China out of its central market system that is a cornerstone of its repressive ideological culture—called communism.

As I said earlier, I don't like the trade deficit, now at over \$12 billion. I wish they would buy more of our goods and services, to include footwear from Maine. But these are not sufficient reasons to deny MFN. Reducing the deficit ought to be the

subject of negotiations within the bilateral and multilateral framework of agreements that we are creating with China—and we need to bind China to more of them, to include GATT. The agreements provide a *process*, such as disputes resolution, to correct wrongs. *AND, I hasten to add, where the wrongs aren't corrected, then we may legitimately turn to retaliatory actions. This bill preempts this process, Mr. Chairman.*

PREPARED STATEMENT OF ARNOLD KANTER

Mr. Chairman and members of the committee: I appreciate the opportunity to appear before you today to discuss the administration's policy toward China, and, in particular, the President's commitment to unconditional renewal of China's most-favored-nation trade status for another year.

Mr. Chairman, it has been over three years since the terrible tragedy of Tiananmen square—three years since Chinese Government troops fired on defenseless students who only sought the freedom of political expression that we Americans claim as our birthright. Even with the passage of time, those images retain their power and their message. The United States, as it has always done, will condemn this kind of brutality—whether it takes place in China or anywhere else. As the President and Secretary Baker have emphasized, the promotion of human rights is a cornerstone of our foreign policy.

Indeed, Mr. Chairman, I am here today to discuss what may be a question of strategy and tactics, but surely not one of objectives. I think all of us can agree on the basic objectives of our policy toward China:

- (1) Promote respect for human rights;
- (2) Encourage responsible and cooperative Chinese international behavior, particularly in the area of non-proliferation;
- (3) Promote peaceful and democratic reform within China; and
- (4) Improve and sustain a trade relationship from which Americans—both producers and consumers—derive great benefit.

Toward these goals, the administration's approach has been one of engagement, rather than confrontation. We have sought to work actively with the Chinese on specific targeted concerns while, at the same time, encouraging the changes in Chinese society that naturally follow from openness to, and engagement with, the outside world. This approach has led to positive results in the areas of human rights, non-proliferation and trade that we established as central to our bilateral relations. We have achieved these results while at the same time promoting and protecting American business and consumer interests.

We believe that our current course stands the best chance of promoting change in China for the better. We recognize that many Members of Congress take issue with this approach and argue that a policy of confrontation with, if not isolation of, China would be more effective in bringing about positive change. We respectfully, but emphatically, disagree. Accordingly, we continue to believe that China's unconditional MFN status provides *our* best approach for encouraging positive change and U.S. interests in China, particularly when coupled with aggressive pursuit of specific issues of concern.

Today I would like to review first the legal requirements for renewing the Jackson-Vanik waiver and why China has met those requirements. Second, I will discuss why it is in the interest of the United States to renew MFN for China. Third, I will explain why conditionality of MFN for China will not work. Finally, I will discuss the main issues of concern in our relations with China—human rights, proliferation, trade—and how our targeted approach—mixing appropriate sanctions as well as incentives—has led to measurable progress in each of these areas.

I. CHINA'S EMIGRATION POLICY MEETS THE STANDARD OF THE JACKSON-VANIK AMENDMENT

The Jackson-Vanik amendment requires the President to determine whether renewal of the MFN waiver for China would substantially promote freedom of emigration from that country. It is clear that an extension of the waiver would advance this objective.

China continues to give most of its citizens the freedom to emigrate to the United States and elsewhere. Indeed, the principal restraint on emigration is the capacity and willingness of other nations to absorb Chinese immigrants, not Chinese policy. Last year alone, China's relatively free emigration policies enabled more than 18,000 Chinese to receive U.S. immigrant visas. In addition, U.S. diplomatic posts in China issued almost 80,000 non-immigrant visas to PRC nationals to study, trav-

el and do business in the United States. Indeed, the number of Chinese whom the PRC would allow to emigrate to the United States far exceeds our ability to accept them.

In no uncertain terms, the renewal of MFN without condition continues to influence those policies that permit tens of thousands of Chinese every year to choose to leave China permanently and to travel abroad and gain exposure to the outside world. Simply put, MFN provides an important incentive for the Chinese to permit emigration.

II. ON ITS OWN MERITS, IT IS IN THE INTEREST OF THE UNITED STATES TO EXTEND MFN TO CHINA

Looking beyond the letter of the law, unconditional MFN renewal makes sense on its own merits. For more than a decade, MFN-based trade with China has opened up business opportunities benefiting Americans and Chinese alike. Our commercial relations with China have encouraged positive change and helped strengthen the hand of those elements of Chinese society most open to political and economic reform. In short, an open China remains the best hope for a more democratic China, and MFN—without conditions—continues to provide our best instrument for promoting the changes we seek.

The new era in U.S.-Chinese relations can be traced, of course, to President Nixon's historic decision to end the long period of confrontation with China and to begin the process of bringing China out of its isolation from the modern world. But it was not until President Carter first established diplomatic relations in 1979, and then extended MFN to China in 1980, that our relationship accelerated and matured. With the granting of MFN we magnified our ability to influence political and economic reform within Chinese society.

This single act institutionalized the normalization of relations on a very practical and tangible level. Bilateral commercial treaties, consular agreements, and scientific and cultural exchanges followed, each strengthening the network of direct links between Americans and Chinese.

China's leaders inaugurated in late 1978 a program of market-oriented economic reform that led to a rapid increase in household incomes and expansion of industrial and agricultural production. China's real GNP grew at an average annual rate of 10 percent during the decade 1978-1988. This economic growth, based on reform and MFN-based trade with the world, has dramatically improved the lives of ordinary Chinese and has given them unprecedented freedom and control over their lives.

Before the extension of MFN in 1980, China had barely begun to recover from the legacy of the cultural revolution. Ordinary Chinese avoided contact with foreigners, and those government officials authorized to meet foreigners refused even to give their names.

Since the granting of MFN, and in the context of the reforms of late 1978, the change has been nothing short of dramatic. Today the Chinese have greater flexibility to travel domestically, purchase foreign-made consumer goods, and wear Western or traditional dress. Non-government controlled media are more available in China today than ever before, including cable TV in parts of China and satellite dishes. American television programs are regularly shown on Beijing television, and American movies and videos are available throughout China.

In addition to exposing Chinese society to Western ideas and culture, MFN has helped speed the process of economic reform in China, which continues to emphasize the decentralization of economic decisionmaking in both the rural and urban sectors. This process has progressed more rapidly in agriculture, where key production decisions remain in the hands of individual farmers and with village and township enterprises. In the urban sector, central government and provincial authorities continue to bring market mechanisms to bear in reducing state subsidies and in organizing commodity markets and foreign exchange adjustment centers.

President Bush has led our country to take the strongest stand of any in the world against repression in China, and we are the most determined advocates for democratic change there. This is precisely why we advocate unconditional MFN to foster normal commercial relations that expose the Chinese people to American ideas and influence. The administration firmly believes that economic reform and liberalization in China create irresistible pressure for political reform. It may not be a simple equation, but we are confident that entrepreneurship and market-oriented reform in China will lead to meaningful and lasting change in the lives of the Chinese people.

The best way to advance our bilateral agenda with China—which I will discuss in greater depth shortly—is through our carefully targeted approach. We want to

accelerate the pace of progress, but it would be a serious mistake to let our frustration lead us to adopt counterproductive policies that would undermine our goals.

III. CONDITIONALITY FOR MFN WILL NOT WORK

Denial of MFN—or its withdrawal through imposition of conditions that China's leadership are unlikely to meet—would work against our political and economic interests. It would do severe damage to the development of market-oriented institutions that contain the seeds of political reform in China. Those in Chinese society—intellectuals, students, managers, workers, even government officials—who are the most dynamic, the most open to the outside world, and the most committed to the marketplace are precisely those who have the greatest stake in unconditional MFN renewal: MFN is simply not the right vehicle to exert pressure on the Chinese with regard to the specific objectives we seek. MFN is a blunt instrument—denial would strike Chinese and Americans alike; reformers and hardliners; government bureaucrats in Beijing and futures traders in Hong Kong.

Indeed, the argument for conditionality seems based on the premise that MFN is somehow more in China's interest than our own. This is simply not so. To place conditions on MFN would hold our single most powerful instrument for promoting reform hostage to the reactions of hardliners in Beijing. We would be handing the opponents of reform their most potent lever.

This year's MFN conditionality proposals implicitly acknowledge that a complete withdrawal of MFN would not serve our interests and would restrict tariff increases to Chinese state enterprises. But even this revised version of conditionality would do considerable damage to our interests.

A. Bad Trade Policy

First and foremost, conditionality, even the kind advocated in this year's proposed legislation, is bad trade policy. This committee knows better than anyone that the economic future of the United States depends on the strong competitive position of American firms in all regions of the world. Our trade policy seeks to open and expand markets overseas to ensure that the United States is able to compete on a level playing field for opportunities that will advance the economic well-being of our nation. Expanded trade generates new business opportunities and affords consumers better choices in terms of quality, quantity and price. In this regard, conditioning MFN to the achievement of our foreign policy objectives is simply bad trade policy and strikes at the core of our commitment to free and open trade.

It is important to remember that removal of MFN—which would be the likely result of conditionality—would hit American consumers hard. It would also hold the individual Americans affected by this policy hostage to the actions of a foreign power. Less affluent Americans, who are the primary consumers of China's low-cost goods, are particularly vulnerable. Intentions aside, the burdens of conditionality would be borne by those Americans least capable of sustaining another hit to their family budgets.

American exporters would also be hard hit. Remember, reciprocal tariff treatment is inherently a two-way street. If China, in retaliation, denied us MFN, American farmers could lose one of their best export markets to Canadian and Australian producers, and U.S. manufacturers would lose export shares to competitors from Japan and Europe.

B. Targeting State Enterprises is Unworkable

Not only does conditionality make for bad trade policy, the provisions of the proposed legislation targeting state-owned enterprises are simply unworkable. Given the growing complexity of China's economy, the definition of a state enterprise is increasingly problematic.

The silk industry is illustrative in this regard. The degree of "state" control of silk production and marketing increases as the product moves up the production chain into cloth fabrication; but the basic raw material, the silk cocoon, is produced by individual farm families and collectives, while finished silk garments are produced by joint ventures and wholly-owned foreign enterprises. These quasi-capitalist farm entrepreneurs and joint ventures would be harmed as much, if not more, by MFN revocation as the "state" silk industry.

IV. ACHIEVEMENTS OF COMPREHENSIVE ENGAGEMENT

Let me reiterate our belief that MFN is simply the wrong instrument to bring about changes in other areas of concern. Using our targeted approach, we have made substantial progress on human rights, proliferation, and trade, which we have put at the center of our bilateral relationship.

A. Human Rights

Let me state unequivocally that the promotion of fundamental human rights is and will remain at the forefront of our foreign policy objectives—and this includes China. Those who would try to characterize our opposition to conditioning MFN as representing indifference to human rights abuses ignore the fact that the administration maintains serious sanctions that are better targeted and more effective. We have taken the strongest position against China's human rights abuses of any country in the world. President Bush was the first world leader to condemn the crackdown at Tiananmen. At that time he expressed in no uncertain terms that there could be no "business as usual" with the Chinese Government under such circumstances. We have not retreated from that statement. The United States is the only nation today that has not lifted Tiananmen sanctions against China and refuses to restore normal bilateral relations until the Chinese make substantial progress in protecting basic human rights.

Our Tiananmen sanctions are specifically targeted to human rights issues. Under these sanctions, we have suspended programs for military cooperation and placed an embargo on all sales to China's police and military. We have rejected proposals for easing COCOM controls on China. Our trade support programs (OPIC and TDP) have been suspended since 1989. We do not support international development bank lending except for projects that meet basic human needs.

Meetings between Secretary Baker and his Chinese counterpart have focused on human rights, non-proliferation, trade problems and regional issues such as the Middle East and Cambodia. Those meetings last November were not convivial exchanges, but tough working sessions. We stated our concerns in an open and direct manner. And I reiterated these concerns in the strongest terms during my recent visit to Beijing. I can assure the committee that the Chinese know exactly where we stand.

We have made progress in our dialogue with the Chinese on human rights—though by no means as much as we would wish. We have prompted China to focus on human rights concerns and engage in exchanges of delegations with other countries. We continue to raise with the Chinese the issue of releasing political prisoners. The Chinese confirmed to Secretary Baker the release of 133 prisoners on our list of prisoners of human rights interest as of November 1991. Since then, China has announced the release of additional political prisoners. One dissident informed our embassy, for example, that 70–80 percent of those detained in Beijing after Tiananmen have now been released. We will continue to seek a general amnesty for political prisoners and permission for international humanitarian organizations to have access to Chinese prisons.

We have also prompted China to grant exit permits to a few dissidents and their relatives and to relax exit controls for those Chinese who have returned from overseas and still hold valid passports and visas is also a welcome step. Recently, Secretary Baker pressed the Chinese for, and received, an assurance that all those not under criminal investigation in China can leave. We intend to hold China to this assurance.

B. Non-Proliferation and International Cooperation

We have also produced significant progress in the area of weapons proliferation. China's support for global non-proliferation initiatives increased significantly in the last year. Again, as a direct result of high-level discussions with Chinese leaders, assisted by the administration's use of targeted sanctions, China agreed to observe missile technology control regime guidelines and parameters. The Chinese also have acceded to the nuclear non-proliferation treaty. We believe it is important for China to adopt international non-proliferation standards. We worked hard for what has been achieved so far. Of course, more work needs to be done, and we continue to monitor Chinese behavior closely. We encourage further PRC participation in global and regional non-proliferation efforts and have secured China's involvement in the President's middle east arms control initiative. China is also taking part in the chemical weapons convention negotiations in Geneva.

China has played a constructive role in other international fora as well. As a permanent member of the United Nations security council, China cooperated with multilateral efforts to enforce sanctions against Iraq and Libya, facilitated the entry of North and South Korea into the United Nations and opposed North Korean efforts to develop nuclear weapons. China has contributed to a comprehensive settlement of the Cambodia conflict and has worked hard in recent weeks to keep the settlement on track. We want to encourage these steps to act as a responsible member of the international community.

C. Trade

Looking back over the past year, the record of our trade policy toward China has been one of considerable success. On intellectual property rights, China responded positively to our Special 301 trade investigation with an agreement in January to improve protection of U.S. patents and copyrights, including computer software. This agreement was strongly endorsed by U.S. industry, which subsequently urged continuation of MFN for China.

On market access, a fourth round of negotiations under our Section 301 investigation of Chinese trade barriers was held in May. We emphasized that Chinese exporters cannot continue to enjoy a higher degree of access to our markets than U.S. firms are allowed in China. While we have not yet achieved everything that we seek the Chinese are responding constructively and some progress is being made in these negotiations. We intend to press very hard to successfully conclude these talks. If we do not reach an agreement that our industry can support by the end of our August round of negotiations, we will publish a proposed retaliation list. The Chinese are on notice that we are determined to reach a satisfactory agreement.

I should add that China's bid for membership in the GATT requires that China take further steps in trade reform. Our Section 301 investigation on market access targets some of the same areas of reform that China will need to address in order to qualify for GATT membership.

Finally, on an issue that cuts across both trade and human rights, I should note that China is addressing our concerns over their prison labor practices. We have reached agreement on a memorandum of understanding that will prohibit exports of prison labor products to the United States and will provide for U.S. inspection of suspect Chinese facilities. Meanwhile, the U.S. Customs Service has stepped up enforcement efforts, obtaining one criminal conviction and issuing a score of detention orders that blocked entry of alleged prisoner-produced products.

V. CONCLUSION

To conclude, Mr. Chairman, let me restate my belief that the administration and the proponents of conditional MFN share the same policy objectives for China. Broad trade sanctions, however, including targeted MFN withdrawal, will not advance the struggle for political liberty and reform in China.

By maintaining MFN we are helping American business persons, protecting American consumers, and promoting reform in the PRC. Our persistent efforts are paying off. With MFN we are making a difference in China. Without it, we risk becoming mere spectators in a country that is home to almost one-quarter of the human race.

PREPARED STATEMENT OF LANE KIRKLAND

Mr. Chairman, members of the committee, thank you for the opportunity to testify on what the AFL-CIO considers to be a most critical trade issue before the Congress, and that is the question of whether to extend Most Favored Nation status to the People's Republic of China.

This is not a difficult question to answer. The law is clear. It requires any country with a "non-market" economy to, among other things, permit freedom of emigration before it can receive MFN.

Who, if anyone, will state for the record that the Beijing regime permits freedom of emigration to anyone in that country who chooses to exercise this freedom? Do we have to trot out Fang Lizhi and scores of Chinese students, intellectuals and workers who have fled their own country—without exit visas—in fear for their lives? Or will you take my word and the word of the established record for it?

The plain and simple fact is that China is not in compliance with the law on MFN, despite the proponents' best efforts to make it appear that way. We have a law and order administration in the White House—at least that's what I remember from the last campaign—so let's have a little law enforcement.

Were that the extent of the law, this would conclude my testimony, Mr. Chairman. But the President's power to waive the requirements forces me to address several issues of so-called "pragmatism" that have been put forth by the proponents of continued MFN for China.

The first is the President's central argument that MFN is promoting "the cause of privatization and human rights in China," and that trade should not be used as a lever to promote foreign policy goals.

But the practical fact of the matter is that this strategy *doesn't work* to promote freedom and democracy. very recent history has proven that it is the *denial* of MFN

to dictators that moves their nations toward these ideals and brings liberty to the working masses.

Look at what has happened in the Soviet Union and the countries of the former East Bloc. Look at what happened in Chile. And look at what's happening in south Africa. In these countries, the denial of trade privileges *has worked*.

On the other hand, China has had MFN since 1980. Yet the government there continues to deny its citizens even the most basic of human rights. It's *not* getting any better over there.

We're talking about a brutal dictatorship and a system that includes prolonged detention without trial, forced labor, religious persecution and the crushing of independent worker and student organizations.

People can't vote. Workers don't have the freedom to organize into real unions. People who dare to speak out are banished, jailed, tortured or "re-educated."

Chinese citizens who tested these prohibitions on Tiananmen Square three years ago found out the hard way about how genuine their government's commitment to reform really is. And when the tanks rolled—after nine years of MFN for China—the leaders of the Beijing regime were not thinking about trade privileges with the West. They were thinking about their own survival. As they see it, you survive by eliminating those who speak out against you.

When the dust settled and the student and worker activists had all been executed or carted off to the laogais, the regime once again turned its attention to retaining MFN, but, again, only as matter of its own survival. Discredited by their own people and desperate for hard currency to alleviate China's huge economic problems, they will turn to any source that will help them survive. That's why, despite their violent opposition to independent groups, they have permitted the establishment of an American Chamber of Commerce in Beijing.

Mr. Chairman, the Chamber is *not* a beachhead of freedom and human rights, and the much-ballyhooed Guangdong province near Hong Kong is *not* the bastion of free enterprise and free markets that the President makes it out to be.

Guangdong province has more forced labor institutions than any other in China—at least 133 of the nearly 1,000 camps scattered throughout the country. The record is replete with evidence that the political prisoners confined to these slave labor camps have produced and are continuing to produce items for export—items such as textiles shoes, ceramics, auto parts and chemicals, to name a few.

I also quote from the State Department's Human Rights Report: "In Guangdong, the problem of child labor is particularly serious."

And where is this so-called "emerging private sector" in Guangdong? To operate successfully there, you have to have a local Communist party hack as a "partner." Moreover, only rarely can a foreign manager hire their own workers or pay them. The Party does it for you and takes a cut for itself. This is not privatization. It is foreign capitalists subsidizing Communism.

Commercial relations of this sort are like an addictive drug. As dependence grows greater, it becomes more and more difficult to be clear-headed about what is really going on. It becomes easier to be deluded into thinking that Beijing's willingness to accept foreign currency is a breakthrough for private enterprise and a sign that China's leaders are acceding to policies that will lead to their eventual downfall.

Those who would argue that our opposition to MFN is "only hurting the people we're trying to help" obviously haven't spoken with the workers and students who are on the front lines of the struggle in these countries. They are the ones who have urged us to stay the course so that they, too, can one day breathe free.

The same goes for those who claim that granting MFN to China is good for working Americans because it brings down the price of consumer goods so that working Americans can afford them.

You may think the American people are cynics, but I say they really do believe in liberty and democracy and justice for all. If markets and prices were their only concern, we'd still have slavery in this country. We'd still have legalized child labor.

Moreover, when you force American workers to compete with slave labor and repressed workers in other nations, you are acting to bring down the wages and conditions in our own country and in other countries as well. Americans cannot afford cheaper imported goods if they have to give up their jobs.

Perhaps you saw the article in the Wall Street Journal the other day about the owner of a textile plant in Louisiana who tells his employees that they will have to accept the minimum wage with no benefits or else, in his words, "I'll take your jobs overseas where we can be competitive." Describing the plight of the Chinese worker who makes eight cents an hour during a 90-hour work week and is prohibited by law from joining a union, he says "Look, it's better to be a Third World class of work force than no work force at all."

I can assure you that this Louisiana factory is not an isolated case. Just the other day, a Mexican financial magazine had this gem of a quote from an American maguiladora operator on why he needs to pay rock-bottom wages: "My chief competition," he said, "is Chinese prison labor."

We can argue for hours on these practical issues of trade and markets, and on our contention that MFN for China is clearly not in our country's best economic interest. But, when it comes right down to it, is this not, above all, a moral issue?

Somewhere, buried under the discourse on what is good or bad trade policy, and amid the struggle for capital and markets, is there not a basic question about what is right and what is wrong? Shouldn't we, at some point, take a stand in favor of the common rights of humanity and against the divine right of markets?

We are currently hearing, in this political season, a lot of talk about family values. What values are enshrined in MFN for China? Are they ones we want to teach our children?

There will always be traders and investors who will take advantage of market opportunities offered by the likes of a Pinochet, a Franco or, most recently, a Saddam Hussein. But you, Mr. Chairman—you and your colleagues on this Committee and in this Congress—have a higher responsibility. You must stand above the special pleadings of those who have opened offices in Beijing or who are doing business in China out of Hong Kong skyscrapers.

Aren't the American ideals of democracy and justice and basic human decency worth something more than the profits for a few derived from the exploitation of the repression of a billion people?

We think so. And we believe that the enforcement of our trade laws should reflect our commitment to the advancement of human rights. We believe in that policy because practical idealism has proven to work better than unprincipled "pragmatism" and because it most becomes the United States of America.

We argue for a doctrine rooted in a universal and enduring proposition—the service of the aspirations of plain working people for freedom, a better life and a fair share in the fruits of their labor.

To advance these principles in China there must be freedom of association. The Chinese government, with which our President wants to conduct business-as-usual, does not allow it on their soil. The undeniable fact is that it does everything to smother this freedom and shows no sign of real reform.

So now is not the time for so-called "pragmatism." Now is not the time for equivocating and balancing interests. It is the time for standing on principle and doing what is right.

And the right thing to do is to stop the travesty of extending Most Favored Nation status to the People's Republic of China.

PREPARED STATEMENT OF WINSTON LORD

Mr. Chairman, Members of the Committee: I am pleased to appear before you to discuss American policy toward China and the issue of MFN trade.

In so doing we must keep in mind the larger implications of our deliberations. The world we have known for half a century is gone. A new one is emerging. Familiar landmarks are shifting before we can change our thinking. What America does at this critical juncture affects not only the business at hand but the enterprise of the 21st century.

As we cross the threshold into a new era our steps take on added significance. Will we show others that we have a coherent vision of the world and America's place? Will we pursue our goals with steadiness and sophistication? Or will we tack with the winds, back off in the face of belligerence, or be bought off by transparent ploys?

This new environment summons continued American leadership, albeit of a different kind. What will not change will be the need to fuse realism and idealism, to promote our interests and project our values. Supporting the spread of freedom around the globe does both. Free countries respect human dignity. Free countries do not launch aggression on one another. Free countries make better economic partners.

We should not forfeit the opportunities that flow from the close of the Cold War. The end of global competition with the Soviet Union makes promoting freedom more feasible—we no longer need to temper our critiques of unsavory regimes because of balance of power considerations. Television and tourists, cassettes and commerce, faxes and phones have transmitted democratic values around the world, helping brave citizens to topple one repressive regime after another. International organizations and law increasingly incorporate democratic principles. For the first time in

history the majority of the world's nations govern themselves under some form of democracy.

Of course we should not press others to adopt an American model. Each nation must find its own path of freedom. Of course we have other interests in our foreign policy. With repressive governments we will need a case by case approach, tailored to the particular context.

But we should be consistent in our public statements. We must avoid blatant double standards. And we can find ways to deal pragmatically with harsh regimes without abdicating our ideals.

Such questions extend far beyond our China policy. But that policy in turn will illustrate our future course in the world.

Mr. Chairman, I am here as a:

- Republican who has served Administrations of both parties, from President Kennedy to President Bush, most recently as Ambassador to China.
- Advocate for improving Sino-American relations for more than two decades.
- Close associate of Henry Kissinger and a central participant in President Nixon's policies on China and other issues—and thus someone who cannot be accused of ignoring realpolitik.
- Believer that China will be a very important country for America and the world.
- Generalist in foreign policy who brings a global perspective.
- Strong supporter of open markets and trade.
- Skeptic of Congressional micro-management of foreign policy.

And I am here to support legislation which would make conditional the extension of MFN trade status to China.

I believe the approach of S. 2808 and the closely related H.R. 5318 is the best one now available on this issue to help the Chinese people, serve American interests, and strengthen our bilateral ties over the long term. More fundamentally it will project a strong and purposeful America in a radically changed world.

U.S. POLICY TOWARD CHINA

To provide the context for this particular topic let me first briefly discuss overall American policy toward China. As we weigh this bilateral relationship for the longer run, there are two fundamental questions. First, will China be an important player? Second, will it be a hard-line Communist player?

Conventional wisdom now holds that with the disappearance of the Soviet threat China is of modest importance to the United States and is likely to remain so. I disagree.

China will be a very influential member of the international order. More than one of every five people live there. It possesses nuclear weapons and exports nuclear technology. It launches satellites and sells missiles. It represents a potentially huge future market and one of the world's richest civilizations. It holds a permanent seat at the United Nations Security Council. It is central on key regional issues like Indochina and Korea. It is salient in global challenges like the environment and drugs.

Some of these factors, especially in economics and trade, are further magnified if one considers the greater Chinese communities of Taiwan and Hong Kong which have displayed astonishing growth. Their economies and lifestyles are increasingly intertwined with China's most dynamic provinces. Indeed one might ask who is absorbing whom.

This analysis leads naturally to the second question, will China remain Communist? To fulfill its potential as a world actor, not just a regional one, China must change its present governance and orientation. It will have to, in short, jettison Communism and move toward freedom. Will it do so soon? Given the past few years only a fool would hazard predictions about the world, and understanding the Middle Kingdom is particularly difficult. An expert on China is an oxymoron.

I firmly believe, however, that within a few years there will be a breakthrough away from Communism and toward a more open, reformist and humane government.

Recently China, led by Deng Xiaoping in the twilight of his career, has once again been emphasizing economic reform. Political repression, however, continues unabated. There has been no progress on human rights in China since the June 1989 massacre, since the beginning of these annual debates on U.S.-China trade. The Administration's policy has failed in this area, starting with the egregious secret pilgrimage to the Middle Kingdom by the President's National Security Advisor while blood was still being washed off Beijing's streets.

The Chinese regime has been playing a cynical shell game. Every now and then—usually on the eve of a Congressional debate—it releases a few prisoners, announces new purchases of American goods, or makes some other cosmetic gestures. Meanwhile new prisoners are rounded up and old ones receive stiff sentences. The Administration dutifully notes progress. The Chinese rulers dutifully note that the Administration will protect them from the Congress.

Other witnesses and organizations can document extensively the myriad, continuing human rights abuses in China. Brave Chinese in and out of China describe the system—like Harry Wu on the gulags or the railway worker Han Dongfang on jails.

There is no way to know how many political prisoners, taken before or after the China Spring, are simply unaccounted for or reclassified under different detention headings. We usually hear only about Beijing, but a recent Asia Watch report cites 200 pro-democracy activists being held in Hunan province alone. And we almost never hear about workers. Yet they have suffered the harshest fate of all—in executions, arrests, and treatment. The Marxist regime particularly fears labor unrest and it calculates that the outside world has less interest in workers than young students. Another common target of repression is religion—whether it be Christians, Moslems or Tibetans.

Rather than elaborating on subjects where others are more authoritative, let me simply sketch a profile of what can happen to a Chinese citizen who puts up the wrong poster or assembles in the wrong place: Close surveillance of him and his friends. Detention without notification or charge. Wretched jail conditions and torture. Prison labor for export. Sham secret trial with preordained sentence. Finally, release from prison to find not only that he cannot get a job but that his family has no home.

Deng, the authority for the June 1989 massacre, has always been a champion of strict political control and his tough attitude has not changed in the least. Recently he was quoted as saying "Once the forces of turmoil reappear in the future, we will not hesitate to use any means to eliminate them as soon as possible." Deng and other Chinese leaders believe that a combination of loosening the economic reins to improve the conditions of the Chinese people and tightening political reins to crush dissent can preserve Communist rule in the future.

They are wrong. In the modern, interdependent world it is impossible for long to practice open economics and closed politics. The overall economic situation in China, much better than the former Soviet Union for example, makes the Chinese scene less combustible for the time being, while the pervasive Chinese security apparatus keeps the lid on unrest and resistance. Therefore, the contagious impact of international trends toward political and economic freedom may take a while to topple the Chinese Communist domino. The people will almost certainly have to wait until Deng departs the scene. But surely the time when Communism implodes in China is closer than it was before the dramatic events of the past three years in the Soviet Union and throughout the Communist world.

Indeed we already glimpsed China's future during seven weeks in 1989. The winds of change which have swept the globe first gusted in Tiananmen Square, inspiring peoples from Eastern Europe to Outer Mongolia. Millions of Chinese marched peacefully in over 200 cities across the nation, dwarfing the subsequent crowds in Eastern Europe and the Soviet Union. The ranks were filled with citizens from all walks of life. There were also serious splits in the political and military leadership.

These forces remain, however repressed and silenced they are now. The sources of restlessness, cynicism and bitterness that produced the China Spring have persisted. There is anger over the massacre and the subsequent crackdown with its executions, roundups, farcical trials, sordid sentences, surveillance, indoctrination and the Big Lie. Culture once again serves the State. Politics sabotages academia, smothers religion and muzzles the press—domestic and foreign. There is resentment over corruption and nepotism, economic malaise and inequities between sectors and regions, political yearnings to participate in the process and to hold the leaders accountable. Political reform must accompany economic reform. Modern development, based on technology and information, requires openness and pluralism. In order to prosper countries must loosen up and reach out to the world.

And then there are the rising expectations of the Chinese people, especially the young. They compare their fates not with past years of war or occupation or civil strife but with present images, conveyed by television and travelers, of life elsewhere in the world, especially the Chinese communities in Taiwan and Hong Kong. As so often in China, the surface is not the reality. Facing harsh repression the Chinese people wear masks, enact charades and passively resist. Unlike previous campaigns, citizens protect one another, while officials in Beijing and especially the provinces ignore or dilute hardline edicts.

Thus once the prestigious first generation revolutionary leaders leave the stage, the prospects for freedom should brighten. This may not happen immediately. There may be an interim regime or two. But the forces I have described will gather momentum and China will catch up with history.

This then is the context for American policy toward China: It will be an important country in the emerging new world. It currently is governed by a regime that abuses its people and international standards. Within a few years, however, it will move toward greater political freedom.

Taken together, these factors mean that the U.S. should conduct a nuanced policy toward Beijing until a more humane government emerges. Our options are not confined to either shunning or absolving China. We need a holding action that deals soberly with the government while providing hope for the people. We need both to condemn repression and preserve links with progressive forces which are the foundations for our longer term ties.

Our challenge is to forge a policy that both conducts requisite business and honors our ideals, one that can carry us through a bleak today toward a brighter tomorrow. Concretely this means we should proceed as follows:

- Maintain dialogue at the sub-cabinet level and in international forums rather than through high-level visits and photo opportunities that legitimize the regime.
- Promote human rights and political freedom through words and deeds.
- Continue sanctions on military cooperation, technology transfer, and international loans.
- Base business decisions on China's commercial and investment policies.
- Maintain private, academic, cultural and scientific ties wherever they can be productive in today's climate.
- Establish a Radio Free Asia to convey truth and information to the Chinese people.
- Maintain our close, unofficial ties with Taiwan while pressing for its admission to GATT.
- Continue to stress that future relationships between Taiwan and the Mainland should be worked out directly by the parties themselves, insisting only that the process be peaceful.
- Elevate Hong Kong on our agenda with the Chinese and the British.

Above all, in dealing with China we should drop the Administration's double standard which suggests that Chinese—unlike other Asians, Europeans, Latins, Africans and Americans—cannot afford, indeed do not want, to embrace liberty. The Chinese people hold the same aspirations as others around the globe.

THE MFN ISSUE

As part of this overall policy toward China, I believe that we should extend MFN trade treatment for a year with realistic conditions.

Reasonable people can disagree on this issue. One can stand for human rights in China and still urge renewal. One can consider Chinese relations important and still urge removal.

I oppose the two extreme options of revocation and unconditional extension.

Revocation of MFN would have the following adverse effects:

- It would hurt many of the people in China who support reforms and opening, a process which promotes political liberalization over time.
- It would deal serious economic and psychological blows to Hong Kong as it heads toward 1997.
- It would damage American economic interests, including consumers, importers, exporters and investors in China and Hong Kong. In many areas the Japanese, Europeans and others would move in.
- It would remove a key instrument of leverage with China. In this case if you use it, you lose it.

Unconditional extension of MFN would also have serious negative results:

- It would reinforce the Chinese regime's conviction that domestic repression entails no real international costs.
- It would accentuate the pattern of Administration actions and the world's growing amnesia concerning Tiananmen Square. The Beijing regime would proclaim once again that it is business-as-usual.
- It would dismay many moderates in and out of China who long for a more open and humane society. They would be robbed of the argument that China must loosen up if it wishes international cooperation.

- It would ignore the legislative context of emigration and human rights.
- It would forego our leverage with the Chinese on this issue. In this case, if you don't use it, you lose it.

All these factors assume greater importance with the looming Party Congress and power struggle to define China's future.

Accordingly I favor conditional renewal for MFN. I believe this represents the brightest chance of minimizing the drawbacks of the more extreme options. More positively it is best suited to promote our various interests—geopolitical, economic and humanitarian. It would arm the Administration to encourage human rights rather than forfeiting the most powerful instrument available.

In principle I believe conditions for MFN renewal should be limited to emigration, human rights, freedom of expression and related areas. Adding other bilateral issues can distort the legislative context of the Jackson-Vanik bill and set troublesome legislative precedents in the conduct of foreign policy. It risks piling on conditions that the Chinese would never meet in a year, thus amounting to a *de facto* cut off of MFN status. Beijing might dig in against what it would consider an impossible agenda; we could have less leverage on human rights issues because even movement on them would not guarantee MFN extension.

Finally, while I defer to Congress on tactics, it seems to me that it is much more difficult to override a Presidential veto of extensive conditions than realistic ones. The record of the past two years bears this out. Conversely if the Administration calculated that it did not have the votes to sustain a veto of moderate conditions, it might join the Congress so as to prevent its first loss and present a united front toward Beijing.

For all those reasons I counseled last year against expanding conditions into areas like trade and proliferation. I urged we vigorously pursue such problems through other vehicles. I cited, for example, pressing China to join the NPT and Missile Technology Control Regime and using diplomatic channels, 301 negotiations, stricter customs enforcement and other measures on a host of trade issues.

During the past year the Administration, thanks to pressure from the Congress and in order to preserve MFN, has indeed made promising advances on several fronts through such means. One can only wish that it would show as much fervor and determination—however forced and belated—on human rights issues as it has on other ones. Let us hope that Beijing follows through on commitments concerning various unsavory trade practices which have fed our huge deficit—now projected to be over 15 billion dollars this year, second only to the one with Japan. And let us hope it meets its obligations to control nuclear and missile exports which lend themselves to dual-use ambiguities.

With this apparent progress, Mr. Chairman, I can now support the approach in H.R. 5318 and S. 2808. For the current legislation does not really impose new conditions on China in trade and proliferation. In effect it merely requires the Chinese to implement commitments they have already agreed to during the past year. If Beijing fulfills its firm pledges on nuclear and missile proliferation, on intellectual property rights and prison labor, for example, it presumably would pass the legislative tests in these areas. If it reneges, then it should be held accountable.

In addition the language of the pending legislation allows leeway in determining whether sufficient progress has been made in the course of the year. While the objectives are clear, avoiding the use of absolutes and inserting the phrasing "overall significant progress" before many of the conditions make the goals attainable.

In short, given the intense Chinese interest in preserving MFN treatment and the flexibility of the legislation's wording, the Administration should be able to extract meaningful progress on human rights. And this in turn would permit the extension of MFN again a year from now.

This balanced approach offers the best chance to improve the lives of Chinese citizens. Too many conditions too rigidly presented—the Congressional approach of the past two years—would forfeit both our leverage and MFN status with all the undesirable consequences I have outlined. On the other hand, unconditional extension—as once again sought by the Bush Administration—would reinforce Beijing's conviction that it can continue to brutally repress the Chinese people with impunity. The regime would calculate once again that a few cosmetic gestures satisfy the Administration and garner veto-proof minorities in Capitol Hill.

In fact, the Administration has gone along with this Chinese game by continually inflating the importance of the cynical moves made by Beijing in the area of human rights. And it has done so despite the fact that the Chinese government does not only mistreat its own citizens. Just in recent months we have seen Western journalists roughed up, Embassy visitors detained, Senators denied visas and the Secretary of State given false promises on emigration.

A key new feature of legislation this year limits the revocation of MFN to articles produced, manufactured, marketed or exported by Chinese state-owned enterprises.

This is a very constructive step. It would erase or ameliorate many of my concerns, which I share with the Administration, about the loss of MFN treatment—such as hurting the very forces in China we are trying to encourage and inflicting damage on an innocent Hong Kong. Private companies, collective enterprises, and foreign joint ventures would continue to receive MFN treatment.

Thus this stipulation is clearly desirable. The only question is whether it's doable. I have reviewed many of the arguments about feasibility, but I don't pretend to have an expert opinion. The Administration has predictably taken the position that the provision is unworkable. This is clearly another smokescreen designed to defeat the legislation and protect the Chinese. Certainly it will not be easy—and it will take some additional work—to implement this approach. But I understand that the Administration was prepared to follow an analogous one when it was drawing up a list of products for prospective retaliation during the negotiations on intellectual property rights. This suggests that where there's a will there's a way.

Furthermore it would seem that a Customs Service requirement that both the Chinese exporter and producer be identified would be helpful. In this way private firms and collective enterprises would have an incentive to bypass state-owned export trading companies. If they were successful, fewer Chinese exports would be affected by MFN revocation, but the Chinese economy would move further away from central control and toward privatization. Enforcement of the legislation will clearly not be perfect given the ambiguities of the Chinese scene and the likelihood of cheating. But a good faith effort by the Administration should be sufficient to meet the basic objectives of the legislation.

The House and Senate bills appear to be similar and should be easily melded in conference. Let me just underline my views on two of the issues where there is a difference.

First, I think it is imperative that cessation of all jamming of Voice of America be a firm condition for MFN renewal. I cannot overemphasize the importance of conveying truth and information to the Chinese people whose own media is tightly controlled. Before the 1989 China Spring there was no jamming of VOA at all. Now Beijing blocks Chinese language broadcasts with considerable success. The Chinese have free access to American audiences. We should demand that once again we have access to theirs. In any event I strongly support both an increase in funding for VOA Chinese broadcasts and the establishment of a Radio Free Asia. Even at this time of severe budgetary squeeze, these are very important investments which can hasten the coming of freedom to China and thereby serve American interests.

Second, the United States should make clear our concerns for Hong Kong's future to both the Chinese and British. We have a huge commercial as well as humanitarian stake there. In this regard, I strongly support Senator McConnell's bill and I understand that the Bush Administration favors it as well.

Mr. Chairman, overwhelming majorities in the House and Senate, including members of the President's own party, believe the Administration's policy on human rights in China has failed and that a new one must be tried. I hope this year's more nuanced approach by the Congress will attract enough votes to override a prospective Presidential veto. And I hope that the President, facing this prospect in a politically charged season, will then accept the legislation and join the Congress in presenting a common front toward China. This would have a salutary impact upon Beijing's rulers.

In dealing with this important country and brutal regime America can both project its ideals and promote its interests. The Chinese people will, of course, determine that great nation's destiny. But the Havel, Walesas, and Sakharovs of the world have testified that America's voice gives hope to those struggling in the dark. We can help ease the path to freedom in China.

A freer China will enhance our bilateral relations and erase a bitter issue in our national debate. And a freer China will be a more positive, powerful contributor to a new world order. When China reflects the popular will it will be a more responsible global partner. When it reduces commercial barriers it will be a more expansive economic partner. And when it respects human values it will be a more natural political partner.

Thank you.

[Submitted by Senator George J. Mitchell]

June 4, 1992
Publication: SR-41-Foreign Policy

dpc special report

China MFN: Senate Democrats Call for Progress Before Renewing Most-Favored-Nation Status

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democratic policy committee

"President Bush has again chosen to continue his failed policy toward China. I disagree. I believe it is time for the Congress to change that failed policy."

**Senate Majority Leader George J. Mitchell
June 2, 1992**

Introduction

Three years after the Tiananmen Square massacre of June 4, 1989, President Bush has requested again most-favored-nation (MFN) status for China. The Chinese government has made little progress on human rights and few concessions on other policy issues, such as nuclear non-proliferation and trade policies. A majority in Congress have continually supported legislation to make future MFN status contingent upon China meeting certain conditions. Unfortunately, because of the power of the Presidential veto, this majority has been unable to prevail.

Over the last year, China has done very little to improve its performance, breaking promises and remaining intransigent on issues of great concern to the United States.

Senate Majority Leader George J. Mitchell and colleagues have again introduced legislation to condition the renewal of MFN trade status to China on demonstrated progress by the Chinese government in:

- adhering to international standards on human rights;
- preventing the export of forced labor products to the United States; and,
- ceasing unfair trade practices and controlling arms proliferation.

Similar legislation has been introduced in the House of Representatives.

Broken Promises

The Administration consistently argues that extending trade benefits to China will promote reforms and human rights improvements. The Chinese government, however, has reneged time and time again on commitments made to the Administration. For example, Chinese officials:

- told Secretary Baker last November that they would grant visas to approximately 20 dissidents, but only two of the dissidents have been allowed to leave;
- pledged to Secretary Baker that China would cease exporting goods made by prison laborers, yet China was later caught shipping diesel engines made by prisoners;
- promised to account for hundreds of political prisoners jailed after the 1989 Tiananmen Square uprising, but instead provided inadequate, often useless information;
- assured the Administration that China would improve trade opportunities for U.S. companies, yet the U.S. trade deficit with China has continued to increase steadily, rising from \$12.7 billion in 1991 to approximately \$20 billion in 1992; and,
- pledged to abide by the Nuclear Nonproliferation Treaty and the Missile Technology Control Regime; according to numerous reports, China is selling dual use technology and transferring conventional arms to countries unfriendly to the U.S.

Several instances of Chinese arms transfers have been reported in recent months.

4/28/92 — The *Washington Post* reported that China unloaded small arms at a Libyan port after the April 15 embargo against Libya was imposed by the U.N. Security Council.

4/22/92 — The *Washington Times* reported a Chinese deal with Iran for a fleet of Chinese patrol boats equipped with Styx anti-ship missiles.

4/3/92 — The *Los Angeles Times* reported that Chinese officials were negotiating with Iran for possible delivery of guidance systems that can be used for ballistic missiles.

2/22/92 — The *Washington Post* reported that the Senate Foreign Relations Committee was informed in a closed briefing of Chinese contracts to sell more than \$1 billion in missile and nuclear-related technology to Iran, Syria, Pakistan, and other countries in the Middle East.

1/31/92 — The *New York Times* reported a Chinese delivery to Syria of 30 tons of chemicals needed to build a solid-fuel missile and the transfer to Pakistan of guidance units to control the flight of M-11 missiles.

Nuclear Testing

On May 21, 1992, China conducted an underground nuclear test of 1,000 kilotons (equivalent to setting off 1 million tons of TNT) for a new intercontinental ballistic missile that is being developed. This blast far exceeded the generally accepted 150 kiloton limit agreed on in 1974 by the U.S. and the former Soviet Union.

The Drug Trade

Robert Bonner, Administrator of the Drug Enforcement Administration, testified before the Senate Judiciary Committee that the China drug-trade route is the second most traveled, and that some of these shipments eventually enter the U.S., according to the Wall Street Journal on May 20.

Denial of Visas

Chinese authorities turned down visa requests by Senate Intelligence Committee Chairman David L. Boren (D-OK) and Senate Foreign Relations Committee Chairman Claiborne Pell (D-RI) for visits last April. Both Senators have criticized China's human rights, weapon proliferation and trade policies.

Harassment of Washington Post Correspondent

Last month, Chinese security agents searched the office of the *Washington Post's* Beijing correspondent, Lena H. Sun. Some of Sun's files were seized, and her husband and two-year-old son were held under house arrest during the office search.

U.S.-China Trade

U.S. exports to China between 1980 and 1991 increased by 67 percent, while imports from China grew by 1,694 percent. This reflects a rapidly growing trade imbalance that reached \$12.7 billion in 1991, compared to \$6 billion in 1989 and \$10.4 in 1990 (see chart below). The U.S.-China trade imbalance is projected to rise to nearly \$20 billion in 1992. China is the United State's second largest deficit trading partner after Japan.

The growing U.S. trade deficit with China is attributed by many to product dumping, currency devaluation, and exporting products manufactured by cheap convict labor. Additionally, China continues to breach export quotas by shipping its products through Hong Kong. In Hong Kong, these products are re-labeled and exported to the U.S. This illegal practice has cost the U.S. millions in lost customs duties.

U.S. Trade with China: 1980-1991 (\$ millions)

Year	U.S. Exports	U.S. Imports	Trade Balance
1980	\$3,754	\$1,058	\$2,696
1981	\$3,603	\$1,895	\$1,707
1982	\$2,912	\$2,284	\$628
1983	\$2,173	\$2,244	-\$71
1984	\$3,004	\$3,065	-\$61
1985	\$3,852	\$3,862	-\$10
1986	\$3,105	\$4,771	-\$1,666
1987	\$3,488	\$6,293	-\$2,805
1988	\$5,033	\$8,512	-\$3,479
1989	\$5,807	\$11,989	-\$6,181
1990	\$4,807	\$15,224	-\$10,417
1991	\$6,287	\$18,976	-\$12,689

Source: U.S. Department of Commerce

United States-China Act of 1992

Conditions for Renewal of MFN Status

Senator Mitchell has offered a bill which provides that the President may not recommend the renewal of MFN status for China in June 1993, unless the President reports in his MFN extension request that the Chinese government:

- is taking actions to adhere to the provisions of the Universal Declaration of Human Rights, and is fulfilling the commitment made to the Secretary of State in November 1991 to allow for unrestricted emigration of those who want to leave China because of political or religious persecution, to join family abroad, or for other valid reasons;
- has accounted for those citizens detained, accused, or sentenced, due to nonviolent expression of their political beliefs;
- has released a sufficient number of citizens imprisoned for such expression, demonstrating a credible good faith effort to release all of those imprisoned as a result of the crackdown in Tiananmen Square on June 4, 1989;
- has taken action to prevent export of products manufactured by convict, forced, or indentured labor; and,
- has made overall significant progress in:
 - ceasing religious persecution in China and Tibet, and releasing leaders and members of religious groups detained, imprisoned, or under house arrest for expressing their religious beliefs;
 - providing U.S. exporters fair access to Chinese markets, including lowering tariffs, removing nontariff barriers, and increasing the purchase of U.S. goods and services; and,

- adhering to the limitations and controls contained in the Missile Control Technology Regime, and the standards and guidelines of the Nuclear Suppliers Group and the Australian Group in regards to arms proliferation.

If the President decides not to seek a continuation of a waiver for renewal of MFN in June 1993, the bill requires him to undertake efforts to ensure that members of GATT take similar actions in regard to China.

Restrictions on the Importation of Products from State-Owned Enterprises of the People's Republic of China

The bill requires that if the President is unable to report China's compliance with the conditions mentioned above, all products which are exported by state-owned enterprises shall be subject to higher rates of duty under Column II of the Harmonized Tariff Schedule of the U.S. This requirement, however, does not apply to products of U.S.-Chinese joint ventures.

Termination of MFN Status

The bill states that overall "significant progress" with respect to arms proliferation, may not be reported if, at any time after the date of enactment, the President determines that China has transferred certain ballistic missiles, launchers, and/or material, equipment, or technology which could contribute to the manufacture of a nuclear explosive device to either Syria or Iran.

Appendix A:

Chronology of Major Legislation on China MFN Status

- 10/18/90 **H.J. Res. 647**, providing that China's eligibility to receive MFN status in 1991 be contingent on conditions requiring Presidential certification. Passed by House (247-174).
- 5/2/91 **H.R. 2212** introduced, allowing extension of Jackson-Vanik waiver for China in 1992 only if China fulfills several human-rights and other conditions.
- 6/25/91 **S. 1367** introduced, setting additional conditions for extension of China's MFN treatment in 1992.
- H.R. 2756** introduced, conditioning extension of China's MFN treatment in 1992 on absence of forced abortion or sterilization programs.
- 7/9/91 **H.R. 2212**, setting additional conditions for extension of China's MFN treatment in 1992, reported favorably (H. Rept. 102-141).
- S. 1367**, setting additional conditions for extension of China's MFN treatment in 1992, reported without recommendation (S. Rept. 102-101).
- 7/10/91 **H.R. 2212** passed by House (313-112).
- 7/23/91 **H.R. 2212**, setting additional conditions for extension of China's MFN treatment in 1992 passed Senate (55-44), replacing its language with that of **S. 1367** as amended; **S. 1367** indefinitely postponed.
- 11/26/91 Conference report on **H.R. 2212** (H. Rept. 102-392) filed and agreed to by House (406-21).
- 2/25/92 Conference report on **H.R. 2212** agreed to by Senate (59-39).
- 3/2/92 **H.R. 2212** vetoed by President.
- 3/11/92 President's veto of **H.R. 2212** overridden by House (357-61).
- 3/18/92 President's veto of **H.R. 2212** sustained by Senate (60-38), falling short of 67 votes needed to override the veto.

Appendix B: Statement of Senate Majority Leader George J. Mitchell Regarding China MFN Legislation

Two days ago, President Bush announced his intention to again extend to China the trade status of most-favored-nation.

Yesterday, according to an ABC News report, a lone, courageous demonstrator in Tiananmen Square was beaten and arrested for daring to publicly remember the demonstrators on the square three years ago. Western news reporters were beaten by plain clothes police, taken into custody and beaten again by uniformed police for the crime of recording the arrest.

Today I introduce legislation for the third time to end the President's mistaken, failed, and morally wrong policy toward the communist government of China.

Similar legislation is being introduced in the House. The differences in the bills are minor.

The bill I introduce requires the President to certify three things: first, that China has acted to adhere to the requirements of the Universal Declaration of Human Rights; second, that China will keep the specific promises made to Secretary of State James Baker last year to allow dissident Chinese to leave the country; and third, that China will stop the export of goods made by forced labor.

The House bill focuses on an accounting of those imprisoned after Tiananmen Square and release of those still being held. On the issues of weapons proliferation and sales, and fair trade practices, the measures are substantively identical.

But on the central issue of holding China accountable, of creating a real incentive for change in place of wishful thinking, there is no difference in the two proposals.

A majority in both Houses of Congress has for three years recognized that a policy based on hopes which are regularly betrayed by Chinese actions is wrong. It doesn't serve American interests. It doesn't strengthen international peace. It doesn't improve the living standards of the Chinese people. It doesn't restore the independence of Tibet.

The President has been able to persuade a minority in the Senate to ignore American interests and support this unwise policy.

But time and the Chinese regime are running against that minority. I hope the events of the last three days and the memory of all that has transpired in the last three years will finally be enough to persuade our colleagues that the American national interest should take priority in this matter.

The Nation will be here for many years after this President and many others. So will China. There is a time appropriate for political choices and there is a time when politics should end. With China, that time is now.

Three years ago today, Americans and free people all around the world saw tanks and uniformed soldiers sweep into the world's largest public square and crush the world's largest demonstration for democracy and freedom.

Today, Tiananmen Square is a bloodstained name in the annals of government repression. It stands beside the killing fields of Cambodia, the Moscow Show Trials, the ravine at Babi Yar — among the bloodiest chapters in a bloodstained century. It is a disgrace to humanity. It is an insult to a world weary of government repression, a reproach to the courage of those who died for freedom.

Ten days ago, Americans celebrated Memorial Day. All across this country, survivors of our wars, families of veterans, families of those who died, and people in communities who have never been personally scarred by war gathered to commemorate the courage of ordinary Americans who gave their lives to preserve freedom, to protect liberty, and to ensure a future in which American ideals of liberty could flourish.

We did not take boys from the cornfields of Iowa or the fishing villages of Maine or the streets of the Bronx to defend communist tyrannies. It is an insult to them to pursue a policy favoring exactly the same kind of tyranny they fought to the death.

Three years have passed since the communist Chinese government brutally repressed peaceful demonstrations for political liberty. These three years have seen no progress toward the free and democratic society the demonstrators sought. But for three years, President Bush has said his policy would produce a freer, more democratic Chinese society. He has been wrong. His policy has produced no positive results at all. It has produced, instead, more repression.

Three years is long enough.

It has been too long for the uncounted persons still imprisoned for the crime of having political opinions. It has been too long for the Tibetans who have had to watch as their culture and their country have been destroyed. It has been too long for the goal of world stability and world peace.

Three years is enough time, even for those who believed the President when he said that the Chinese communists would change if only they were given time. The Chinese communists have been given time. The facts are in. The record is clear.

The Chinese communists have mocked international treaties and agreements. They still export goods made with prison labor to the United States in flagrant violation of our laws. Their officials stand indicted of conspiring to violate bilateral textile quotas.

Two weeks ago, the Chinese communists carried out the largest underground nuclear explosion in Chinese history — an explosion of one thousand kilotons, the equivalent of one million tons of TNT. Nearly twenty years ago, in the midst of the Cold War, the United States and the Soviet Union were able to agree not to exceed a 150 kiloton test level. Two weeks ago, China detonated a nuclear explosion seven times more powerful. President Bush said nothing.

Instead, he wants to continue business as usual. Chinese jails are full of dissidents; Chinese weapons transfers threaten regional peace halfway across the world; the Chinese trade imbalance reaches its highest level ever; the Chinese communists insult the freely elected representatives of the American people by refusing them entry visas.

The President's policy toward China is wrong.

It is inconsistent with American ideals. It is contrary to American economic interests. It is a travesty of effective policy. It demands change.

This bill preserves the President's powers to act. It does not seek to micromanage foreign policy. But it does seek to place American policy once again in the service of American interests, American values and American honor.

PREPARED STATEMENT OF IRA WOLF

This year, as every year since the tragedy in Beijing in 1989, most Americans continue to be justifiably angry about China's brutal suppression of youthful demonstrators in Tiananmen Square. Many are also properly critical of China's policies that conflict with fundamental international standards of human rights, proliferation, and trade.

The Administration shares the indignation of most Americans and the Congress concerning China's policies. We want to see China act in a responsible manner that accords with international norms. We strongly condemned China's suppression of democracy in June 1989 and we deplore China's insufficient human rights record today. The Administration still has in place the toughest sanctions on China of any country in the world. We disagree with some of you only over what constitutes the best and most effective means to achieve our shared goals. We do not disagree over the goals themselves.

The Administration has fashioned a policy toward China that is tough but fair, and is designed to foster and support constructive change in China now and in the future while dealing directly and forthrightly with Beijing about our bilateral problems now. Removing MFN or attaching restrictive conditions to its annual renewal is not an effective means to bring about constructive change in China. Revocation of MFN, or attaching to it conditions that are manifestly unworkable, would weaken our ability to affect the policies and practices of the Chinese government. It would irreparably harm our trade relationship, undermine our ongoing negotiations, and deliver a crushing blow to the heart of the most advanced, open and free part of China—Guangdong Province and the southeastern coastal region—and to Hong Kong.

ADMINISTRATION POLICY ON TRADE

In trade, the Administration has a policy and a strategy that works and that has produced results. We are making progress in achieving our shared goal of addressing China's trade practices in a firm, responsible, tough-minded fashion. On July 19 last year, the President declared, in a letter to Senator Baucus and other Senators, that he had instructed U.S. trade agencies to "press vigorously" the Administration's concerns about "Chinese unfair trading practices." We have done just that.

Using the "smart weapons" available to us in the 1974 and 1988 Trade Acts, USTR, State, Commerce, the Customs Service and other U.S. government agencies are engaging the Chinese in negotiations over trade practices that have harmed U.S. industry and commerce. In some cases, such as intellectual property rights and prison labor, we have worked successfully with the Chinese to resolve difficult problems. In others, such as textiles, where we have been less successful so far in gaining the response that we require from China, we have taken the necessary punitive actions.

I would like to describe to the committee some of the measures that we have taken this year to address unfair trade practices.

Intellectual Property Rights. After identifying China on April 26, 1991 as a priority foreign country under the provisions of the 1988 Omnibus Trade Act, the USTR initiated a Special 301 investigation into China's IPR policies, acts, and practices. As you know, China had been one of the world's foremost pirates of software, sound recordings and other copyrighted works, had failed to extend product patent protection to pharmaceuticals and other chemicals that require extensive research and development costs on the part of U.S. industries, and was responsible for widespread trademark violations. Our industries estimated that they lost over \$400 million a year to Chinese theft.

After eight months of tough negotiations, the Chinese signed an agreement in which they pledged to overhaul significant portions of their domestic IPR legislation and provide a legal structure that will bring China up to internationally accepted levels. China appears to be implementing that agreement and, in the area of patent protection, is now ahead of schedule.

In an indication of the extent to which China now endorses the need to implement protection for intellectual property, China's leader Deng Xiaoping stressed that China must obey international rules in the protection of foreign inventions and copyrights during his tour of South China in February and March.

Prison Labor Exports. The Administration has actively addressed concerns over China's exports of prison-made goods. As promised by the President last July, the Customs Service has moved quickly to investigate allegations that prison-made products are being exported to the United States, and, as of May 22, had issued detention orders for 12 categories of goods. China has also reiterated its own desire to put an end to exports of products of prison labor. On June 18, U.S. and Chinese

negotiators concluded discussions on an MOU that would permit U.S. embassy officials to visit Chinese prisons if we suspect that they are producing goods for export to the United States.

Market Access. As promised by the President, USTR self-initiated the most sweeping 301 investigation in its history against four principal Chinese market barriers on October 10, 1991. After four rounds of formal talks and an additional round of working-level discussions with the Chinese, we have begun to make substantive progress. The Chinese have told us that they agree with the principle of following GATT disciplines and reforming their trade regime and they have promised to make some—although too limited—changes in their trade system.

So far, China's responses have been inadequate and we are still far from a market access agreement. Nor are we sanguine that the Chinese are willing to meet all of our requests to remove market barriers unless pressed very hard. Much remains to be accomplished. The Chinese trade system is opaque and, in many instances, is run by the invisible hand of bureaucrats and through the use of secret directives and other unfair practices. Like many Third World countries, China has erected multiple, overlapping non-tariff barriers, has prohibitively high tariffs in many instances, and uses them to protect weak domestic industries and control imports.

I am hopeful that our negotiators will reach a good market access agreement with the Chinese no later than the statutory deadline of October 10. We are making every effort to reach a solid, negotiated resolution of this contentious issue. This afternoon and tomorrow we will hold working level discussions with the Chinese. And, in August, following another round of working level discussions, I will lead a high-level U.S. team of negotiators in Beijing in August to attempt to conclude the investigation. Nonetheless, if we cannot reach a good agreement, Ambassador Hills is prepared, if necessary, to take trade action.

With that possibility in mind, the USTR published on Friday, June 26 a notice in the *Federal Register* requesting comments on what action should be taken if we are unable to resolve this investigation in a positive manner, including a request for comments concerning products that should be considered for inclusion on a proposed list of products subject to trade action, if publication of a list is necessary.

Textiles. While continuing to make every effort to negotiate a resolution of our transshipment problems with the Chinese, the Administration moved swiftly and comprehensively during the year to put an end to fraudulent practices on the part of Chinese exporters and American textile importers in the United States.

In the largest investigation it has ever undertaken, the Customs and the Internal Revenue Service, in September and December, 1991, raided more than 120 Chinese and U.S. businesses, executing 139 federal search warrants and 46 seizure warrants in New York, Los Angeles and other cities. During the course of these raids, the Customs seized over \$10 million in cash and goods. So far, the investigations have yielded criminal indictments of four individuals and three firms. Customs has prepared an additional 65 cases for possible criminal prosecution, 15 of which have been accepted by the Southern District of New York for presentation to a Grand Jury.

In addition, since January 1991, we have levied four sets of charges against China's quotas for fraudulently shipping textile and apparel products to the United States through third countries. The charges amount to \$245 million for more than 2 million dozen products illegally transshipped. In July, CITA assessed China \$47.9 million against their quotas in a wide spectrum of import categories, including cotton knit shirts and blouses, and cotton and man-made fiber trousers.

In addition, \$600 million in fraudulently shipped Chinese textile products have been seized before they could enter the United States. The quotas of Taiwan and Macau, regions through which the Chinese have transshipped, also have been reduced. So far, the United States has taken actions against more than \$1 billion of Chinese textile trade. If the Chinese government does not exert greater control over its textile exporters, more severe penalties will be necessary.

Clearly, we have fulfilled and will continue to fulfill the President's pledges to the Congress to take vigorous measures to rectify unfair Chinese trade practices. I hope that you will note, Mr. Chairman, that we have already made—or are actively engaged in pressing for—the progress on trade required by the bills now circulating that would attach conditions to MFN.

UNWORKABLE CONDITIONS

We are opposed to withdrawal of MFN in any guise, including the currently proposed approach of targeting the exports of "state enterprises" for removal of MFN tariff rates. That approach is unworkable. For many reasons, given the way in which China's foreign trade system now works, Customs would find it impossible

to determine whether or not exports bound for the United States are produced in "state enterprises." The Treasury Department would find it impossible to create an accurate register of non-state enterprises. In light of the current composition of China's trade, the majority of which, many scholars believe, emanates from state enterprises of one form or another, the current bill simply serves as revocation of MFN under another rubric.

Before I conclude this statement, I would like to review for the Committee the impact that revocation of MFN would have on our bilateral trade relationship, U.S. industry, Hong Kong, and on those sectors of China that represent its greatest hope for the future.

THE BILATERAL TRADE RELATIONSHIP

Revocation of MFN could have potentially disastrous consequences for U.S. industry and commerce, and for the burgeoning foreign trade sector in South China. Driven in large part by foreign trade, growth in Guangdong Province and China's southeast coast have provided a vivid illustration for the Chinese people of the power of markets and the modern ideas that accompany them to bring wealth and a more humane society.

Since bilateral trade relations were formally inaugurated on February 1, 1980, when reciprocal MFN status was granted as a part of the U.S.-China trade agreement, U.S.-China trade and commercial relations have grown significantly. During that time, China has grown from a rigidly planned socialist trade regime to an expansive and more market-based trade system. The system is still far from GATT compatibility. But these dramatic changes have had a long-term, highly positive impact on Chinese society, especially in the south and increasingly in the north as well.

During the past decade, China's global trade has grown on average by more than 12 percent annually—twice the rate of world trade growth—increasing from less than \$40 billion in 1980 to more than \$135 billion in 1991. China now has more than \$42 billion in foreign exchange reserves, according to the IMF, ranking seventh in the world. In the process, China has become an increasingly important player in the conduct of the world's trade. Over the past decade, trade has played an important role in creating incentives within China to break out of its self-imposed isolation, begin the process of integrating itself into the world economy, and establish strong bilateral ties in East Asia, Europe and with the United States.

The growth of the U.S.-China trade relationship over the past decade has been dramatic. During that time, our two-way trade has grown from \$2.3 billion in 1979 to more than \$25 billion in 1991. The United States is now China's largest export market, with 26 percent of China's exports going to the United States. For its part, China has become the United States' 16th-largest export market. In 1991, almost four percent of all imports to the United States from throughout the world came from China, which now ranks sixth in that category, behind Japan, Canada, Mexico, Germany and Taiwan. Americans imported more than \$19 billion of Chinese goods in 1991.

By contrast, the United States exported only \$6.3 billion in goods to China in 1991, a sharp increase from \$4.8 billion in 1990, but only slightly above the \$5.8 billion that the U.S. exported in 1989. U.S. exports to China constituted one and a half percent of global U.S. exports of more than \$420 billion in 1991. Clearly, there is great potential to expand our exports to China's huge and increasingly lucrative market.

China is nonetheless an important purchaser of U.S. aircraft, computers and industrial machinery, chemical fertilizers, wheat, cotton yarn and fabric, and professional and scientific instruments. If China removes its market barriers, its resurgent economy, large foreign exchange reserves, relatively small and well-managed foreign debt burden, and interest in U.S. products and technologies all suggest that China should become a more significant consumer of U.S. goods in the coming years.

The U.S. business presence in China has grown remarkably in recent years. According to Chinese statistics, roughly 1,720 U.S. companies have committed investments of \$4.7 billion to long-term, U.S.-China joint ventures, making the United States one of China's largest investors, along with Hong Kong, Germany, Japan, and Taiwan. Approximately 500 American companies have representative offices in China conducting liaison and trading activities.

It is in South China that U.S. business is having its greatest impact, bringing in Western management concepts, higher standards for workers, better salaries and working conditions, and exposure to Western lifestyles. Investing directly, or managing investments through Hong Kong entrepreneurs and middlemen, U.S. companies have made South China their base for manufacturing efforts in toys, footwear,

leather goods, electric appliances, silk apparel and other textiles. The U.S. presence in South China, buttressed by the efforts of Hong Kong manufacturers, have helped make Guangdong one of China's fastest growing provinces.

Driven in part by China's self-interest in promoting foreign investment, China has taken important—if still inadequate—steps toward creating a legal system to regulate trade and investment. These steps bring China closer to international norms in many respects. The expanding interest on the part of U.S. and Hong Kong businessmen in using China as a base for manufacturing operations forced out of Taiwan and South Korea by rising costs will undoubtedly stimulate acceleration of this process as China's reform program gradually gets back on track.

China has thus passed laws governing contracts, foreign investment, and taxes, and has enacted its first patent, trademark, and copyright laws. China has also made a commitment to reform its trade system in accordance with GATT principles and has made accession to the GATT itself a priority. At U.S. insistence, China has also agreed to change laws that have proven to be faulty. For instance, China is now in the process of amending the patent law to provide a longer term of protection for patented products and to limit compulsory licensing requirements. While China's trade laws still have major flaws, our presence in China and the promise of continued access to the U.S. market provides a significant incentive for China to make the tough domestic economic decisions required to improve that system.

IMPLICATIONS FOR U.S. DOMESTIC INTERESTS

American importers and retailers would suffer serious business disruptions should China not continue to receive MFN tariff treatment—even if so-called "state enterprises" are the only target of that treatment, as recommended in some of the proposed legislation. Loss of MFN duty rates would increase tariffs on imports from China as much as ten-fold. Without going into exhaustive detail, it is clear that tariffs on the 25 top U.S. imports from China would rise from the present average tariff rate of 8.8 percent to an average tariff rate of 50.5 percent.

The large increases in tariffs that would result from revocation of MFN—or, likely, of the existing legislation if the conditions were not satisfied—would in many cases price goods manufactured in south China through contractual arrangements with U.S. companies out of the U.S. market. Many small businesses—who are among the principal beneficiaries of investment in south China—would go out of business. Of course, thousands of retail jobs would also be put at risk.

Less affluent Americans, who are the primary consumers of China's low-cost products, would be hurt by removal of MFN. China supplies 48 percent of the toys sold in the United States, 14 percent of the imported apparel, 15 percent of the footwear, and an ever increasing volume of electronic products. On average, non-MFN tariffs would increase landed costs of Chinese products by approximately 40 percent—much of which would likely be passed along to U.S. consumers. While importers could source products made in China in other markets, many importers today argue that China produces the best mix of low-cost and reasonable quality low-end products. Shifting manufacturing operations elsewhere would inevitably produce higher prices for U.S. consumers.

IMPLICATIONS FOR U.S. EXPORTERS

Removal of MFN—or attaching significant conditions to it—would poison the bilateral commercial relationship. The Chinese government would surely single out U.S. products for special discriminatory treatment. Large-scale commercial decisions, such as decisions now pending on purchases of the next generation of commercial aircraft or of telecommunications systems, would almost certainly be made in favor of non-U.S. vendors.

The Administration is far from satisfied with market access in China or with the growing trade deficit. But, we see nothing to be gained by damaging commercial relationships that are already well-established. Our aim is to expand our trade relationship with China, based on international norms, and help to create more jobs for U.S. workers and more profits for U.S. industry.

If the United States revokes MFN, we stand to lose sales of:

- Aircraft and aircraft parts, \$1.083 billion (up from \$749 million). We would also put at risk billions of dollars in future orders that now keep U.S. workers employed at plants in Washington and California.
- Computers and industrial machinery, \$1.058 billion
- Chemical fertilizers, \$982 million
- Cereals, mainly wheat, \$363 million
- Cotton yarn and fabric, \$327 million
- Professional and scientific instruments, \$318

—Chemicals, \$306 million

Under the U.S.-China Trade Agreement, the United States and China grant each other MFN on a reciprocal basis. If the U.S. revokes or heavily conditions MFN, China will likely take the same action, subjecting most U.S. exports to China to even higher tariffs than are now the case. In many cases, if China were to further raise tariffs that are already very high, U.S. exports would effectively be priced out of the Chinese market. U.S. businesses in China and Hong Kong, many of whom have spent the better part of a decade establishing their operations in China, building commercial relationships, investing their capital, and training people to work in the difficult Chinese system would be seriously hurt—with no identifiable gain.

Clearly, revocation of MFN would also open the way for U.S. competitors, especially from Japan, Europe, and Taiwan, to move into the China market even more aggressively and with still more success. The market share that U.S. industry has now—while still inadequate—would be difficult to regain.

IMPLICATIONS FOR U.S.-CHINESE COMMERCIAL RELATIONS

I made the point earlier that the Administration has made every effort to use the legal and policy tools available to it to rectify China's unfair trade practices. If MFN is revoked—or conditions are attached that may lead to revocation—that action will severely undercut our ongoing negotiations. One of the principal levers that we, as the U.S. government's lead negotiators on trade, have had with China is China's need to resolve current problems and protect MFN and our overall trade relationship. If that leverage disappears, our efforts to secure a market access agreement, for instance, that would expand trade with China will be lost.

From a multilateral perspective, having eliminated MFN, we would lose much of our leverage in arguing that China ought to make trade reforms to conform with the GATT or other multilateral bodies.

THE HONG KONG-U.S. TRADE RELATIONSHIP

Hong Kong would unquestionably be hurt were MFN withdrawn. Hong Kong's economic prosperity has become inextricably linked to the growth of trade in China's southern provinces. China is Hong Kong's largest trading partner. Reexports of Chinese goods through Hong Kong underpin Hong Kong's overall trade performance. Almost 80 percent of products exported by China to Hong Kong are transshipped, often to the United States. Many of the more than 900 American firms based in Hong Kong depend directly or indirectly on the China trade.

Leaving aside the potentially enormous economic cost to Hong Kong of MFN withdrawal, the blow to Hong Kong's already shaky confidence in our support for the future would be severe. It would seriously undermine the so far very successful strategy that Hong Kong businessmen have developed of striking preemptively, as it were, and exporting their business system and its values to China—before China takes over in 1997. After all, it is the people of Hong Kong who will be subject to Chinese laws after 1997, and their strategy has been to raise the living standards of the entire South China region and to try to introduce liberalizing values in that region before the Chinese system imposes its own more restrictive values on them.

HARM TO CHINA'S REFORMS

Even though the Administration disagreed with Congressional supporters of the withdrawal of MFN in 1990 and 1991, we could agree that economic reform as a process had been crippled by the debacle of June 1989. While leaders in Guangdong and provinces in the modernizing south may still have privately advocated economic structural reforms, the Chinese government's leaders in Beijing clearly did not. Withdrawal of MFN in 1990 and 1991 would have discouraged future efforts at economic reform, but probably would not have had a great impact on economic reform policy that was already moribund. The damage inflicted by withdrawal of MFN would have been largely confined to south China.

But economic reform as a process that is sponsored by the central government has begun again in China and U.S. trade and involvement in China's economy is crucial to the success of that process. Withdrawal of MFN this year or next would have a much more serious impact, not only on south China, which would be devastated by it, but on the newly invigorated economic reform process in Beijing.

Senior leader Deng Xiaoping's visit to Guangdong and that province's Special Economic Zones speak powerfully to Deng's desire to spread the modernizing, market-oriented message of Guangdong to the rest of China. In that respect, the interest of the United States and the interest of Deng and his reformers within the Chinese government and Communist Party are the same. We both support the creation of

markets—capital, financial, labor, land rights, and others—and reforms, like price reform, that will gradually bring fundamental change to China. We, as a government, should do nothing to hinder or, worse, to derail that process.

CONCLUSION

We in the Administration, and I am certain, many in the Congress, realize that the way to encourage peaceful reform and the transformation of China is through the growth of markets and the concomitant spread of liberalizing ideas. Indeed, the engine of growth in Guangdong is slowly, but inexorably, battering down the still strong walls of protectionism and ideology in the north and west. Withdrawing MFN, or placing conditions on it, will harm and not help this process. Targeting the exports of state enterprises, while appealing in theory, is unworkable in practice, as the China professionals in this town and the Customs Service can tell you.

The Administration is doing its job and doing it well in its dealings with the often-difficult Chinese. We will continue to press our cases and we will continue to make as much progress as possible with a regime and a system that are undergoing severe trauma—and beginning to change fundamentally from within. It would be far wiser, I believe, not to disrupt that process through the denial to China of normal tariff treatment and the denial to U.S. businesses of a fruitful trade relationship.

COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

CHINA MFN RENEWAL

AAEI is a trade association representing over 1,100 U.S. companies engaged in importing, exporting and support activities on behalf of the Association and its member companies believe firmly that the Congress should not act to block President Bush's proposed extension of MFN status to China for another year. Nor should Congress impose conditions on MFN renewal that would amount to withdrawal or the threat of withdrawal of MFN status.

Extension of MFN is in our national interest for a variety of reasons. Most basically, MFN should not be thought of as some kind of special benefit to be conferred only on those foreign nations, the policies of which meet our approval. We must strive to find a multilateral trading system based on rules, which encompasses all nations and encourages them to liberalize both their economies *and* their political systems. We cannot afford to opt out of the web of relationships which supports the multilateral structure by unilaterally deciding to shun a nation which represents 20% of the world's population. Resorting to "light-switch" diplomacy will only diminish our influence with foreign governments instead of enhancing it by encouraging normal trading relations.

This is particularly true in light of the fact that terminating China's MFN status is unlikely to have the effect hoped for by critics of China's domestic policies. As we have learned elsewhere in the world, economic reform is usually the necessary precursor to political reform. Taking action which will severely damage China's fledgling non-state sector would therefore seem quite counter-productive if the goal is promoting new policies in China.

Additionally, trade with China is crucial to the health of many American companies and their workers. Some of these are our member companies. Since there is no indication that our major trading partners are willing to join us in imposing multilateral sanctions on China, proposals to cut off MFN for China unilaterally appear to be another example of self-destructive U.S. moralism, much like the largely ineffective trade sanctions imposed against Cuba for the past 30 years, and against the Soviet Union after the invasion of Afghanistan.

WHAT IS MFN?

AAEI believes that the debate over China's trade status has become clouded by a misunderstanding among many regarding what most-favored-nation status truly means. MFN as a term has perhaps become somewhat outdated, for it still carries with it its original connotation of deviance from the norm of international trade. It implies, quite wrongly, that countries accorded MFN status are being given a special benefit granted only the privileged few. Nothing could be further from the truth. Thanks to the remarkable success of the post-war U.S.-led effort to create and expand a rule-based multi-lateral trading system, nearly every nation is accorded MFN status by every other, and only a special few, such as Cuba, Vietnam, North Korea and the Soviet Union, are excluded by the U.S. This effort traces its origins to the Reciprocal Trade Agreements Act of the Roosevelt Administration and was forged by the cooperative effort of Congress almost exclusively controlled by Democrats and Administrations led equally by Democrats and Republicans. All MFN really means today, thanks to the global reach of this system, is that the U.S. applies the same low tariffs on goods from virtually every nation. President Bush's intention to renew China's MFN status therefore simply reflects his desire to continue to treat China as we treat nearly every other trading partner.

Clearly among the 140 or so nations which enjoy MFN status there are some, indeed a significant number, which pursue domestic and foreign policies with which

we do not agree. Yet we do not seek to withdraw MFN from them. And we must keep in mind that the sole alternative to renewing China's MFN status would be to impose the protectionist tariffs erected by the notorious Smoot-Hawley law of 1930. Imposing these extraordinarily high tariff rates would end nearly all trade between the U.S. and China, and under the cornerstone of U.S.-Chinese relations.

Terminating MFN would therefore be qualitatively different from imposing or threatening the various other forms of trade sanctions available under U.S. and international law. Granting a country MFN status essentially admits it into the game of international trade. If a country violates the rules of the game, there are numerous targeted penalties that can be imposed, from minor slaps on the wrist to serious sanctions. But the resolution of such disputes should be carried out according to the rules of the system, thereby further engaging the parties in the rules oriented process. Removing MFN goes well beyond any of these possible sanctions, however, simply because rather than focusing on the dispute and attempting to resolve it, it ends the relationship between the parties with all the consequences which flow from such a rupture.

THE IMPORTANCE OF TRADE WITH CHINA

Since its economic reform program began in 1979, China has become an important player in international trade circles. Its textile, toy and shoe industries have grown into reliable suppliers for the U.S. market, while at the same time, it has increased its imports of U.S. agricultural and aerospace products.

The growing deficit in our trade balances with China has increasingly been cited as a justification for terminating MFN. That deficit was approximately \$10-billion in 1990, and could increase to as much as \$15-billion this year. In the first place, the existence of a trade deficit can never be accepted, as a matter of policy, as the reason for terminating MFN. Nobody has suggested we consider terminating MFN with other of our trading partners who run significant trade surplus with us.

Furthermore, looked at in more detail, the current deficit with China hardly appears threatening. Products in which the U.S. has not been competitive for many years account for most of our imports from China—products like toys, handicrafts, and simple consumer items like umbrellas, tableware, and small appliances. Such products would be imported from other developing countries if not from China. Petroleum products alone accounted for about 6% of the deficit in 1990.

On the other side of the ledger, China purchases mostly high-tech agricultural products from the U.S.—both important to the U.S. economy.

In short, while the current ratio of imports and exports could be improved from the U.S. perspective, current U.S.-China trade is nevertheless mutually beneficial, with China becoming a long-term customer for high-tech products which generate the most desirable jobs in the U.S. Were we to reduce the Chinese dollar earnings by terminating MFN, those high-tech exports would surely be captured by our global competitors, particularly Japan.

Withdrawal of MFN would have the following harmful effects:

1. *U.S. Importers and Consumers*

China's impressive period of reform and growth has been accompanied by a steady increase in trade between the U.S. and China, which reached more than \$14 billion in 1989, and which surged once again last year. The U.S. has become China's third largest export market, after Hong Kong and Japan. American consumers and many businesses have become dependent on items manufactured in China. Certain of these companies would be devastated were tariffs to be increased to an average of 40 percent (the Smoot-Hawley rate) on all Chinese goods. This tremendous increase in duties would, obviously, make it impossible for many companies to continue to do business with China.

Therefore, terminating MFN would require a vast number of U.S. importers and retailers to find new sources for goods that consumers have come to rely upon. The short-term disruption would be considerable, and in the longer term, U.S. consumers, especially those who can least afford to do so, would be forced to pay more for such items as toys, footwear, and apparel. It is highly unlikely that U.S. producers would profit from this shift in sourcing, as importers would seek other low cost sources for these price sensitive products.

2. *U.S. Exporters*

At the same time, China has become a consistent importer of U.S. goods. In 1989, China purchased 19 percent of all U.S. grain exports, 9 percent of U.S. aerospace products, and 8 percent of U.S. fertilizer exports. If Congress were to act to block extension of MFN, the Chinese government could be expected to retaliate against such U.S. exporters. This would mean not just lost sales over the short-term, but

lost markets for years into the future, as our competitors in the EC, Japan and Australia move in to fill China's needs.

3. Hong Kong and Taiwan

Among the unintended victims harmed by termination of MFN, none would suffer greater devastation than Hong Kong. Facing the uncertain prospect of reverting Chinese control in 1997, Hong Kong is particularly vulnerable to moves that undercut the security of its citizens. The U.S. should do all it can to bolster this bastion of free enterprise, and should avoid actions which damage Hong Kong's thriving economy.

Yet, removal of MFN would do just that. Currently Hong Kong companies have nearly twice as many employees in mainland China as in Hong Kong itself. Hong Kong is the main transit point for trade between China and the U.S., and it is estimated that it would lose between \$8.8 and \$11.7 billion of annual trade if MFN were withdrawn. The financial hardship terminating MFN would have on Hong Kong cannot be overstated, and yet it may not be as significant as the psychological effect, undercutting business and consumer confidence in the territory, and increasing emigration of its industrious citizens.

Damaging Hong Kong would also have direct economic effects on the U.S. Hong Kong imported \$6.6 billion of American goods in 1989, and it is the headquarters of U.S. business in Asia. Cutting off MFN would clearly have detrimental effects on the 252 U.S. firms with regional headquarters in Hong Kong.

Also suffering from a cut-off of MFN status would be Taiwan, which has shifted much of its low-end manufacturing industry onto the mainland. While the damage to Taiwan's economy would not be as significant as what would occur in Hong Kong, certain of its industries would face huge losses.

4. Southern China

Because of the success of the reforms instituted by Deng Xiaoping in 1979, China's non-state controlled sector will likely account for half of China's industrial output this year. It is the growth of these efficient sectors which allowed exports to surge to 19 percent of China's GNP in 1990.

China's coastal providences, primarily Guangdong, Fukien and the area around Shanghai have been the prime beneficiaries of the reform program. These areas are the most striking evidence of how a planned economy can be transformed into a functioning market economy.

They are also home of the leading edge of liberal, reformist thinking in China. This confirms the lesson we have learned time and again in places as diverse as South Korea, Chile and Hungary: economic reform will inevitably lead to political reform if it is given a chance to flourish. In fact, one of the principal concerns of those who question the direction and permanence of reform in the Soviet Union is the lack of progress in decentralizing of the economy.

China's coastal areas where economic liberalization has been most advanced would also suffer the most were MFN terminated. The U.S. would be directly targeting the precise areas where reform is working, both economically and politically. By cutting off MFN, the U.S. would be stifling reform's evolutionary process and encouraging the Chinese to retreat into autarky and isolation.

CONDITIONING MFN RENEWAL

Several proposals have been advanced in Congress to put certain conditions on the extension of MFN status, in the belief that this might cause China's government to alter policies that trouble the U.S. China has indicated, however, that it would not accept a conditional MFN, and we have no reason to doubt this. Therefore it appears more than likely that the conditions would not be met, and in fact the existence of these conditions might well influence the Chinese Government to adopt contrary policies to demonstrate China's independence.

Conditioning MFN renewal is therefore tantamount to terminating MFN immediately. Both policies would disrupt trade relations, and would have the ill effects outlined above. Putting conditions on renewing MFN is thus not a compromise position, but would instead sunder U.S.-China trade relations.

IMPLICATIONS FOR U.S. POLICY

Outlined above are the costs, to the U.S., Hong Kong, Taiwan and China, of terminating China's MFN status. Such cost might be worth bearing were they likely to lead to the result that critics of Bush Administration policy hope for. However, because they are not likely to do so, the Congress should not embark on this course of action.

The U.S. has a number of serious complaints with China, ranging from nuclear proliferation to certain trade practices that seem particularly irksome in view of China's large trade surplus with the U.S. The U.S. has various tools at its disposal to address these concerns. However, none of these concerns warrant terminating MFN, just as they do not warrant terminating MFN for Japan or South Korea because they run large trade surpluses with us, or terminating France's MFN status because it aided Iraq in developing nuclear technology or that of the EC nations because of the range of disputes we have had over the years. The trade disputes that the U.S. has with China can and should be addressed through the normal functioning of U.S. trade laws, in conformity without international obligations.

As we have seen in our dealings elsewhere in the world, U.S. concerns with China, regarding the status of Tibet and human rights issues in China are not easily addressable through unilateral trade sanctions. Nor are these situations likely to improve if the U.S. effectively breaks trade ties with China, and thereby loses what leverage it has with Beijing, while the rest of the world continues to do business as usual.

Indeed, as noted above, terminating MFN would have the perverse effect of undermining reform in China, while increasing China's isolation. The U.S. would be better served by continuing to draw China into the world, by demonstrating its confidence that increasing economic prosperity inexorably leads to political reform, and by maintaining its ability to exercise its influence with China's leaders, who are proving increasingly helpful in addressing issues of international concern, ranging from Iraq to Cambodia.

As Gao Xin, a Chinese journalist and one of the last four hunger-strikers in Tiananmen Square in June of 1989, has written from exile in the U.S., "[p]olitical liberalization will only come gradually and only after economic liberalization. . . . If MFN is withdrawn, the United States will lose the critical leverage needed to help the Chinese people."

STATEMENT OF ASIA WATCH

The continuing attention to Most Favored Nation (MFN) trading status for China is crucial for maintaining pressure on the Chinese government to improve its human rights performance. The need for such pressure has never been greater: A fierce crackdown on religion is underway in China; prominent dissidents and family members are still being prevented from leaving the country; repression in Tibet continues; strict new laws have been promulgated to suppress illegal protests; released prisoners are being subjected to harassment and house arrest; and reports of torture and ill-treatment present a chilling picture of life for those imprisoned in China's gulag.

A new report published by Asia Watch¹ contains detailed information on more than 200 pro-democracy activists imprisoned in the province of Hunan alone. Until now, no one in the West even knew of their existences; we believe there are thousands of other such activists, whose names are still not known, detained since June 1989 in jails, labor camps and detention centers throughout China.²

ASIA WATCH'S POSITION ON MFN

In our view, the Most Favored Nation (MFN) trade relationship with China presents the only real means of pressuring Beijing on human rights. It is clear that the other remaining sanctions imposed by the Congress and the executive branch in the wake of Tiananmen Square (such as suspending sales of military items and voting against or abstaining on some World Bank loans) are not enough to persuade the Chinese government to make significant concessions on human rights. It has only been when Chinese officials feared that the MFN relationship was in jeopardy that significant numbers of prisoners were released. Unfortunately, President Bush's insistence on maintaining MFN unconditionally and his veto in March of legislation passed by the Congress that would have placed human rights and other conditions on MFN, has persuaded the Chinese that they have nothing to fear on the MFN front. Accordingly, human rights concessions have stopped, and indeed, human rights conditions have continued to deteriorate.

¹*Anthems of Defeat: Crackdown in Hunan Province, 1989-1992*, published on May 31, 1992. The report cites a confidential Chinese government document boasting of some 594 pro-democracy activists detained in seven Hunan prisons by the end of 1990. Of the 200 prisoners about whom Asia Watch has detailed information, fewer than a third had been released by mid-1992.

²Rep. Gus Yatron placed the list of Hunan prisoners in the Congressional Record; attached.

This year, the Administration is continuing to defend the indefensible, and again demanding that MFN be given to China without conditions. Asia Watch was distressed that in the White House press statement of May 3, the Administration justified this position by claiming that there had been "positive momentum" on human rights. The White House claimed that "Beijing has provided to us an accounting of prisoners of human rights interest . . . and acknowledged our legitimate interest in respect for universal human rights in China." Such praise is entirely undeserved and highly inappropriate. There was no proper accounting of prisoners on the Administration's list, which, in any event, most observers know to be but a small fraction of the total number of political prisoners in China. Moreover, the lifting of martial law in 1990 has been utterly voided by the passage of new laws and restrictions which codify many of the most repressive features of martial law. To praise China for "acknowledging" a legitimate U.S. interest in human rights while the Chinese government staunchly refuses to make good on even its token promises to Secretary Baker, is clearly stretching to find a silver lining in a bleak and cloudy situation.

The Administration's refusal to consider human rights limits on the MFN relationship is particularly disappointing because it has been willing to impose tariff penalties in response to commercial complaints. Last December, in response to China's failure to respect U.S. patents and copyrights, Trade Representative Carla Hills exercised her legal authority and threatened to impose double tariffs on a selected group of key Chinese exports. They included footwear, clothing and electronic appliances. This would effectively have cut these important foreign exchange earners out of the U.S. market. Once the names of the products appeared in the Federal Register, showing that Mrs. Hills meant business, Beijing said that Chinese law would be amended and U.S. demands met. The threat of sanctions was dropped. (When we met with Ambassador Mike Moscow of the U.S. Trade Representative's office last month, he indicated that the U.S. was satisfied with the Chinese government's response to U.S. concerns relating to patents and copyrights.)

Asia Watch proposes that a comparable approach be used to extract human rights concessions. Tariff increases could be imposed selectively unless human rights improvements occur, and government-owned industries could be singled out for particular penalty. We are pleased to see that legislation (S. 2808), introduced by Senator Mitchell, reflects this approach. We believe that it holds much promise for encouraging human rights improvements in China, and we welcome the Committee's serious consideration of it.

The State Department insists that the approach is unworkable and has thrown up an immense cloud of dust around the issue. Whereas the USTR had no problem placing tariff penalties on China when commercial interests were at stake, the same approach is suddenly deemed impossible when human rights concerns are at issue. We regret the Bush Administration's unwillingness to work with Congress and the human rights community to develop a human rights plan modelled after its own strategy.

We believe that if the Administration were serious about finding a way to pressure Beijing through the imposition of selected tariff increases, it would find a way to get the job done. Yet the State Department publicly insists that it is impossible to find enough exports associated with the Chinese government to target. (Indeed, State Department representatives have made the astonishing claim that less than 5% of the Chinese economy is government controlled.) The State Department is apparently excluding from its calculations the vast portion of the Chinese economy that is controlled by provincial, local or city-state authorities—authorities which themselves play an important role in the suppression of dissent.

The *Financial Times* of June 16, 1992 states, "In spite of the growth of privately-owned industry, especially in the south, and of local industrial enterprises run by villages or townships, medium and large industries owned by the central or provincial governments still account for about half of China's industrial output and for 18 percent of its labor force."³ The *Financial Times* goes on to report that even in Guangdong Province, as much as 60 percent of the economy remains in government hands. Moreover, industries controlled by the central government itself are easily identified. The central authorities are extremely protective of the portion of the economy that they control, and have gone to great lengths to protect it from competition by the private sector.

If the Administration were serious about human rights, a package of sanctions could be aimed at an array of companies controlled by the central or provincial government, such as China Petrochemicals Corporation, China Silk Corporation, China Electronics Import and Export Corporation and many others (see appendix).

³"Small fare in the iron rice bowl," by Alexander Nicoll, *Financial Times*, June 16, 1992.

Another way to identify Chinese exports for targeted increases would be for the Customs Service to require incoming products to be labelled with their factory of origin and the trading company through which the goods were exported. Those products which were exported through the state trading association could be identified and penalized. Joint ventures and private enterprises do not have to export through the official trading association. China trade experts have told Asia Watch that 35 to 40 percent of goods are not shipped through official trading companies. While exporters could falsify such data on bills of lading when entering the U.S., the reporting requirement and the possibility of penalty would nonetheless provide a strong incentive for exporters to avoid doing business with the government trading company. This would in and of itself be a powerful form of pressure on the Chinese authorities.

Clearly the new approach in the Pease/Pelosi bill will require energetic efforts on the part of the State Department and U.S. Trade Representative. Their refusal to even consider such a proposal and their insistence that they can identify no products to penalize suggests bad faith. It is worth noting in this context that a healthy majority of the U.S. Congress would be glad to end the MFN relationship altogether or to subject all Chinese exports to strict conditions. If the Administration fails to cooperate in the more targeted and nuanced effort being considered today by this committee, alternative approaches can and should be considered.

SUMMARY OF HUMAN RIGHTS CONCERNS

The fate of thousands of pro-democracy activists must remain a subject of international concern and scrutiny as China's leaders try to deflect criticism of their human rights record with claims of "internal interference" and "national sovereignty." China has yet to account for the whereabouts and legal disposition of the vast majority of those detained after June 4, 1989; for the most part, their identities have never been publicly reported by the authorities or were reported without follow-up. Many were secretly tried and sentenced, or given terms of administrative detention without any trial. In essence, China has a major problem of "disappearances."

Arrests and trials continue. One of the most important recent political trials was that of Bao Tong, a member of the Chinese Communist Party's Central Committee charged on January 15, 1992 with leaking state secrets and inciting anti-government activity. Mr. Bao allegedly revealed the government's plans for the imposition of martial law at a meeting in May 1989. He was detained on orders of the Politburo later that month and has been held without trial since then. This past January, his wife, son and daughter wrote to Chinese government officials demanding an explanation for his treatment and "unlawful detention." Recently, Mr. Bao's wife publicly complained about her husband's poor health, the lack of access to him or information on his current whereabouts.

Members of Congress and the State Department raised Mr. Bao's case with the Chinese government and requested access to his trial by international legal observers. We understand that China rejected these requests, saying their law does not permit foreign observers at trials of Chinese citizens.⁴ On July 21, following a secret show trial, Bao Tong was sentenced to nine years in prison.

Mr. Bao's case is important for another reason: it illustrates a fundamental defect in the Administration's reliance on a bilateral "human rights dialogue" on prisoner cases as the sole means of exerting pressure on China. Asia Watch welcomed the opening of a dialogue when Assistant Secretary Schifter visited Beijing in December 1990 and presented the Chinese government with an initial list of prisoners. We also welcomed the efforts of Secretary of State Baker in Beijing in November 1991 when he urged the release of some 800 prisoners on a list presented to China five months earlier. However, China's responses to the State Department's requests for even the most basic information on prisoners have been woefully inadequate: Chinese officials have consistently stonewalled, or have provided contradictory, inconsistent, incomplete or inaccurate information. For example, Bao Tong—one of the most prominent individuals in China—was among 340 names on Secretary Baker's list who the Chinese government said "could not be identified."

The number of prisoner releases has fallen off dramatically over the last three years of unconditional MFN. In 1990, the last time large-scale releases took place, China announced that 881 pro-democracy activists were freed. Since then, only a relatively small number of prisoners have been released. While it is useful to pursue

⁴ Bao's case was raised with Chinese Vice Minister Liu Huaqiu by Under Secretary of State Kanter in March 1992, and subsequently by U.S. officials in Beijing. China's response was to say his trial would be off limits to foreigners.

a "dialogue" on human rights cases, it is clear that without the additional pressure of economic sanctions, the Chinese government feels it has no incentive to make meaningful concessions or progress on human rights. Instead, China will cooperate in the most minimal way possible, and will continue to use discussions of prisoner cases as a substitute for taking substantive action.

This approach is in line with Deng Xiaoping's overall strategy, coupling economic reforms with political repression. He spelled out what this means, in graphic terms, in a recent *People's Daily* editorial in which he threatened the use of martial law "or even stricter measures" to crush any possibility of renewed "turmoil" (pro-democracy activity).⁵

On June 15, 1992 China's Ministry of Public Security announced the most detailed set of laws yet enacted to ban protests and demonstrations that are not officially sanctioned. The new regulations give the security forces sweeping powers, authorizing the use of "all police methods" to suppress public dissent. The law extends and formalizes regulations initially adopted in October 1989 following the Tiananmen massacre. It gives the police the authority immediately to stop "any illegal assembly, procession, demonstration or incident that endangers public security of seriously disrupts social order"⁶ This law is a reflection of China's determination to continue violating the internationally guaranteed rights of freedom of speech and association of its own citizens.

The government is also pursuing a concerted crackdown on religious belief and practice, signalled by the publication of a high-level Chinese Communist Party directive on February 5, 1991, ordering new controls on unofficial religious groups.⁷ We were grateful to learn of the early release from prison on May 21, 1992 of three Catholic clerics, including Bishop Peter Liu Guangdong. (He is 72 years old, and the de facto president of the clandestine Bishops' Conference in China. More than 32 leaders and members of the conference were arrested from 1989-1991 for founding an "illegal organization"). However, we have reason to believe that all three men may be subject to restrictions since their release, and that two of them (Father Wang Yijun and Father Jin Dechen) may have been sent to retirement homes and kept there, incommunicado, against their will. This practice, known to be utilized in a number of cases of bishops and priests released from prison, amounts to a form of house arrest. The death, in police custody, of Bishop Paul Shi Chunjie, in November 1991, has raised concerns about others—such as Bishop Paul Liu Shuhe and Peter Chen Jianzhang—ostensibly released from detention and being held in "old-age homes," in undisclosed locations.⁸

Asia Watch has documented intensified religious repression over the past two years in Hebei province, home to a large percentage of the country's Catholics. There, as elsewhere in China, the government has relentlessly tried to root out "underground" religious activists, outside of government control, maintaining they provide a channel for "hostile infiltration from abroad" that threatens the motherland.⁹ Numerous Protestant leaders, pastors, and lay persons from all over China have also been arrested, imprisoned and fined: in Guangdong province, Henan province, Inner Mongolia, Jiangsu province, and elsewhere.

Systematic violence against prisoners in China is routine. Shanghai's police chief, in a stunning revelation, recently acknowledged that police extract confessions by torture and that such abuses continue despite efforts, he says, that have been undertaken to prevent it.¹⁰ Asia Watch has gathered first-hand accounts of torture and ill-treatment from prisoners in Hunan (Mao Tse-tung's home province), scene of a brutal crackdown on students, workers, Party cadre and other pro-democracy participants in 1989. Four times as many workers as students were given prison sentences in Hunan, and their sentences tended to be four times as long (this pattern has been repeated throughout China). They have suffered humiliating and degrading punishments at the hands of prison guards and convict officers. The punishments are given bizarre names: "eating the golden carp," "the jet plane ride," and "bouncy bouncy." Electric shock is routinely administered, and chains and fetters and various kinds of cuffs are used in ways that cause intense pain.

⁵ Agence France Presse, "Deng: State To Crush Any Democracy Movement," April 27, 1992.

⁶ Article 23, "Regulations for the Implementation of the Law of Assembly, Procession, and Demonstration of the PRC," Xinhua in FBIS, June 17, 1992.

⁷ Document No. 6: Circular on Some Problems Concerning Further Improving Work on Religion; full text translated in *Freedom of Religion in China*, Asia Watch, January, 1992.

⁸ At least four clerics have died in suspicious circumstances: Shi Chunjie, Fan Xueyan, Li Zhenrong, all bishops, and Huo Binzhang, vicar-general of Baoding.

⁹ See "Religious Repression in China Persists," Asia Watch, April 27, 1992.

¹⁰ Reuters, June 14, 1992: Zhu Daren, director of the Shanghai Public Security Bureau, quoted in a Shanghai newspaper interview.

One of the most barbaric forms of torture, personally witnessed by a former Hunan political prisoner, Tang Boqiao, involves the use of a "shackle board": a wooden door, put on four legs, with handcuffs at each corner and a hole towards the bottom for bodily functions. According to Mr. Tang, several pro-democracy prisoners arrested after June 1989, and also common criminals due to be executed, were chained for prolonged periods to the shackle board, enduring almost indescribable suffering.¹¹ Many prisoners have been permanently damaged, physically and psychologically, as a result of torture.

The horrific details contained in the recent Asia Watch report on Hunan provide the kind of hard evidence that demonstrates the urgent need for outside scrutiny of China's jails and labor camps. This could best be accomplished by regular access to prisoners by the International Committee of the Red Cross (ICRC) to provide confidential, humanitarian services. However, to our knowledge, efforts by the State Department to encourage ICRC access to the Chinese gulag have been fruitless. We believe that making such access a condition for MFN is one of the most effective ways of providing some relief and assistance to China's languishing, forgotten prisoners.

With regard to prison labor exports, a subject of intense concern to Asia Watch, information from Hunan has provided additional insights into the use of prisoners to earn foreign currency. We have obtained a list of 142 Hunan prisons, labor camps, and re-education centers, their addresses, and in some cases, their telephone numbers. Many of these facilities have dual functions: as prisons and as factories. For example, Changsha Prison, holding 3,000 women prisoners, is called the "New Life Cotton Quilt Printing Factory," and the "Hengshan Tungsten Mine" is, in fact, the Hengshan Labor Reform Detachment. Chinese government documents name at least one such facility, the Hunan Silk Factory, that has exported silk cloth to the U.S. and Japan since the early 1980's.¹²

We have noted recent press reports that the memorandum of understanding (MOU) between the U.S. and China, first promised to the Congress by President Bush in July 1991, will provide for U.S. access to Chinese facilities suspected of producing prison goods for export. Such access—unannounced and unhindered—is crucial if the agreement is to be of any value whatsoever. We hope the Customs Service will attempt to visit a number of the Hunan prisons and labor detachments in order to test Chinese government compliance with the access provisions. However, given the Chinese government's history of lying and deception on this issue, we believe that more than an MOU is required. Attaching conditions on MFN that specifically require China to cease the export of prison-made goods and to allow access to prison factories and labor camps is essential to the effective implementation of any agreement with China. We have also called for more vigorous enforcement of existing U.S. laws prohibiting forced labor imports, including the banning of whole categories of goods made with prison labor.

I would like to briefly comment on the situation in Tibet. Those involved in pro-independence activity in Tibet are severely punished, and while Asia Watch does not take a position on political issues such as the status of Tibet, we believe Tibetans should be free to peacefully express their views on these questions. We have published the names of hundreds of men and women in Tibet who have been imprisoned and often subjected to torture and ill-treatment for "spreading counterrevolutionary propaganda" and for "crimes" such as displaying the outlawed Tibetan flag, writing slogans on stones or walls, or compiling information about prisoners and talking to foreigners about repression. Prisoners who tried to hand a petition protesting torture to then-U.S. ambassador James Lilley in March 1991 were themselves punished and beaten.¹³

For the first time, information has also been received about widespread political activity in the Tibetan countryside, resulting in at least 69 arrests this year in towns, small villages and remote Tibetan monasteries. Previously, pro-independence protests were known to take place primarily in major towns and cities. According to these reports, monks and lay persons have been punished for putting up pro-independence posters, or for distributing leaflets.¹⁴ In January, the Tibetan branch of

¹¹ *Anthems of Defeat*, Chapter 5.

¹² *Anthems of Defeat*, page 73. The full list of Hunan facilities has been provided to the U.S. Customs Service.

¹³ For details, see *Political Prisoners in Tibet*, Asia Watch, February 1992.

¹⁴ Arrests took place in southwest Tibet (Tingpung and Kangmar counties) in March 1992, for example, where protests were staged at three different monasteries. According to unconfirmed reports, among those arrested at one monastery were three young people, ages 13 or 14, who were taken to county police headquarters in Rinpung. Their names and current whereabouts are unknown. In late April, People's Armed Police reportedly returned to the same monastery

the Chinese Communist Party announced a campaign against rural nationalism and "splittist activities in rural and pastoral areas . . ." On June 12, a high level party official in Tibet called for even harsher measures, saying that the government should be "tough with both hands."¹⁵

Unfortunately, the United Nations Human Rights Commission, at its meeting this past March in Geneva, failed to adopt a resolution condemning human rights abuses in Tibet, despite unprecedented action by the Subcommittee on Prevention of Discrimination and Protection of Minorities putting the issue of Tibet on the agenda. The U.S. was widely criticized for its role at the Commission, and Premier Li Peng later thanked Commission delegates for helping China once again to "oppose interference in the internal affairs (of other nations) . . . on the pretext of human rights violations."¹⁶ The failure of the UN to act makes it all the more important for Congress to impose conditions on MFN that will compel China to ease the ongoing repression against Tibetans.

Finally, on the question of emigration from China, we remain concerned about dissidents and family members who continue to experience difficulty in obtaining permission to leave China or to travel abroad. As you know, Mr. Chairman, free emigration is a condition for MFN trading status under the existing Jackson-Vanik provision. During his visit to Beijing last November, Secretary Baker was told that anyone without criminal charges pending against them could leave China. Despite these promises, several well-known dissidents trying to leave China have had to deal with one bureaucratic hurdle and roadblock after another. When Undersecretary of State Kanter went to China in May 1992, he was given explicit assurances that exit permits would be issued to Han Dongfang, leader of the Beijing Autonomous Workers Federation, and to Liu Qing, a pro-democracy activist first imprisoned during the 1979 Democracy Wall movement. Hou Xiaotian, an outspoken human rights critic and wife of the prominent imprisoned intellectual, Wang Juntao, had also been told by the Foreign Ministry that she could come to the U.S. Only now, seven months after Secretary of State Baker received the initial commitment, does it appear that Han Dongfang may shortly be allowed to leave. Liu Qing arrived in the U.S. on July 14, 1992. Hou Xiaotian, who appealed for increased international pressure on China in a recent op-ed in the *New York Times* (June 17, 1992), is still in limbo, as are many others.

In fact, it appears that only those dissidents whose cases are the subject of intense international publicity and pressure—from the administration, members of Congress, concerned professional organizations, and others—may have a chance of leaving China. Others less well-known outside China have an even more difficult time leaving:

- Shao Jiang, a mathematics student active in the Beijing Students Autonomous Federation, was arrested in September 1989. He was imprisoned in a forced labor factory, then released without charge 18 months later. Like many other former prisoners, his life has been made impossible since his release: he was expelled from the university, denied an identification card necessary to travel within China, and is unable to obtain a job. He applied to travel to Taiwan to attend the funeral of a relative, and permission was denied on the grounds that he was a member of a "counterrevolutionary organization." He has recently filed a lawsuit challenging the decision.
- Guo Luoji, at Nanjing University, has been a long-time human rights advocate and a supporter of the pro-democracy movement in 1989. Although he was not imprisoned, he suffered various forms of persecution after he protested the crackdown in Tiananmen Square: his position as a philosophy professor at the university was revoked; he was expelled from the Communist party; and his right to travel abroad was withdrawn.
- Li Lin, a pro-democracy activist who returned to China from Hong Kong in 1991, and was promptly arrested and later released, is now in the U.S. However, his wife has applied for a passport for herself and their infant son to join him in the U.S. She has encountered repeated demands for further documentation before the authorities will act on her case. Li Lin presented vivid testimony to the House of Representatives last December describing his treatment in a Chinese prison and asking for help in bringing his family to this country.

for another mass roundup; two young monks admitted they had put up pro-independence posters.

¹⁵UPI, "Communist Official Calls for Tough Stand in Tibet," June 3, 1992.

¹⁶Reuter, "China Thanks Third World for Quashing Tibet vote," March 6, 1992. According to the *NY Times*, ". . . the attempt by the European Community to condemn China's human rights record, especially in Tibet, was unsuccessful partly because the U.S. failed to support a resolution criticizing China until it was too late to obtain approval." March 6, 1992.

Mr. Chairman, in his statement announcing his decision to extend MFN to China for another year, President Bush said he wanted to "elicit a faster pace and a broader scope for human rights improvements in China." But his words ring hollow. The Administration continues to vigorously oppose virtually every effort to exert the kind of pressure on Beijing that might accomplish that very objective. The Administration's own report to Congress on the Chinese government's progress or lack of progress on human rights and other matters (filed in compliance with the Foreign Relations Authorization Act, r'Y 1992 and 93) makes it abundantly clear that, without the pressure of economic sanctions, the president's policy has been an utter failure, "with dismal results.

If the president is as concerned about human rights as he appears to be about trade matters and copyright laws, he will abandon his opposition to human rights conditions on MFN. Should he fail to do so, we hope the Congress will enact legislation that attaches human rights conditions on MFN for China next year.

CHINESE CORPORATIONS TO TARGET WITH TARIFF INCREASES

Following are names of a number of Chinese state trade corporations whose products are on the U.S. market. Among the companies listed may be those corporations which should be subjected to targeted tariff increases in accordance with a graduated penalty schedule for failure to make human rights improvements. These names were supplied by private experts in the field of Chinese trade. The Commerce Department and/or U.S. Trade Representative should be consulted to determine with as much certainty as possible which products on the export list of each of these corporations are most closely controlled by the central government and manufactured primarily by state enterprises.¹⁷

China National Light Industrial Products Import & Export Corporation (toys, luggage, sporting goods)
 China Metallurgical Import & Export Corporation
 China National Nonferrous Metals Import & Export Corporation
 China Electronics Import & Export Corporation
 China North Industries Corporation (an arms corporation that also sells machinery, electronics, etc.)
 China Great Wall Industry Corporation (electronics, machinery, chemicals)
 China National Animal and Native By-products Import & Export Corporation
 China National Chemicals Import & Export Corporation
 China Machinery and Equipment Corporation
 China National Textiles Import & Export Corporation
 China National Cereals, Oils, and Foodstuffs Import & Export Corporation
 China Petrochemicals Corporation (popularly known as Sinopec)
 China Silk Corporation

Attachment.

¹⁷ In each of these cases, there are central corporations and provincial and local branches.

CHINESE GOVERNMENT
CRACKDOWN IN HUNAN PROVINCE

HON. GUS YATRON

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, June 17, 1952

Mr. YATRON. Mr. Speaker, several Members of Congress recently received a report from the human rights organization, Asia Watch which chronicles the suppression of the 1989 prodemocracy movement in Hunan Province. This significant report would not have been possible without the Chinese citizens who took and continue to take, great personal risk in providing information on the human rights situation in that province. One such person is Mr. Tang Boda, who was a student and chairman of the Hunan Students Autonomous Federation and led several protests in Hunan Province and led several protests in the provincial capital, Mr. Tang was at the top of the Government's most wanted list and was subsequently arrested and spent 18 months in jail. He managed to escape to Hong Kong and is now residing in the United States.

Mr. Tang's collaboration with Asia Watch has produced the most detailed report to date on the suppression in Hunan Province. His information was gathered first hand and with the assistance of a network of Chinese citizens who want the world to know the real situation in China. These people took great risks to provide the information. I hope the President will convey to the Chinese Government that the United States is concerned for their safety and that they will be persecuted for their actions. Congress also should closely monitor the human rights situation in Hunan and make our concerns known.

Asia Watch's report "Anthem of Defeat: Crackdown in Hunan Province 1989-92" suggests that what we know of the 1989 crackdown on democracy and subsequent suppression may be only the tip of the iceberg. Previously, no more than a dozen prodemocracy activists were known to have been imprisoned in Hunan Province. This report provides the names and specific circumstances of more than 200 prodemocracy demonstrators imprisoned at that time, 160 of whom are still in prison. Mr. Tang's courageous work has also unearthed details of 142 prisons, labor camps and re-education centers in Hunan.

Mr. Speaker, I have attached to this statement Asia Watch's list of prodemocracy prisoners in Hunan Province. This is not, though, a comprehensive list for Hunan Province. I encourage my colleagues to write to the Chinese Ambassador in Washington and to the Chinese Foreign Ministry on behalf of these political prisoners.

LIST OF PRODEMOCRACY PRISONERS IN HUNAN PROVINCE

- None see, professor, and student
- YANGJIANG PRISON (PROVINCIAL NO. 1)
- Ab Fang (false name), J, student, 5 yrs
- Chen Zhaifang, 34, teacher, 10 yrs
- Fu Shaojin, peasant, 4 yrs
- Guo Shizhen, 37, 4 yrs
- Heung Zhonghua, 34, cadre, 6 yrs
- Li Jian, 21, worker, 3 yrs
- Li Weilong, M, worker, suspended death sentence

- Li Xiaodong, M, worker, 13 yrs
- Li Xie, 23, worker, 3 yrs
- Liu Jiajun, M, worker, 10 yrs
- Liu Chongyi, 31, peasant, 4 yrs
- Liu Jia'an, 46, teacher, 10 yrs
- Lu Shaoping, 77, worker, 8 yrs
- Mao Guobang, M, student, 3 yrs
- Tang Chaoyu, M, worker, 3 yrs
- Wang Changshui, M, worker, 3 yrs
- Wu Xiaofan, 46, 7
- Xie Chongshan, M, worker, 15 yrs
- Xue Xiong, 21, 3 yrs
- Zhang Jie, 35, researcher, 6 yrs
- Zhang Jianhua, 27, worker, 11 yrs
- Zhang Xudong, 21, worker, 4 yrs
- Zhao Weiqun, 34, student, 4 yrs
- Zhou Min, M, worker, 6 yrs

- REHOMYANG PRISON (PROVINCIAL NO. 2)
- Cheung On, M, reporter, 8 yrs
- Guo Yanbiao, 20-25, worker, suspended death sentence
- Hu Min, 20-28, worker, 15 yrs
- Ma Yueho, 20-25, worker, 15 yrs
- Wang Shaobo, 20-25, worker, 7 to 15 yrs
- Wang Lizi, 20-25, worker, 7 to 15 yrs
- Wang Fan, 20-25, worker, 7 to 15 yrs
- Wan Yuowang, 20-24, worker, 7 to 15 yrs
- Wu Qizhen, 20-25, worker, 7 to 15 yrs
- Yan Shaobo, 20-24, worker, 7 to 15 yrs
- Ye Anlin, M, assistant professor, 3 yrs
- Yeang Yaru, 47, professor, 8 yrs
- Ye Ximin, 46, businessman, 15 yrs
- Liu Weiqun, 26, worker, 7 yrs
- Mei Shi, 60, newspaper editor, 4 yrs
- Mao Huan, 39, teacher, 3 yrs
- Min Han, cadre, 16 yrs
- Teacher Min (name unknown), 3 yrs
- Teacher X (name unknown), 13 yrs

- Wang Yusheng, 40, entrepreneur, 7 yrs
- Wu Weiqun, 24, cadre, 3 yrs
- Wu Yang, 21, communist youth league secretary, 3 yrs
- Yang Shaoyu, 26, city official, 8 yrs
- Zhang Jishou, 34, reporter, 3 yrs
- Zhu Yaoming, 24, worker, life

- LIANGJIANG PRISON (PROVINCIAL NO. 3)
- Chen Yaoming, M, worker, 3 yrs
- Feng Ming, teacher, 3 yrs
- Gong Honglin, teacher, 3 yrs
- Jiang Guohua, teacher, worker, 8 yrs
- Liang Jiajun, 26, worker, 4 yrs
- Liu Weilong, 37, worker, 4 yrs
- Peng Aihua, 26, 4 yrs
- Qin Dong, 26, journalist, 4 yrs
- Wang Chaohua, 6 yrs
- Ye Jialong, teacher, worker, 14 yrs
- Yao Xuewu, M, worker, 3 yrs
- Ye Zhi, 34, 37, teacher, life
- Ye Dongyi, editor, 20 yrs
- Lu Dehong, 26, worker, 18 yrs
- Zhou Donglin, 26, worker, 10 yrs
- Zhou Zhong, 21, teacher, 6 yrs

- LOWANG PRISON (PROVINCIAL NO. 4)
- Cai Weizhen, 23, worker, 6 yrs
- Chen Gang, 24, worker, suspended death sentence
- Chen Changliang, 41, doctor, 7 yrs
- Deng XX, 23, businessman, 4 yrs
- Ding Longhua, 34, teacher, 6 yrs
- Guo Shaohui, 24, worker, 6 yrs
- Hu Nianyun, 21, life
- Li Xiaoping, 26, worker, 6 yrs
- Liao Zhongqun, 25, businessman, 3 yrs
- Li Chuan, 44, retired teacher, 15 yrs
- Li Rui, 21, 3 yrs
- Lin Jian, 26, worker, life
- Liu Min, 15, student, 15 yrs
- Liu Zhibin, 21, worker, life
- Lu Xiang, 20, business representative, 13 yrs

- Peng Shi, 21 or 22, worker, life
- Wu Heping, worker, suspended death sentence
- Zhu Zhongying, worker, life
- Liu Jiyu, worker, 3 yrs
- Xiong Xiaohua, 25, technician, 13 yrs
- Yang Xiaochang, 25, worker, 3 yrs
- Yao Guisheng, M, worker, 13 yrs
- Zhang Song, 21, 3 yrs
- Zhang Foliang, 18, worker, 6 yrs
- Zhang He, N, student, 3 yrs
- Zhu Wenjie, teacher, worker, 4 yrs

CHANGSHA PRISON

- Chen Bing, student, 7
- Hou Liang'an, 21, 7
- Huang Hainan, 28, 7
- Liu Peiyuan, 25, businessman, 7
- Liu Yi, M, worker, 7
- Yu Yulan, 26, cadre, 7

JIANXI LABOR REFORM CAMP

- Teacher Liu (name unknown), 77, teacher, 7 yrs

FONGTAN LABOR REFORM CAMP

- Tao Ben, 20, worker, 65 yrs
- Xiang Xiong, 21, worker, 3 yrs

OTHER LABOR REFORM CAMPS

- Dong Qi, 8 yrs
- He Jianming, 4 yrs
- Dai Diqiang, 3 yrs
- Liang Chao, 3 yrs
- Wang Lianzhang, 34, teacher, television producer, 7
- Yang Liu, 20, peasant, 4 yrs

PLACES OF IMPRISONMENT UNKNOWN

- Bu Yushu, 20, peasant, 3 yrs
- He Mingzhan, student, 7
- He Jian, 34, teacher, 7
- Jiang Shiqiang, 17, 15 yrs
- Ji Shaojun, student, 7
- Li Wangyang, M, worker, 13 yrs
- Luo Ziruo, 23, worker, 1
- Wu Qunhui, M, manager, 7
- Xu Ya, M, worker, 7
- Yang Kang, worker, 7
- Wang Hong, worker, 7
- Yang Yulin, worker, 7
- Zeng Chaoji, 22, student, 3 yrs
- Zheng Yaping, student, 7
- Zheng Yuhua, 37, teacher, 7
- Zhou Feiqi, 26, technician, 7

RE-EDUCATION THROUGH LABOR

- See Wu (name unknown), 46, restaurant owner, 3 yrs
- Chen Tianlai, 24, 3 yrs
- Deng Lianlin, 26, worker, 3 yrs
- Deng Yanqun, 21, teacher, 213 yrs
- Fu Guangrong, 21, 3 yrs
- Fu Junda, 26, teacher, 3 yrs
- Jiang Fuyuan, 37, teacher, 3 yrs
- Liu Jianwei, 26, worker, 3 yrs
- Liu Xianbo, 26, cadre, 3 yrs
- Ma Ning, 26, 3 yrs
- Peng Lianghua, 26, worker, 3 yrs
- Qian 17 Liang, 26, peasant, 3 yrs
- Wu Changhui, 20, worker, 3 yrs
- Wu Wei, between 20-25, worker, 2 to 3 yrs
- Deng Jun, 20-25, worker, 3 to 3 yrs
- Xiong Jianjun, 20-25, worker, 3 to 3 yrs
- Pu Guanghui, 20-25, worker, 3 to 3 yrs
- Xia Kuanqun, 24, cadre, 3 yrs
- Xiao Shaohe, 22, peasant, 3 yrs
- Zhang Minghui, 20, teacher, 3 yrs

PSYCHIATRIC INCARCERATION

- Feng Yuchang, 26, professor, 7

INCARCERATED IN BEIJING

- Wu Yan, 21, student, 7

INCARCERATED IN SHANGHAI

- Li Dinyuan, 26, student, 3 yrs

BEST AVAILABLE COPY

STATEMENT OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

I appreciate the opportunity of expressing the views of the members of the Emergency Committee for American Trade on S. 2808, a bill imposing additional requirements on the extension of China's Most-Favored-Nation trade status in 1993.

I am sure that I speak not only on behalf of my own organization but on behalf of U.S. business as a whole in expressing our genuine support for the bill's sponsors' objectives of securing improvements in the areas of human rights, weapons proliferation and improved market access in China.

We are pleased that progress is evident in achieving these important objectives in China. While the pace of progress is lamentable in the area of human rights, considerable progress is being made in the areas of weapons proliferation and market access.

In the area of weapons proliferation, China has committed to adhere to the Missile Technology Control Regime (MTCR) Guidelines and recently acceded to the Nuclear Non-Proliferation Treaty (NPT). China also is participating in the negotiation of a chemical weapons non-proliferation convention, and is improving its weapons export control regime.

In the area of trade policy, the United States has initiated a Section 301 action against China's restrictive trade regime. The Section 301 negotiations are active and a successful result is hoped for. If not, appropriate trade retaliatory measures will need to be considered and implemented.

Closely related to improvements in China's trade policies is another Section 301 agreement signed in January, 1992, whereby China has agreed to measures to protect U.S. intellectual property rights in China. We understand that the agreement is a model one for others that might follow it.

Among other commercial agreements under negotiation with China is an important one that will prohibit the export of goods from China made with prison labor.

We welcome the above progress in the areas of trade policy and weapons proliferation. While a great deal remains to be done, we should, in fairness, give credit for that that has been done.

What separates us from the sponsors of S. 2808 is not a disagreement about the human rights of others or desired improvements in the weapons and trade practices of China, but a vast disagreement as to how further progress in these areas can be achieved.

We firmly believe that the conditionality provisions of the bill could frustrate rather than lead to further achievement of the objectives spelled out in the bill, and we are, therefore, opposed to its enactment.

In terms of economic potential, China is truly a slumbering giant, but one that clearly is awakening. Even among its historic and aged leaders, there is a growing recognition that China's economic welfare can better be advanced through economic competition than through China's traditional statism. A private sector is as a result slowly spreading throughout the provinces of China. As it does, an improved economic condition will bring with it an improved and freer human condition. Basic human rights can better be achieved through conditions of economic plenty than of economic scarcity.

The extension of MFN by the United States to China in 1980 has led to a gradual opening of China to the U.S. business community. Substantial economic relationships have been established and have prospered as bilateral trade has vastly increased.

The potential withdrawal of MFN for China that is contained in S. 2808 would fundamentally alter the U.S. economic and political position in China. There would be a very substantial diminution in bilateral trade and in existing and future U.S. investments in China.

Unfortunately for U.S. firms and their employees in this country and in China, the U.S. presence would quickly be substituted by the presence of others—our foreign competitors. Whether they would be as constructive forces for change in China as we are is conjectural. On balance, it is unlikely that they would be, so that human and other rights in China might not as well be advanced as with a continued U.S. presence. It should be noted that U.S. employers in China substantially contribute to the economic and social well-being of their employees and that the provinces of China where there is a U.S. and other foreign presence are the provinces where human rights and other reforms are the most advanced.

The U.S. presence in China is demonstrably important to the advancement of economic and social freedom in China. It is also important to the economic well being of U.S. firms currently and prospectively doing business with and in China.

It will not be too many years before China becomes one of the few economic super powers of the world. To be on the sidelines of this developing economic drama could

be terribly costly to the United States—a prospect that could be expected to follow the denial of MFN to China by the United States.

Without MFN, U.S. trade with China would be substantially curtailed. While we recognize and appreciate that the sponsors of S. 2808 would like to leave the U.S. market open to exports from non-state enterprises in China even though the stated conditions of S. 2808 might not be realized, we want to call the attention of the Congress to the almost certain fact that U.S. exports to China would almost wholly cease. This is because the vast bulk of U.S. exports to China are purchased by the government of China, which certainly could be expected in retaliation for the withdrawal of MFN for its exports to the United States to react in kind and to divert its purchases to non-U.S. firms. The United States is not a sole or unique supplier of goods to China so that it would be easy for China to switch its purchases from U.S. to foreign suppliers.

Let me illustrate the point with specific examples. One of our members, the McDonnell Douglas Corporation would stand to lose many billions of dollars in aircraft sales to government-owned Chinese airlines. So too would Boeing, another ECAT member.

U.S. aircraft manufacturers are in severe competition with Airbus and other foreign aircraft manufacturers for markets both here in the United States and abroad. Without access to foreign markets, including the Chinese market, the U.S. aircraft industry would suffer a fatal blow. Tens of thousands of U.S. workers would lose their jobs.

Another illustration of export loss involves another major U.S. exporter and member of ECAT—the Caterpillar Company. With a very intense effort, Caterpillar has developed a very substantial share of the Chinese market for earthmoving equipment. Again, the customer is the government of China—a customer almost certain to be lost should MFN be withdrawn.

Caterpillar cannot afford to lose such customers. An earlier U.S. government action lost the former Soviet Union as a major customer for Caterpillar equipment—a major market that has never been recovered.

Members of the Finance Committee may recall that as a means of expressing U.S. discontent with Soviet human rights and other policies, the U.S. government years ago shut off the export of Caterpillar ditch diggers and related equipment to be used by the Soviet Union in constructing the trans-Siberian natural gas pipeline. The Soviets simply switched suppliers from the Caterpillar Company to its major global competitor, the Japanese Komatsu company. The pipeline was built. Objectionable Soviet policies were not affected. Komatsu gained the Soviet market. It still has it, and Caterpillar has been unable to regain its earlier dominant position in the former Soviet Union. Many thousands of U.S. jobs as a consequence have been lost.

There are a large number of other ECAT member companies with substantial business in China. Some export large quantities of industrial and farm products that easily could be lost to foreign competition should MFN be withdrawn. As in the earlier case of Japan, an embargo on U.S. soybean exports to Japan led to Japan switching its purchases to our foreign competitors—a market that has never fully been regained, to the loss of ECAT member companies and their employees.

An example of a new venture of another of our members that might well be lost or severely damaged were the United States to withdraw MFN is the recently announced joint venture company between General Motors and Jinbei Automobile Co., Ltd., for the production of light commercial vehicles in China. The venture will assemble GM's North American S-series pick up trucks. U.S. exports to the venture are expected to total several hundred million dollars over the next few years.

GM holds a 30 percent equity interest in the joint venture and is providing management personnel, training, and technology to the venture, which has a work force of 5,000. The loss of MFN will put this venture and countless others like it at risk.

My purpose here is not to catalogue the economic losses that our members and thousands of other U.S. companies would experience were MFN to be withdrawn, but to simply illustrate that there are substantial economic costs involved for the United States.

As in the cases of Caterpillar and the Soviet Union and U.S. soybean exports to Japan just cited, the economic costs will be long term to the United States. The benefits, however, will go to our foreign competition, and it is difficult to conceive how there would be any consequent improvement in China's human rights and other policies.

We rather strongly believe that the human rights, weapons proliferation and trade policy objectives desired by the sponsors of S. 2808 in China are far more likely of realization by the pursuit of existing U.S. policies.

That good that is being achieved would very much be at risk were MFN to be denied. As often is the unfortunate case, good intentions could lead to an undesired result.

We in the business community share the concerns of the Congress and the Administration about the need to improve U.S. competitiveness in the global market place. We are often dismayed, however, at proposed legislative actions whose effect would be to limit the ability of U.S. firms to compete. American business is hard at work in meeting and besting global economic challenges. We need the cooperation of our government in our effort. Denying us the opportunity to play a meaningful role in competing for the enormous business opportunities in China will very much redound to the disadvantage of the United States and its role in the world. It will also deny prospective millions of Chinese the hope for a better way to live.

There is an intensifying scramble for markets throughout the world. The United States is in no position to ignore foreign market opportunities. No other government or foreign business community does. No other government is proposing to deny MFN trade status for China. It is difficult to contemplate any other government even considering doing so. They are rather heavily engaged in providing a variety of assists to the global competitiveness of their firms in the recognition that their countries otherwise might be relegated to a back seat in the emerging global economy.

Before concluding, I would like to note both our appreciation for the earlier referred to provisions in S. 2808 contemplating the continuance of MFN for imports from non-state Chinese enterprises, as well as our skepticism as to their administrability. If workable, they could alleviate some economic pain and costs to U.S. consumers.

However, since the enactment of S. 2808 could cause the loss of MFN for China, it is critical to recognize that the bulk of U.S. exports to China would be lost for reasons mentioned above. The U.S.-Chinese bilateral trade deficit would thereby be considerably worsened since what ever level of trade might result, it would pretty much be one way—imports.

STATEMENT OF THE FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

My name is Peter Mangione and I am president of the Footwear Distributors and Retailers of America which represents the nation's chain shoe stores and footwear marketing firms, accounting for some \$20 billion in annual sales.

China is the largest supplier of footwear to the U.S. market, accounting for nearly 50% of all shoes sold here and more than two-thirds of all "low-priced" shoe imports. It is the only available source for most of the footwear that cost conscious low and middle income American families depend upon. Most footwear from China is produced by private and joint venture enterprises, not in government factories.

Our members support continued unconditional most favored nation (MFN) status for China because the trade offers unique values to American consumers. We also believe that broad commercial contact is the best policy for fostering change in China.

We are particularly concerned with S. 2808, which would end MFN for "state-owned" China exports unless Tiananmen demonstrators are accounted for and released, and unless significant progress is made in the areas of human rights, trade and arms proliferation. Limiting the non-MFN sanction to "state-owned" exports is an attempt to mitigate the impact on private sector exports from China. Despite this attempt at moderation, our industry opposes the bill.

Like its predecessors, the bill threatens overall U.S./China relations because it uses trade sanctions to compel political change. This policy will surely result in confrontation and failure. The bill, therefore, makes long term trade in "private sector" China exports commercially untenable, because disrupted relations could easily lead to the end of MFN for all imports from China.

China's likely response to the legislation would be to retaliate in kind to demonstrate its sovereignty. At great risk under this bill is the more than \$6.3 billion in U.S. exports to China, which grew by some 30% last year. Since most of these exports are purchased by China "state-owned" entities, targeting non-MFN treatment for these entities all but ensures retaliation against most U.S. exports.

In addition, enactment of such legislation could easily disrupt implementation of the recent intellectual property rights (IPR) agreement. It could also scuttle the delicate market access talks under Section 301 and, thereby, frustrate U.S. efforts to open the China market further for U.S. exports. In either event, a large scale U.S. retaliation against China would be inevitable under Section 301, and likely extend to such large volume export commodities such as footwear. With no alternative

sourcing available for these products, such retaliation would be a disaster for our industry and the consumers dependent on this product.

The bulk of footwear imports from China are made in private or joint venture enterprises. They are also at risk because of the inherent difficulties and uncertainties involved in the proposed exempting provisions. There are a multiplicity of forms of business organization and types of business transactions which render clear legislative definition impossible.

China is also the source of about three-quarters of all U.S. imports of fabric upper rubber soled footwear, accounting for about 25% of total China shoe shipments to the U.S. Many of these products are made in "state owned" factories and would be subject to non-MFN treatment under the bill. These shoes, typically low-cost sneakers and beach sandals, are the principal summer footwear for low and middle income consumers. These are hand-made, low priced products, not available from any other source.

Moreover, this footwear is already subject to the highest duties of virtually any product under our tariff schedules, with MFN duties ranging up to 67% *ad valorem* equivalent. If MFN were lost, these duties would go as high as 118% *ad valorem* equivalent. The sanction in the legislation would impose an horrendous tax on these products.

Finally, the legislation seems ill timed in light of the progress that the Administration's "engagement" policy has produced especially on the trade and arms fronts and in light of the renewed commitment of China's leadership to accelerated capitalism. For the foregoing reasons, we urge that S. 2808 not be adopted.

Attachment.

ANGEL-KITTS OF CA
Teenage Mutant
Ninja Turtles
Cabbage Patch Kids
Countess

ATECO FOOTWEAR
Bay Colony
Woodstock
Oleg Cassini
Egon Von Furstenberg
Donner Mountain

BRC INTERNATIONAL
Bonjour
OshKosh
U.S.A. Olympic
Peppermint Rose
Liberty
American Gladiators
Kodiak

BENNETT IMPORTING

B. LEVY & SON
Paiso
Positively Peppers
D. Evans
English Walkers
Hampton Park
Jaguars
Soft Ease
Patrick Ewing

BRIGHT STAR PRODUCTS

CELS ENTERPRISES
Prime
Chinese Laundry
Cels
Barbaro
Amanno

CIRCLE S. ROOT
Paolo Fellicice
Raphael Vittorio

CLY CLARK AMERICA
Hasover
Bostonian
Big Sky

CMS IMPORTS

C.O. LYNCH
Panda
Fax
Rcd & Gun

CYPRESS ENTERPRISES

DAYTONA, INC.

DYNASTY FOOTWEAR

EDISON BROTHERS
Bakers
Leads
Sacha of London
Wild Pair
Precis

TRADEHOME

ELAN-POLO, INC.
Hoops
Finesse
Sweetheart
Playground
90210
Lightening Bolt
Urban Explorer
Omega

ENDICOTT JOHNSON
Father & Son
Endicott Johnson

E.E. ORIGINALS
Sergio Valente
Flintstones
Cooperstone
Gloria Vanderbilt
Safety Lights
I Love Comfort
N.Y. Street Action
Sasson
Regent
Europrep
Easy Going
McGregor

FOOTACTION USA
Fan Club

FOOTWEAR EXPRESS

GENESCO, INC.
Johnson & Murphy
Jarman
Wardy
Journeys
Factory-To-You
Flagg
*Mercantile

GRAND IMPORTS, INC.
Jordache

GREEN MARKET SERV.

INJECTION FOOTWEAR

INTERNATIONAL SEAWAY
Lydico

INTER PACIFIC CORP.
Laguna

J. BAKER, INC.
J. Baker, Inc.
Parade of Shoes

J.C. PENNEY CO.

JINGLAR CORPORATION
American Eagle
R.J. Colt
Roger Staubach Ftw.
A Club

TORIN-HAMILTON CO.

TOPLINE IMPORTS
Wildrice
Pollows
Global Exchange

J.E. HANE SHOE CORP.
J.E. Hane Shoes
Shoe Spot

KIRNEY SHOE CORP.
Kinsey Shoes
Foot Locker
Lady Foot Locker
Kids Foot Locker
Athletic X-Press
Champs
Footquarters
Going To The Game

K-SWISS, INC.

L.A. GEAR

LAIRD, LTD.

L.L.O., INC.
Rawlings
North Sports
P.F. Flyers

MARQUESA INTERNATIONAL
Batji - Flor
Silv ja

MARSHALLS

MELDISCO
*Payless Drugs
*American Fare
*Makro
*K-Mart

MERCURY INTERNATIONAL

Jordache Ath. Ft.
Franklin Sports
Chic
Snoopy
Dunlop
Spalding
Members Only
Thomas The Tank Engine

MORSE SHOE, INC.

Fayva Shoe Stores
*Bradlees
*Hills
*Shopko
*Allied
*Biggs
*Twin Value

MSF CORPORATION

Excel
North Trails's
Kickerino's
Biarrits

NIKE, INC.

Nike
Cole-Hass

TRADE WINDS IMPORTING

TROM MANN SHOE COMPANY
Thom Mann
B.O.Q.

*LEASED DEPARTMENTS

OLEN SHOE
Aldo Rossi
Mauro Pisanì

PAPODA TRADING CO.

Jordache
Brittania
Barbie
Playschool

PAYLESS SHOESOURCE
Volume Shoesource

FALLMARE/CHEROKEE BROE

Cherokee
Ol Joe
My Little Pony
No Frills

PIC 'N PAK STORES, INC.

Pic 'n Pak Shoes
Barrett Shoes
Shoe World
Shoe City

RAY JEN INTERNATIONAL

REEBOK INTERNATIONAL

Reebok
Rockport
Avia
Weebok
Boks
Elesse
Boston Whaler

SEARS, ROEBUCK & CO.

SHOE-TOWN, INC.

Shoe-Town
*NBO
*Steinbach Dep't. Stores

SHONAC CORPORATION

Crown Shoes
*Schottensteins
*Value City
Designer Shoe Warehouse
*Glosser Bros.
*Lavinis Stores
*Valley Fair Stores

THE BUTLER GROUP

Dolcis

THE KOBACKER COMPANY

Picway Shoes
The Shoe Works
Gussini
Patrini
Kathe K

NINE WEST GROUP, INC.

Nine West
Calico
9 & Company
Enzo Angiolini
Westies
Company 9

WAL-MART QUALITY SHOES

Wal-Mart Stores

BEST AVAILABLE COPY

STATEMENT OF FLUOR DANIEL, INC.

Mr. Chairman. On behalf of Fluor Daniel, Inc, it is my privilege to submit testimony to the Committee on Finance of the U.S. Senate in support of President Bush's decision to renew most-favored-nation (MFN) trading status for the People's Republic of China. My name is Gerald Glenn and I currently serve as Group President of Fluor Daniel and on the Board of Directors of Fluor Corporation, our parent company.

Fluor Daniel is one of the world's largest international engineering, construction, maintenance and related services companies with an unparalleled safety record. Through our 52 offices located around the world, we provide a broader range of technical services, to more clients, in more industries and in more locations than any of our global competitors.

For nearly two decades, Mr. Chairman, Fluor Daniel has been providing services in China to myriad industries including the oil and gas, petrochemical, chemicals, consumer products and automotive. We are currently involved in numerous projects including the Shantou Ocean Enterprise polystyrene plant, Jilin ethylene oxide facility, and a laundry detergent plant in Guangzhou.

Since Richard Nixon visited China in 1971, improving bilateral relations between the U.S. and China has been a bi-partisan goal of five successive Administrations. Indeed, it was under Democratic President Jimmy Carter that, in 1979, normal diplomatic relations between our two nations was restored. However, U.S. commercial ties are as important as direct official government-to-government relations. The tremendous growth in these business relations has been a highly constructive means of influencing Beijing and encouraging political and economic liberalization.

Although President Bush and the U.S. Congress do not agree with the current leadership in China on all the issues, the basic question we must ask ourselves is: Will the removal of MFN influence positively the policies and the actions of the Chinese Government? The answer is a resounding no. Indeed, given the historical tendencies of the Chinese to retreat from perceived outside influences and pressures, rescinding MFN could well have a profoundly deleterious impact on human rights, political freedom and economic liberalization.

Why should we extend MFN for China?

First, MFN is not a special trading status. Rather it is the normal tariff rate extended to almost every nation in the world. Today, only a handful of countries do not enjoy MFN trading status—most notably Cuba, Vietnam, North Korea, Laos and Afghanistan. Many of the worst abusers of human rights—Iraq or Syria, for example—continue to receive MFN.

Second, MFN for China is good for U.S. business and creates jobs for Americans. Withdrawal of MFN could invite reciprocal action by China leading to the potential loss of a major American export market—\$6.3 billion in 1992. Further, eliminating MFN will only serve to push the Chinese into the arms of our European and Japanese competitors, jeopardizing over the long-term U.S. commercial interests in one of the world's largest markets. Now some might argue that we are cynically opting for profits over human rights. We do not believe this to be the case. It is irrefutable that commercial ties with China have been the catalyst to political change—albeit evolutionary and not revolutionary. Thus, it is not a choice between respect for human rights and opportunities for business. One need only look at the economic boom and concomitant political liberalization in southern China for proof that exposure to western, market-oriented enterprises fosters a progressive political environment.

Third, MFN and commercial relations with China have been part of a constructive U.S. policy toward China for over twenty years. Engagement with the Government in Beijing has brought the U.S. success in many areas—perhaps not as great as some might wish. In particular, China has agreed to sign the Nuclear Non-Proliferation Treaty and has also indicated that it will comply with the Missile Technology Control Regime. While problems in the trade area are myriad, China recently signed an agreement on intellectual property rights and some progress in market access has been achieved. While the human rights situation is far from what we would like to see, some tangible progress has been made.

Fourth, commercial opportunities abroad—in this case China—create job opportunities at home. For example, much of the engineering and design work on Fluor Daniel projects is done here in the United States; when actual construction occurs as much as one-third to one-half of the material could be sourced from U.S. manufacturers creating manufacturing jobs—some of whom may not even know they are exporting. Further, after construction is complete, another fifteen percent of the value of the project will typically flow back to the U.S. in the form of parts and

maintenance. Thus, lifting MFN for China will eliminate jobs for Americans at a time when unemployment is on the rise.

Finally, let me address the Pease-Pelosi-Mitchell bill which would place conditions on the renewal of MFN for China. As I noted above, the Chinese Government will resist all attempts at what it perceives to be outside interference in its internal policy. Thus, conditionality of any sort will threaten the U.S. commercial ties throughout China and paint U.S. companies as unreliable partners. Sanctions on state-owned enterprises only, as suggested by the current incarnation of Pelosi-Pease-Mitchell, is simply unworkable. Not only will it be almost impossible to administer, but in the end would capture most all U.S. companies operating since the Chinese Government has some interest in most foreign business ventures.

In short, Mr. Chairman, I urge you to resist all efforts to revoke or impose conditions on MFN for China—for the sake of the Chinese, U.S. workers and consumers, and U.S. business.

NATIONAL COMMITTEE ON UNITED STATES-CHINA RELATIONS,
New York, NY, July 29, 1992.

Hon. LLOYD BENTSEN, *Chairman,*
Senate Committee on Finance,
Washington, DC.

Dear Lloyd: The Committee on Finance is considering legislation concerning the extension of most-favored-nation (MFN) treatment for the People's Republic of China. Having been quite involved with economic development in China during my years at the World Bank, I want to express my personal views about that legislation to you. I do not intend to reiterate all the arguments for extending MFN to China (most of which I agree with), but to simply flag my particular concerns with this specific legislation. My concerns with this legislation stem more from its means than its ends.

The central problems with this bill rest in five areas, and each stems from the bill's objective of removing MFN treatment from *only state enterprises*.

First, the bill requires the Executive Branch (in the person of the Secretary of the Treasury) to determine what is a "state enterprise" in China. With China's mixed, opaque, and complex economy, and a production process in which state, private, and cooperative enterprises are involved at different stages of the production, financing, and marketing of any given export, the bill is almost impossible to implement. Further, given the marketing of goods through Hong Kong and third countries, it will be difficult, if not impossible, to even track the origin of such goods. Congress should pass legislation for which there is the possibility of meaningful implementation.

Second, the bill says that nondiscriminatory treatment shall apply to any good that is produced, manufactured, marketed, and otherwise exported by a business, any corporation, partnership, qualified foreign joint venture, or other person that is not a state-owned enterprise of the People's Republic of China. This seemingly means that the involvement of a state enterprise *anywhere* in the production/marketing process disqualifies that product from receiving MFN treatment. This would deny MFN treatment to a very large percentage of Chinese exports, if the legislation could be monitored and implemented effectively. This would be the same as doing away with MFN in a straight forward way.

Third, and related to the second point, withdrawing MFN from state enterprises is, in fact, a unilateral termination of the bilaterally negotiated trading relationship between China and the United States. While denying MFN to state enterprises appears to be a reasonable and focussed limitation, it is, in effect, a unilateral abrogation of the United States-China Trade Agreement. If this is the issue, and I believe it is, then the bill ought to openly seek that objective and the merits of that position should be examined. At a minimum, the Chinese will retaliate against American products and we will be in a descending spiral of mutual retaliation that will take us to the same destination as the outright abrogation of MFN would have taken us directly.

Fourth, as indicated above, the bill fails to take account of China's almost certain retaliation. Most of America's over \$6 billion dollars in exports to China (as of 1991) are sold to either state import-export corporations or to entities in the state-controlled sector in need of high technology or large volumes of raw materials and commodities (e.g. grain, aircraft, fertilizers, and construction machinery). The Chinese would, at a minimum, retaliate against all those exports. It is ironic, therefore, that while our sanctions against China might be evaded or only partially effective, Beijing's retaliation against *all* our exports to the PRC would be entirely effective.

Finally, the logic of attacking state enterprises is clear at one level, but elusive at another. Clearly the intent of the bill is to punish China's central government by denying it some revenues from state enterprises. State workers were prominent participants in the later stages of the Tiananmen demonstrations (indeed, the most worrisome part of it for the government) and it was mainly state enterprise and other workers who were punished most severely in the wake of the crackdown. This proposal makes state enterprise workers a victim, yet again.

Thank you for your consideration and if I can provide additional information I am most happy to do so.

Sincerely,

BARBER B. CONABLE, JR.

STATEMENT OF THE PUEBLA INSTITUTE

SUMMARY

The Puebla Institute is a lay Catholic human rights group that defends religious freedom for all creeds in all parts of the world. Privately funded and non-partisan, Puebla works to support democratization as the best means of ensuring religious and other human rights. Since 1989, we have reported on religious persecution in China and maintained a list of religious prisoners of conscience. Our sources include private religious contacts in Hong Kong developed through a fact-finding mission to China; Christian religious orders and mission groups with long-standing commitments in the mainland; and religious news services in Hong Kong with mainland contacts.

Renewed repression of Chinese Christians worshipping outside government-controlled churches began in early 1989 and has steadily worsened since that time. In the last year, Puebla has documented mass arrest, torture, brainwashing, detention without trial, and harsh sentencing, as well as short-term detention, closing of churches, and confiscation of Bibles and religious literature. We have documented by name 104 Christians now imprisoned, under house arrest, or otherwise restricted in China for religious reasons, and we have information on hundreds of other persecuted Chinese Christians. Puebla's prisoner list includes 72 Catholic leaders -- among them 20 bishops -- and 32 Protestant leaders. Given China's secretive judicial and penal systems, we believe these cases to be represent only a fraction of Christians actually suffering repression.

Since 1989, at least 16 long-term prisoners have been released or had restrictions on their freedom eased. But arrests continue to outnumber releases. In the last sixteen months, at least 28 Catholic leaders (including four bishops and 18 priests) have been arrested; 16 remain in detention. In that same period, over 200 Protestants have been detained, most of them for short periods, and at least four religious prisoners, all of them elderly Catholic bishops, have died. Puebla has also documented religious arrests in China's economic zones, supposedly the least repressive areas of the country.

Puebla urges that renewal of China's Most Favored Nation trade status be conditioned on concrete and swift human rights reforms, including the release of religious prisoners, as well as on China's willingness to agree to long-term improvements in human rights practices.

INTRODUCTION

The government of the People's Republic of China has always restricted religious worship, in spite of guaranteeing freedom of religion in its founding documents. Soon after the establishment of the PRC in 1949, religious leaders were ordered to purge their churches of "foreign imperialist" influences and sever links with foreign churches. The government established state churches, including the Catholic Patriotic Association (CPA) and the Three-Self Patriotic Movement of Protestant Churches of China (TSPM), to bring religion under its control. To this day, Christian worship taking place outside these organizations remains illegal in China. Although membership in the CPA or TSPM does not ensure freedom from persecution, believers who fail to join -- Vatican-loyal Catholics or Independent Protestants -- are especially vulnerable to arrest and harassment.

Religious repression in China has varied with political cycles and the whims of local officials. The current crackdown dates from 1989, when Chinese leaders grew alarmed at the perceived role of the Churches in the democratization of Eastern Europe and sought to prevent religion from playing a similar role in China. After the June 1989 protests in Tiananmen Square, the government grew even more anxious about religion's potentially destabilizing effects and stepped up restrictions on religious activity. Fear of "peaceful evolution" (non-violent attempt by the West to promote democratization) has also fueled repression of independent Christians, who, the government claims, are being used by "hostile foreign forces" to undermine the Communist regime. This is a dangerous charge in China, carrying criminal penalties of imprisonment or even death.

In February 1991, the Central Committee of the Chinese Communist Party issued a document urging that all illegal (i.e., independent) religious groups be eliminated and that anyone colluding with foreign forces

to the detriment of the country's unity and stability be harshly punished. This document, entitled "Circular on Further Tackling Certain Problems of Religious Work" (Document No. 6), has guided religious policy throughout China since being issued over a year ago.

China's inhumane treatment of religious prisoners violates international agreements about basic human rights. Puebla has found that religious prisoners have been subjected to electric shock and other forms of torture. Two thousand Protestants attending a baptismal service were attacked last September by police wielding pistols and electric stun batons. At least four religious prisoners (two Catholics and two Protestants) have been tortured to death since mid-1989, and there is evidence that a fifth death, that of elderly Catholic Bishop Fan Xueyan in April 1992, was caused by torture as well. We have also documented an alarming return to the harsh brainwashing tactics of the 1950s through detention in ideological indoctrination camps, as well as secret trials, arbitrary extension of prison sentences, and detention without charge or trial.

Economic reforms in China have so far not resulted in greater religious freedoms. Puebla has found that religious believers in China's economic zones are no freer than their counterparts in other cities. With the former Soviet Union moving closer to democracy, the Chinese are less willing than ever to countenance any independent thought, even as they adopt free-market policies and expand foreign trade.

CATHOLICS

Puebla has documented the cases of 72 Chinese Catholic leaders known by name, including 20 bishops and 38 priests, who as of June 1992 are detained in prisons or indoctrination camps, under house arrest, or otherwise restricted for religious reasons. We also have information on a few persecuted Catholics whose names we have not been able to document, as well as on six prisoners, among them three bishops and a priest, who are reported to have died in prison or detention during the last three years.

These underground or clandestine Catholics, who remain loyal to the Vatican in defiance of Chinese law, are special targets of government persecution. Article 91 of China's Criminal Law subjects anyone colluding "with foreign forces in plotting to harm the sovereignty, territorial integrity, and security of the motherland" to prison sentences ranging from 10 years to life, and in particularly serious cases, the death penalty. These provisions have been applied against Catholic clergy who maintain contact with the Vatican or foreign religious groups in defiance of official religious policy. Such "counter-revolutionary crimes" are typically punished by "reform through labor" or brainwashing in indoctrination camps.

A spate of recent arrests aimed at destroying the Catholic Church took place at Christmas and Easter. A total of four bishops, 14 priests, and five seminarians were arrested during December 1991 and April 1992. One bishop died shortly after being seized by police, and ten of the priests are being forced to attend political indoctrination sessions four times a week. None of the others has yet been freed. Given the repression we have documented, Puebla believes that other arrests have recently taken place that we have not yet been able to document. (Nine Catholic arrests in late 1990, for instance, came to light only in February 1992.)

The impetus for many recent arrests is the anxiety aroused by Catholic support for democracy in parts of Eastern Europe. "The church," a recent article in the state-run press claimed, "played an important role in the change" in Eastern Europe. "If China does not want such a scene to be repeated in its land," the article goes on to say, "it must strangle the baby while it is still in the manger." Recent arrests can also be linked to Document No. 6, the policy statement issued by the Chinese Communist Party in February 1991 that warns against the use of religion by hostile foreign forces and urges the elimination of the underground churches. Just a month after Document No. 6 was issued, the CPA charged clandestine Catholics with inciting the people against the government and "launching illegal activities" in China. One CPA bishop argued that forced indoctrination of clandestine Catholics was an effective response to the menace Vatican-loyal Catholics pose to China's national security. These pronouncements, and even more the policy statement that inspired them, help to explain the escalating assault against underground Catholics.

Many Catholics on Puebla's list are elderly or ill; since November 1991, at least four bishops have died. At least 11 persecuted Catholics have previously been imprisoned for up to 25 years. Father Guo Fude, for instance, imprisoned in 1982, had already completed a 22-year sentence. Father Han Dingxiang, detained in an indoctrination camp since 1990, spent between 1960 and 1979 in jail. Bishop Fan Xueyan had been imprisoned for 28 of the last 34 years when he died in April 1992 at age 84, probably as a result of torture.

Thirteen Catholics on Puebla's list are being detained without trial, including four whom the government claims are in "old people's homes." Some clerics are forcibly removed from their communities and held elsewhere. Trials, when they are held, are nothing more than political shams, and they are often delayed for years while those under arrest are detained in prison. At least one prisoner, Bishop Joseph Li Side, was reportedly tried and convicted at a secret proceeding. Bishop Paul Liu Shuhe has finished a three-year sentence but has not been released by authorities; his family has been told only that the bishop is being "cared for" by the state. After completing an eight-year prison sentence, Father Francis Wang Yijun was forced to serve an additional three years for "stubbornness."

PROTESTANTS

Puebla has documented by name 32 Protestants prisoners of conscience, and we have information on hundreds of arrests, most of them short-term, that have taken place since 1989 for such activities as preaching,

attending meetings, having contact with foreign believers, and distributing or receiving Christian literature. Some Chinese Protestants have suffered long-term imprisonment, detention without trial, and/or torture, while many more have been subjected to searches of their homes, closings of their churches, confiscation of Christian literature and other church materials, surveillance, fines, and detention for short periods.

The Chinese government requires Protestants to join the state-run Three-Self Patriotic Movement of Protestant Churches of China (TSPM) and to register their churches with it. The government makes it illegal to evangelize, preach, and distribute Christian literature outside TSPM-approved channels, and it closely monitors the activities of non-TSPM Protestants.

Much of the government's aggression against Protestants in the last decade has been aimed at stemming the growing "house-church" movement. House churches -- the meeting places where Protestants gather to worship -- have for the most part refused to register with the TSPM and submit to state control. In response, officials have shut down at least 360 house churches operating without government sanction between June 1989 and the present. Other churches, mainly in Zhejiang and other eastern provinces, have recently had their pastors threatened, fined, and arrested in an effort to force them to register with the TSPM.

In late 1991, in four separate incidents taking place in Henan, Shanxi, Guizhou, and Liaoning Provinces, police arrested a total of 50 Protestants associated with the "New Birth" movement of house-church leader Xu Yongze, himself under police surveillance after three years in prison. Twenty of those arrested are thought to have been sentenced to three years of reeducation through labor, and at least 18 are reportedly being detained without trial. Another Protestant, Li Jiayao, was sentenced last September to three years in a labor prison for receiving and distributing Christian literature. In the last two months, as many as 80 house-church Protestants from Henan Province have reportedly been arrested.

An especially alarming sign of the escalating campaign to suppress house churches is the government's resort to violence and torture, sometimes on a mass scale. On at least two occasions in last year, police armed with electric stun guns have broken up Protestant worship services and beaten and arrested participants.

The government's efforts to stem independent Protestantism grow out of anxiety over perceived Protestant influence on democratic movements in Eastern Europe. Some analysts suggest that Beijing is cracking down on Protestants particularly as a result of the Romanian revolution, which the Chinese believe to have been caused by Protestant resistance to government intervention in religious affairs. The government is also increasingly afraid that "hostile foreign forces" are using religion to subvert Communism.

Some recently arrested Protestants have already completed prior sentences of up to 20 years. Yang Xinfei, a 60-year-old house-church leader imprisoned between 1957 and 1977 for her religious beliefs, was arrested in Xiamen on September 19, 1990. Before releasing her several months later, police ransacked her home, ordered her to join the TSPM, and demanded that she name the members of her church. Another elderly Protestant arrested in 1987 and sentenced to five years had previously served a six-year sentence.

The Chinese government has also recently subjected Protestants to brainwashing. A Protestant who had studied in the United States, for instance, was arrested in Shanghai in December 1989 so that he could be "rehabilitated." He is still being detained. In early 1992, in an apparent brainwashing incident, authorities investigated, "retrained," and disciplined religious personnel in Jilin Province.

Public Security Bureau officials more commonly employ other less drastic tactics to discourage defiance of the TSPM, and the severity with which official policies are enforced varies by location. Pastors are made to sign statements assuring that their churches will be registered with the TSPM; worshippers are issued fines as high as the equivalent of a year's salary; meetings are disrupted by officers who frequently outnumber the congregants; and Christian literature and other materials, including furniture, are confiscated.

CONCLUSION

Repression of China's Christians has intensified in the last twelve months. Economic liberalization has so far not been accompanied by even the most basic human right -- freedom of conscience. Until the Chinese are permitted to believe as they wish, they will not be permitted to speak, write, or act freely.

Religious freedom is acknowledged as a fundamental human right in such international agreements as the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the United Nations Declaration on the Elimination of All Forms of Intolerance and of Discrimination Based on Religion or Belief. Religious Freedom is also a fundamental principle of democracy and one deeply cherished by the American people. We recommend that renewal of MFN to China be conditioned on human rights reforms that take into account the plight of persecuted believers.

PERSECUTED CATHOLICS

1. **Bishop Joseph Li Side.** Bishop of Tianjin Diocese. In his sixties. Most recent arrest April 11, 1992. Previously arrested by Public Security Bureau personnel December 8, 1989, while on his way to administer last rites. Kept in a small cell with 20 other prisoners in Prison No. 2 in Tianjin City. Reportedly tried secretly and sentenced to seven years' imprisonment. Released from prison June 7, 1991. Remained under police surveillance in Tianjin until rearrest.

2. **Bishop Julius Jin Zhiguo.** Bishop of Zhengding, Hebei Province. Born in 1935. Arrested April 7, 1989; on September 11, 1989, transferred to house arrest in his native village of Wuqiu for a period of three years. Forcibly moved by authorities December 11, 1991. Current whereabouts unknown; Religious Affairs Bureau claims he is in an "old people's home." Thought to be in poor health.

3. **Bishop Joseph Fan Zhongliang**. Bishop of Shanghai. Seventy-three years old. Arrested June 10, 1991, while en route to Wenzhou, Zhejiang, apparently in retaliation for Pope's having elevated Chinese Bishop Gong Pinmei to cardinal. On August 19, 1991, transferred to house arrest in outskirts of Shanghai, where he is detained incommunicado.
4. **Bishop Song Weili**. Bishop of Langfang Diocese, Hebei Province. Seventy-five years old. Arrested in late December 1990 or early January 1991.
5. **Bishop Philip Yang Libo**. Bishop of Lanzhou, Gansu Province. Seventy-six years old. Arrested in late December 1989 and reportedly now serving a three-year prison sentence in Lanzhou.
6. **Bishop Peter Chen Jianzhang**. Bishop of Baoding, Hebei Province. Currently confined to a wheelchair and suffering from diabetes; unable to care for himself. "Disappeared" from Baoding in mid-December 1990. Removal may have been intended to prevent his saying Christmas Mass and to limit his influence over Baoding Catholic community. Held for a period in an indoctrination camp in Hebei Province. Government now claims he is in an "old people's home" -- a euphemism for detention without trial.
7. **Bishop Paul Liu Shube**. Second Bishop of Yixian, Hebei Province. Sixty-nine years old. Arrested and imprisoned in Beijing on October 30, 1988. Charged with possession of two illegal sermons and a typewriter. Three-year sentence commuted to house arrest on January 16, 1989, because of ill health. Rearrested December 13 or 14, 1990, reportedly in order to prevent his holding Christmas Mass, and detained in an indoctrination camp. When his three-year sentence was completed in mid-December 1991 and his family asked the Public Security Bureau for his release, they were told that the country was providing for him and to ask no more questions. Family members have not been permitted to see him. Authorities claim that he is in an "old people's home," a euphemism for detention center.
8. **Bishop Cosmas Shi Enxang**. Auxiliary Bishop of Yixian, Hebei. Seventy-one years old. Reportedly arrested after mid-December 1990 with Bishop Paul Shi Chunjie. Thought to be held in a Hebei reeducation camp.
9. **Bishop Liu Difen**. Bishop of Anguo, Hebei Province. Seventy-five years old. Arrested in December 1990; being held without trial. Authorities claim he is in an "old people's home," i.e., a detention center.
10. **Bishop John Baptist Liang Xisheng**. Bishop of Kaifeng Diocese, Henan Province. Born in 1923. Arrested in October 1990. Since reportedly released; remains under police surveillance.
11. **Bishop Bartholomew Yu Chengdi**. Bishop of Hanzhong Diocese, Shaanxi. Arrested between mid-December 1989 and mid-January 1990; imprisoned in Xian until July 1990. Disappeared in August 1990. Thought to be held in a reeducation camp until November 1991. Now restricted to home village, where he is incommunicado.
12. **Bishop Vincent Huang Shoucheng**. Bishop of Fu'an, Fujian. Arrested July 27, 1990, along with four deacons, who were later released. Remained in detention until June 1991. Now restricted to home village.
13. **Bishop James Xie Shiguang**. Bishop of Xiapu, Fujian. Seventy-four years old. Arrested with nine priests on July 27, 1990, during a meeting on Church affairs at Luojiang Church in Fu'an City. Held without trial in an unknown location. Reportedly released on January 28, 1992. Remains under surveillance.
14. **Bishop Mathias Lu Zhengsheng (or Zhengshang)**. Bishop of Tianshui, Gansu. Born January 23, 1919. Arrested in late December 1989. Nothing been heard from him since that time. Reports of his release remain unconfirmed.
15. **Bishop Guo Wenzhi**. Bishop of Harbin, Heilongjiang Province. Born January 11, 1918. Previously interned between 1954 and 1964. Rearrested in 1966 and interned in a prison camp for "reform through labor" in Xinjiang Autonomous Region. Released in 1979. Most recent arrest on December 14, 1989; released in March 1990 to home village in Qiqihar, which he is forbidden from leaving and where he is under strict police surveillance.
16. **Bishop Jiang Liren**. Bishop of Hohhot, Inner Mongolia. Date of arrest not definitively known, possibly November or December 1989. Reportedly imprisoned until April 1990, when transferred to house arrest. Now confined to home village, where he is object of a slander campaign designed to undermine his moral authority.
17. **Bishop Peter Liu Guandong**. Bishop of Yixian Diocese, Hebei Province. Seventy-two years old. Arrested November 26, 1989, for helping to organize an underground episcopal conference in Shaanxi Province. Charged with "planning, organizing, and forming illegal organizations" and with having "taken part in illegal activities." Sentenced on May 21, 1990, to serve three years' "reform through labor" at a labor farm near Tangshan, Hebei province. One of at least 30 arrested following the November 1989 episcopal conference. Released from prison on May 21, but may still be detained or under some restrictions.
18. **Bishop Hou Guoyang**. Of Sichuan Province. Arrested early January 1989 and detained until early 1991. Now under police surveillance in Chongqing City.
19. **Bishop John Yang Shudao**. Bishop of Fuzhou, Fujian Province. Previously arrested, time period unknown; released in 1980. Most recent arrest on February 28, 1988, in Liusban Village, Fujian. Transferred to house detention in February 1991; still restricted to home village.

20. **Bishop Casimir Wang Milu**. Bishop of Tianshui Diocese, Gansu Province. Born in 1939. Arrested in April 1984. Convicted of having contact with the Vatican, ordaining priests, and opposing the government's condemnation of another Vatican-loyal bishop. Sentenced in 1985 or 1986 to ten years of "reform through labor" and four years' forfeiture of political rights. Reportedly now imprisoned in a labor camp in Pingliang, Gansu.
21. **Father Liu Heping**. Twenty-eight years old. Most recent arrest on December 13, 1991, at his home in Shizhu Village, Dingxing County. Being held without trial. Previously arrested on June 4, 1990, in a raid against the village of Zhaozhuang in Hebei.
22. **Father Ma Zhilyuan**. Twenty-eight years old. Arrested on December 13, 1991, at Houzhuang, Xushui County, Hebei Province, together with four seminarians. All being held without trial.
23. **Father Xiao Shixiang**. Priest of Yixian Diocese. Fifty-eight years old. Arrested December 12, 1991, after leading a retreat in Dingxian. Previously arrested October 20, 1989, while en route to Shandong Province.
24. **Father John Wang Ruowang**. Priest from the Tianshui Diocese; bother of **Bishop Casimir Wang Milu** (No. 20) and **Father Wang Ruohan** (No. 46). Among those caring for Bishop Paul Li Zheunrong. Disappeared on December 8, 1991, three days before Bishop Li's arrest. Previously arrested between mid-December 1989 and mid-January 1990.
25. **Father Peter Cui Xingang**. Parish priest at Donglu Village, Qingyuan County. Thirty years old. Arrested July 28, 1991. No news since; current whereabouts unknown.
26. **Father Gao Fangzhan**. Twenty-seven years old. Priest of Yixian Diocese, Hebei Province. Arrested in May 1991 outside Shizhu Villag. in Dingxing County. Being held without trial.
27. **Father Wang Jiansheng**. Forty years old. Arrested May 19, 1991; sentenced to three years of reeducation through labor. Now serving prison term in Xuanhua Reeducation Through Labor Center in Hebei Province.
28. **Father An Shi'en**. Priest of Daming Diocese, Hebei. Born in 1914. Arrested in late December 1990, a few days after **Father Han Dingdang** (No. 29). Currently forcibly detained in an indoctrination camp in Handan.
29. **Father Han Dingxiang**. Vicar General of Handan Diocese, Hebei. Fifty-five years old. Arrested December 26, 1990. Now detained in an indoctrination camp in Handan with at least 20 other Catholics, including **Father An Shi'en** (No. 28). Previously imprisoned between 1960 and 1979 for religious activities and beliefs; detained again in 1989.
30. **Father Peter Hu Duoer**. Thirty-two years old. Arrested by Public Security Bureau personnel at Liangzhuang Village, Xushui County, on December 14, 1990. Being held without trial.
31. **Father Joseph Chen Rongkui**. Twenty-eight years old. Arrested December 14, 1990, at the Dingxian train station in Hebei Province. Being held without trial.
32. **Father Paul Liu Shimin**. Thirty-two years old. Arrested December 14, 1990, in Xiefangying, Xushui County. Being held without trial.
33. **Father Li Zhongpei**. Arrested in December 1990 and sentenced to three years of reeducation through labor. Now serving prison term at Tangshan Reeducation Through Labor Center in Hebei Province.
34. **Father Liu Guangpin**. Priest of Fu'an, Fujian Province. Arrested July 27, 1990, with **Bishop Xie Shiguang** (No. 13), **Father Zhu Rucl** (No. 36), **Father Zou Xijin** (No. 37), and six other priests during a meeting on Church affairs at Luojiang Church in Fu'an city. Currently imprisoned.
35. **Father Xu**. With Fathers Zheng Xinzong and Zhu, three of nine priests arrested in Fu'an, Fujian Province, on July 27, 1990. Currently imprisoned.
- 36-37. **Father Zhu Rucl** and **Father Zou Xijin**. Priests of Fu'an, Fujian Province. Arrested July 27, 1990, with **Bishop Xie Shiguang** (No. 13), **Father Liu Guangpin** (No. 34), and six other priests during a meeting on Church affairs at Luojiang Church in Fu'an city. Both currently imprisoned.
38. **Father Mark Yuan Wenzai**. Vicar General of Haimen, Jiangsu Province. Sixty-nine years old. After a period of police detention, placed under custody of the local CPA bishop, Yu Chengcoi, in July 1990.
39. **Father Pei Guojun**. Priest of Yixian Diocese, Hebei. Arrested between mid-December 1989 and mid-January 1990 for role in underground episcopal confenence in Shaanxi; reportedly now imprisoned. No recent news.
- 40-41. **Father Sun Ximan** and **Father Zhang Xiaocheng**. Priests of Tianshui Diocese, Gansu Province. Both arrested between mid-December 1989 and mid-January 1990 in connection with underground episcopal conference. Reportedly now imprisoned. No recent news.
42. **Father Wei Jingyi**. Thirty-five years old. Priest of Qiqihar, Heilongjiang Province. Arrested between mid-December 1989 and mid-January 1990 in connection with underground episcopal conference. Sentenced in March 1991 to three years of reform through labor. No recent news.

43. **Father Su Zhemín.** Sixty years old. Vicar General of Baoding Diocese, Hebei. Arrested December 17, 1989, for role in organizing episcopal conference in Shaanxi in November 1989. Sentenced May 21, 1990, with **Bishop Peter Liu Guandong** (No. 17) to three years "reform through labor" at a labor farm near Tangshan, Hebei.
44. **Father Anthony Zhang Gangyi.** Priest in Sanyuan Diocese, Shaanxi. Eighty-three years old. Imprisoned several times for a total of 30 years between 1949 (when he returned from Italy, where he served as a chaplain for the resistance during World War II), and the present. Arrested December 11, 1989, in connection with underground episcopal conference; then released. Rearrested December 28, 1989, and imprisoned. Released because of ill health June 6, 1990, but remains under police surveillance.
45. **Father Shi Wande.** Priest of Baoding Diocese, Hebei Province. Arrested December 9, 1989, in Xushui, about 70 kilometers southwest of Beijing, and reportedly now imprisoned. No recent news.
46. **Father John Baptist Wang Ruohan.** Priest of Tianshui Diocese, Gansu Province. Brother of **Father John Wang Ruowang** (No. 24) and **Bishop Casimir Wang Milu** (No. 20). Arrested December 1989. After period of imprisonment, under severe restriction of movement.
47. **Father Pei Zhenping.** Priest of Yutong village, Hebei Province, site of bloody police raid in April 1989. Arrested October 21, 1989, and now imprisoned.
48. **Father Pei Ronggui.** Trappist priest of Yutong village, Hebei Province, site of bloody police raid in April 1989. Fifty-nine years old. Arrested in Beijing, reportedly on September 3, 1989, for leading an outdoor Mass in April 1989. Charged with "disturbing the social order." Sentenced by Luancheng County court on January 26, 1991, to five years' imprisonment. Incarcerated in Prison No. 4 in Shijiazhuang, Hebei.
49. **Father Feng Yongbing.** Thirty-five years old. Priest of Changle county, Fujian Province. Arrested September 14, 1988. Reportedly since released, but not yet independently confirmed.
50. **Father Wang Yiqi.** Priest of Fujian Province. Reportedly arrested in Liushan village, Fujian Province on February 28, 1988. Reports of his release have not been confirmed.
51. **Father Francis Wang Yijun.** Vicar General of Wenzhou Diocese, Zhejiang Province. Seventy-five years old. Arrested May 19, 1982, and sentenced to eight years' imprisonment. In March 1990, sentenced to an additional three years' "reform through labor" for "stubbornness." Previously incarcerated from 1955 to 1967 in labor camp for his religious activities. Released from prison May 21, 1992. May still remain in detention or under some restrictions.
52. **Father Joseph Guo Fude.** Member of Society of the Divine Word. Sixty-nine years old. Had already spent 22 years in detention before most recent arrest and imprisonment in spring 1982. As of late 1986, interned in a southern Shandong labor camp; according to unconfirmed reports, since transferred to house arrest and/or strict police surveillance.
53. **Father Joseph Jin Dechen.** Vicar General of Nanyang Diocese, Henan Province. Seventy-two years old. Previously jailed between 1958 and 1973. Rearrested December 18, 1981; sentenced July 27, 1982, to fifteen years. Released from prison May 21, 1992. May still remain in detention or under some restrictions.
54. **Father Liao Haiqing.** Priest of Jiangxi Province. About 50 years old. Arrested November 19, 1981. As of 1988, he was still interned in Prison No. 4 in Nanchang, Jiangxi Province. No news since that time.
55. **Father Fu Hezhou.** Sixty-eight years old. Arrested and imprisoned November 19, 1981. Reportedly since transferred to house arrest and/or strict police surveillance. No recent news.
56. **Father Li Fangchun.** Priest of Guide Diocese, Henan Province. Arrested in early 1980s and reportedly still imprisoned. No recent news.
57. **Father Lin Jiale.** Imprisoned in Fuzhou, Fujian Province. No other information available.
58. **Father Liu Shizhong.** Imprisoned in Fuzhou, Fujian Province. No other information available.
59. **Wang Geng-sheng.** Seminarian of Xian Xian Diocese who cared for Bishop Paul Li Zhenrong. Arrested December 11, 1991, at Hebei hospital where Bishop Li was being treated.
60. **Deacon Ma Shunbao.** Forty-two years old. Arrested November 6, 1991.
61. **Zhang Guoyan.** Thirty-five years old. Layman from Baoding, Hebei. Son of **Zhang Dapeng** (No. 65). Sentenced in 1991 to three years' reeducation through labor for failing to join the CPA and participating in Church activities.
62. **Zhang Youshen.** Lay leader from Baoding, Hebei. Sentenced in 1991 to three years of reeducation through labor for refusing to join CPA and writing about religion in China in a way that reflected badly on government.
63. **Wang Tongshang.** Deacon and community leader in Baoding Diocese, Hebei Province. Arrested December 23, 1990, and sentenced to three years of reeducation through labor. Now serving prison term in Chengde Reeducation Through Labor Center in Hebei. Previously arrested on December 16, 1989.

64. **Zhang Weiming**. Catholic apprehended with his wife, Hou Chongyan, on December 14, 1990, and held without charge. Still reportedly imprisoned. Hou was released after two months of detention and told that her husband was being held for religious and political reasons.

65-66. **Zhang Dapeng and Zhang Zhongyue**. Husband and wife from Baoding, Hebei. Arrested together in mid-December 1990. He is thought to remain in detention without charge. She was released from detention after three months, but prevented from returning to her job.

67. **Wang Tianzhang**. Deacon from Lanzhou Diocese, Gansu. Arrested between mid-December 1989 and mid-January 1990 in connection with underground episcopal conference. Reportedly now imprisoned. No recent news.

68. **Li Yongfu**. Layman from Tianjin Diocese. Arrested between mid-December 1989 and mid-January 1990 in connection with underground episcopal conference. Reportedly now imprisoned. No recent news.

69-70. **Pei Jieshu and Pei Shangchen**. Community leaders in Yutong village, Hebei Province. Arrested October 23, 1989, and reportedly now imprisoned. No recent news.

71. **Chen Youping**. Layman of Fujian Province. Arrested March 1, 1988, in Liushan village. Reportedly now free, but this has not been independently confirmed. No recent news.

72. **Wang Jingjing**. Layman of Fujian Province. Arrested probably on February 28, 1988, in Liushan village. Reportedly released, but this has not been independently confirmed. No recent news.

PERSECUTED PROTESTANTS

1. **Xie Moshan (or Wushan)**. House-church leader from Shanghai. In his seventies. Arrested April 24, 1992, after returning from Guangzhou. Charged with "illegal itinerant evangelizing." Detained on similar charges in 1984. Previously imprisoned for religious reasons between 1956 and 1980.

2. **Lin Xiangao (Samuel Lamb)**. Pastor of 1200-member Damazhan house church in Guangzhou. Sixty-seven years old. Interrogated for three hours by Public Security Bureau officials March 23, 1992, about failure to register church. Church ransacked by PSB officials March 24; foreign religious literature confiscated. Lin interrogated again March 28 and ordered to register church. Has refused to comply. First arrested in September 1955, when he was imprisoned for 16 months. Rearrested in 1958 and incarcerated for 20 years.

3-6. **Wang Dabao, Yang Mingfen, Xu Hanrong, and Fan Zhi**. Arrested in Yingshang County, Anhui, after August 1991.

7-9. **Zhang Guancun, Zeng Shaoying, and Leng Zhaoqing**. Arrested in Funan County, Anhui, after August 1991.

10. **Mr. Dai**. Bible distributor from Hubei Province. Arrested June 1991.

11. **Chang Rhea-yu**. House-church Protestant from Fujian Province. Fifty-four years old. In May 1990, badly hurt when Public Security Bureau officials ransacked her home and confiscated Bibles and Christian literature. Detained August 25, 1990; charged March 27, 1991, with inciting and propagating counter-revolution." Tried April 9-10, 1991, for holding illegal meetings; distributing seditious propaganda through cassette tapes; attacking the government, including the government's action in Tiananmen Square; and corresponding with foreigners. Still thought to be detained. Previously imprisoned twice for terms of over seven years. Last released in 1989.

12. **Yang Rongfu**. House-church Protestant of Anhui Province. Reportedly arrested before June 1990 for unspecified reasons. Now prevented from seeing his family.

13. **Xu Guoxing**. Shanghai house-church leader. Born March 16, 1955. Arrested November 6, 1989; sentenced November 18 to three years' reform through labor. Charged with forming illegal house churches in Shanghai, Jiangsu, Zhejiang, and Anhui Provinces. Currently imprisoned in Dafeng, Jiangsu province. Previously arrested March 14, 1989, and held three months for interrogation.

14. **Liu Qinglin**. Evangelist from Zhalantun, Inner Mongolia. Sixty-one years old. Arrested September 14, 1989; charged with evangelizing and "wide-scale superstitious healing activity." Sentenced to three years' reeducation through labor.

15. **Liu Huanwen**. Member of a Beijing TSPM church. Late 20s. Sentenced in November 1990 to two years' detention in a labor camp for carrying a cross in June 1989 Tiananmen Square demonstrations. Apprehended during wave of arrests following protests. No independent confirmation of reported release in April 1992.

16. **Li Jiyao**. Guangdong house-church leader. Arrested September 25, 1990. Sentenced September 17, 1991, to three years' reeducation through labor for illegally receiving and distributing Christian literature.

17. **Xu Yongze**. Leader of a house-church network in central China and founder of "New Birth" Protestant Movement. Fifty-one years old. From Nanyang, Zhenping County, Henan Province. Arrested April 16, 1988, in Yuetan Park in Beijing by Ministry of State Security officials; sentenced to three years' imprisonment. Held in Zhenping County Prison, Henan until April 26, 1991, and in Henan Public Security Bureau office until May 20, 1991, when released. Remains under close

police surveillance. Reported to have been in hiding since 1983 after escaping from a labor camp, where he was held without trial for several months in connection with his religious activities. At time of arrest, in Beijing to attend a service led by American evangelist Billy Graham.

18. **Zhu Mei** (or **Sha Zhumei**). Born May 12, 1919. Member of an independent Protestant church. Arrested June 3, 1987, at her home in Shanghai; reportedly beaten by police. Tried November 3, 1987, reportedly in secret; convicted of "harboring a counter-revolutionary element." Now in poor health serving a five-year prison sentence. Previously imprisoned for six years for religious activities.

19-21. **He Suolie**, **Kang Manshuang**, and **Du Zhangji**. House-church leaders from Henan Province. Arrested in 1985 for opposing the TSPM. Sentenced in 1985 to eight, five, and four years in prison, respectively. None is known to have been released.

22. **Song Yude**. Thirty-nine years old. House-church leader from Baimiao Village, Yuehe District, Tongbo County, Henan. Arrested July 16, 1984, for "counter-revolutionary" crimes, including distribution of "reactionary" religious literature, refusal to join TSPM, and establishment of house churches in Henan and Hubei. Tried on January 29, 1986; sentenced to eight years' imprisonment and three years' deprivation of political rights. Appeal rejected in April 1986. Was held in Henan Province. Reportedly released from prison in April 1992 but may remain in detention or under restrictions. Whereabouts now unknown.

23. **Pei Zhongxun** (**Chun Chul**). Ethnic Korean Protestant activist from Shanghai. Seventy-four years old. Arrested in August 1983. Charged with spying for Taiwanese government because of ties to Taiwanese Christians and activity in house-church movement. Sentenced to 15 years of imprisonment. Currently reported imprisoned near Shanghai.

Nos. 24-30, house-church lay leaders and elders from Lushan County, Henan, were arrested July 9, 1983, and tried together in 1986. They were accused of belonging to an evangelical group outside the government-sanctioned TSPM; planning to overthrow China's proletarian-dictatorship and socialist system; having ties to overseas reactionary forces; receiving and distributing foreign materials; disturbing the social order; and disturbing and breaking up normal religious activities.

24. **Wang Xincal**. From Zhangcun Village, Fuling Brigade, Xinji Commune. Thirty-nine years old. Sentenced to 15 years' imprisonment.

25. **Zhang Yunpeng**. From Zhaozhuang Village, Houying Brigade, Zhadian Commune. Sixty-eight years old. Sentenced to 14 years' imprisonment.

26. **Qin Zhenjun**. From Xinji Commune. Fifty-seven years old. Length of sentence unknown.

27. **Cui Zhengshan**. From Lushan County. Forty-five years old. Length of sentence unknown.

28. **Xue Guiwen**. From Liuzhuang Village, Xinhua Brigade. Thirty-eight years old. Length of sentence unknown.

29. **Wang Baoquan**. From Chengguan Township. Sixty-seven years old. Length of sentence unknown.

30. **Geng Minxuan**. From Sunzhuang Village, Malon Commune. Sixty-six years old. Length of sentence unknown.

31. **Mr. Bai**. Elderly member of Little Flock house church from Ye County, Henan Province. Arrested in 1983; charged with belonging to the Shouters, holding illegal religious meetings, and receiving foreign Christian literature. As of March 1987, thought to be held in Kaifeng, Henan.

32. **Zhao Donghai**. House-church leader from Henan Province. Sentenced to 13 years' imprisonment in 1982 or 1983.

STATEMENT OF THE TOY MANUFACTURERS OF AMERICA, INC.

The Toy Manufacturers of America, Inc., an association representing more than 230 U.S. manufacturers and importers of toys, games and dolls, and 85 percent of the toy sales in the United States, strongly opposes S. 2808, which would impose conditions on the renewal of China's most-favored-nation (MFN) trade status.

The American toy industry imported \$2.4 billion worth of merchandise from China in 1991, accounting for more than one-third of the toys sold in the United States last year. Although we believe none of the toys, dolls and games imported from China were produced by state enterprises, H.R. 5318 is not acceptable to TMA members because the imposition of any conditions will severely damage the U.S.-China trade relationship.

The industry has much invested in the future of the U.S.—China relationship. Thus, TMA feels strongly that China's MFN status should be renewed without con-

ditions. It is more than a matter of loss of profits, although clearly the toy industry could suffer significant losses if conditional legislation is enacted. It is a matter of jobs for workers in the United States, China and Hong Kong. It is a matter of effectively promoting human rights, fair trade practices and nuclear nonproliferation policies in China rather than excluding ourselves from the opportunity to monitor and influence Chinese Government actions. It also is a matter of not using U.S. businesses as whipping boys for foreign policy debates when no other country in the world compromises its international competitiveness so readily and repeatedly.

The American toy industry does not question United States policies with respect to human rights, weapons proliferation, or trade issues. Rather, we believe that conditioning China's MFN renewal on these issues is inappropriate. There are existing laws and procedures for the Congress and the Administration to deal effectively with each one of these matters.

While TMA commends the effort of the drafters of S. 2808 to shield U.S. businesses from harm by limiting non-MFN duties to products of state enterprises, we believe that it is inevitable that U.S. businesses will be seriously harmed if S. 2808 is enacted. This is because as business partners of the Chinese for more than a decade, we know how the Chinese Government will respond to the imposition of conditions: The Chinese Government will reject them and refuse to compromise. It will make no difference how much business would actually be affected by the legislation. We would expect the Chinese Government to discontinue consultations under the current Section 301 market access investigation, thereby requiring the United States Trade Representative to impose 100 percent duties on a vast quantity of Chinese products, and to revoke the January 16, 1992 agreement achieved under the Special 301 intellectual property rights negotiation, provoking retaliation by the U.S. Government on even more Chinese-made products. In effect, non-MFN duties could be imposed on virtually all imports from China, to the serious detriment of many businesses and consumers the drafters of S. 2808 believed they would not hurt.

The de facto removal of China's MFN trade status would be especially devastating to the toy industry because of the highly competitive nature of our business. In order to lower costs, and sell toys to American parents at affordable prices, virtually all American companies have turned to offshore sources of supply in developing countries. We combine high value-added domestic operations, such as design and engineering, with low-cost, labor intensive overseas production. The average duty on toys imported into the United States is currently six percent. If non-MFN duties were to apply instead, the duty would rise to 70 percent. As a result, prices would go up substantially and the number of units that would be sold would decline significantly. Shifting production to other low cost countries would take a minimum of two to four years, after the toy industry already has spent ten years building the necessary infrastructure and manufacturing skills in China.

U.S. toy producers with operations in China employ more than 300,000 Chinese workers, and more than 25,000 jobs in the United States are directly dependent upon that production. In addition, over 40,000 jobs in Hong Kong are related to U.S.-bound Chinese production of all products. The demise of the U.S.-China trade relationship would eliminate many of these jobs in all three countries. The toy industry fails to comprehend how anyone in Congress could believe that causing these people to lose their livelihoods and causing Chinese workers to lose their contacts with the United States would promote human rights. Allowing us to continue to interact with the Chinese and to influence the process of reform, as well as actively monitoring what is happening inside China, obviously is a more rational approach.

TMA respectfully urges the Congress to deal with China on specific issues by using existing laws and procedures. Certainly that is what the toy industry has been doing when it comes to issues in which it is directly involved, possesses the expertise, and has standing to act or comment. For example, over the last year, we consulted with the Chinese Ambassador in Washington and visited Beijing and discussed directly with the Chinese Government the need for improved intellectual property rights laws. We also have encouraged the Chinese to take the Section 301 consultation process seriously, but we know that if renewal of China's MFN status is encumbered with conditions, there will be no further consultations.

Moreover, because TMA members have extensive inspection and quality assurance procedures in China they are able to ensure that they do not produce toys with prison labor or child labor.

As toy manufacturers, we do not believe it would be appropriate for our members to negotiate with the Chinese on issues such as human rights or weapons proliferation. However, we do believe that there are appropriate arenas for dealing with these concerns. For example, we applaud the international community, including the U.S. Government, for its success in getting the Chinese Government to accede

to the Missile Technology Control Regime and the Nuclear Non-Proliferation Treaty. Unilateral U.S. action effectively severing trade relations with the Chinese would not have achieved that result and might actually exacerbate the need for foreign capital, thereby prompting sales of weaponry.

For all of these reasons, TMA urges the Finance Committee to disapprove S. 2808. Most-favored-nation renewal may be a convenient and high visibility mechanism for venting displeasure with the Chinese Government, but it is the wrong one. Not only will it not accomplish any of the objectives that have been stated in the legislation, it will undermine those objectives.

STATEMENT OF WILSONS, THE LEATHER EXPERTS

INTRODUCTION

Wilson's, the Leather Experts, a major importer and nation-wide retailer of leather apparel, strongly opposes S. 2808, which would impose conditions on the renewal of most-favored-nation (MFN) trade status for the People's Republic of China. Targeting non-MFN duties to products of state enterprises does not make the bill any more acceptable.

As a company that has been involved with leather apparel production in the People's Republic of China for eight years, and as a retailer, Wilson's is well aware of the severe costs and the lack of any benefits that would flow from imposing conditions on future renewals of China's MFN status. Wilson's recognizes the importance of the protection of human rights, the limitation of nuclear proliferation, and fair access to the Chinese market. However, imposing non-MFN duties on state enterprise goods is not the mechanism for achieving improvements in the areas of concern to the Congress. To the contrary, such an action would likely preclude the United States from influencing and monitoring progress on these important issues while having a significant adverse consequence domestically.

I. ABOUT WILSONS

Wilson's has 550 stores located in Middle-America malls throughout the country. The stores are distributed fairly evenly, with 165 stores located in the West, 165 in the Mid-West and Central states, and 220 stores situated in East Coast shopping malls. Currently, Wilson's employs about 8,000 people in its retail stores, home office, warehouses, distribution, field organization, and overseas offices. Our customers come from middle-income households.

As a general rule, Wilson's does not deal directly with Chinese leather garment factories. Wilson's deals through agents and offices in Korea and Hong Kong. It is Wilson's' understanding that the Chinese factories employed by these Korean and Hong Kong businesses are Government-owned. However, the value of these facilities to the Chinese Government is limited in light of the small income the cut, make and trim operations provide. China does not produce, and therefore does not earn any income from, the leathers and other submaterials used to produce Wilson's' apparel. These are all provided to the factories by Wilson's or by our agents from non-Chinese sources. The only value added in China is the labor, which accounts for no more than 10 percent of the total cost of a leather garment. Under these circumstances, even if it were to be determined that these are products of state enterprises (and that is not clear from the terms of the bill), it is impossible to believe that the Chinese Government would be motivated to reform their practices and policies regarding human rights, weapons proliferation and trade in response to loss of the American leather apparel market.

II. THE LEGISLATION IS UNWORKABLE

As a company whose products were among those included on the proposed retaliation list published by the U.S. Trade Representative's Office during the Special 301 investigation of China's intellectual property rights practices and policies, Wilson's is all too aware of how difficult it is to identify products of state enterprises. Wilson's expended considerable resources during that investigation to explain to the Section 301 Committee and other Administration officials that its leather apparel imports from China have only a limited relationship with Chinese provincial governments and should not have been targeted for retaliation. During the course of our meetings with these officials it became clear that Administration had been unaware of the way our industry does business and of the strong interdependence between U.S. exports of leather hides and U.S. imports of finished leather apparel.

Wilson's experience in the Special 301 investigation, which raised the awareness of how our business works, should serve as an example to the Congress of the difficulties of defining state enterprises and of the real impact on U.S. businesses. Simply because our former Korean suppliers have set up joint ventures in China that rent from factories owned by provincial governments, Wilson's merchandise could be vulnerable to Column 2 duties. Wilsons cannot determine from the terms of the legislation whether its products would be considered products of state enterprise. Even if the bill could be redrafted to limit non-MFN duties to state enterprises, certainly U.S. businesses such as ours would not be shielded from harm.

III. THE IMPOSITION OF NON-MFN DUTIES WOULD SERIOUSLY HARM WILSONS AND MANY OTHERS, INCLUDING CONSUMERS

Although the loss of the U.S. market would not likely have much, if any, impact on China, there is no question that the imposition of increased duties on Chinese-made leather apparel would seriously injure Wilsons. Already, Wilsons has made substantial commitments for 1993 based upon its planned Chinese sourcing. These are commitments that cannot be replaced in the event that Column 2 tariffs—35 percent as opposed to 6 percent under Column 1—are imposed upon Chinese leather apparel products.

The loss of Chinese production would preclude Wilsons from meeting its 1993 leather production needs. At best, Wilsons estimates that it would be able to stock its stores with only a portion of its 1993 inventory needs. Even if Wilsons could move production to other sources, which cannot be done in 1993, prices would rise 20 to 25 percent and Wilsons knows that, in this tough retail environment, its customers would not accept such an increase. That means Wilsons' store inventories would be drastically reduced.

It also means that Wilsons would have to consider closing some existing regional mall stores, as well as abandon its expansion plans. A very substantial number of jobs would be lost throughout the Wilsons organization, in our stores and in our support facilities. Also lost would be the jobs that would have been created as a result of our expansion plans. These unemployed workers are not likely to find positions elsewhere, primarily because Wilsons, like most retailers, provides entry level jobs. Our employees consist largely of recent graduates who are first entering the work force. While many other U.S. companies would be unwilling to hire such inexperienced people, Wilsons provides them with the basic sales and entry-level management experience they can use to move up in the work force.

Wilson's cutbacks would surely have a spiralling effect. Even more jobs would be lost among the suppliers and service industries with whom Wilsons deals, from the farmers, whose cows are the source for the leather we use, to shipping lines and truckers on whom we depend for deliveries to our stores.

Wilson has limited options for sourcing leather apparel. Historically, Korea has represented the majority of Wilsons' leather apparel production sourcing. However, Korean capacity has drastically declined. Korea's sewing work force has moved into other more lucrative industries, such as the service and high technology industries. Thus, Wilsons was forced to investigate and develop alternative sources.

We chose to test China because it appeared to have an available work force, inexpensive labor costs, proximity to submaterial markets, and shipping ports. In addition, trade with China could be facilitated through the Hong Kong business community.

The move by Wilsons into China has been a gradual one, taking seven years and considerable investment by Wilsons in technology and people to develop China. China currently can produce, in quantity, leather products that meet Wilsons' quality standards. In Wilsons' experience, however, it typically takes a developing sewing factory a minimum of 12 to 18 months to achieve these quality standards, and other two to three years to reach an acceptable productivity level. As a result, Wilsons was not able to quickly increase sourcing from China. It is only recently that Wilsons has substantially increased its sourcing from China.

Leather garments have become a staple in the wardrobe of American consumers. They are viewed by many consumers as an important alternative to cloth garments. The reasons are their utilitarian nature and the good value provided by them, especially in light of their exceptional longevity. The leather garments imported by Wilsons are highly functional, value-oriented items. Wilsons' leather coats, for example, are moderately priced and provide the wearer with warmth and style, as well as the assurance that with proper care, they will be wearable for many years. The average retail price range of leather coats sold in Wilsons' stores across the country is \$99 to \$199.

Because leather is an affordable alternative to other fabric outerwear, a restriction on the availability of leather would cause higher prices on all outerwear, thereby contributing to inflation. Customer resistance to price increases would cause a decline in retail sales throughout the country, further causing additional reductions in employment. In such precarious economic times, these consequences could prove catastrophic for American consumers while having no appreciable impact on the Chinese Government.

IV. CONDITIONS LEGISLATION WILL BE COUNTERPRODUCTIVE

Wilson is convinced that the only impact enactment of S. 2808 would have on the Chinese Government would be to turn them back from the progress that has been made, especially in the areas of trade and nuclear non-proliferation. Wilson believes, based upon its experience, that if conditions are imposed on the renewal of China's MFN status, the Chinese will promptly discontinue the current market access negotiations being conducted under the authority of section 301 and abandon the agreement reached in the Special 301 intellectual property rights negotiation. That means (1) Wilson would once again be faced with a serious blow to its business because the U. S. Trade Representative would then be bound to impose punitive duties on imports of Chinese products, and (2) the progress achieved with the Chinese Government thus far would be completely negated.

Further, to the extent that the Chinese Government felt it needed to compensate for revenues lost as a result of contraction of commercial exports to the U.S. market, it might be expected to engage in sales of weapons, nuclear materials, and technology.

In addition, while progress in the area of human rights has been woefully limited, Wilson doubts that any progress would be possible if the United States were to remove itself from the scene by effectively severing relations with the Chinese Government.

CONCLUSION

For all of these reasons, Wilson urges the House of Representatives not to pass S. 2808. Enactment of such legislation would not serve the objectives of the Congress. It would only negatively impact Wilson's business and the businesses of many of the companies with whom Wilson deals across America and isolate the Chinese Government from continued U.S. scrutiny and influence.

We thank the Committee on Finance for this opportunity to present our views.

