

RENEWAL OF NORMAL TRADE RELATIONS WITH CHINA

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

—————
JUNE 10, 1997
—————



Printed for the use of the Committee on Finance

—————
U.S. GOVERNMENT PRINTING OFFICE

54-531-CC

WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-058238-5

5361-14

COMMITTEE ON FINANCE

WILLIAM V. ROTH, JR., Delaware, *Chairman*

JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
ALFONSE M. D'AMATO, New York
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma
PHIL GRAMM, Texas
TRENT LOTT, Mississippi
JAMES M. JEFFORDS, Vermont
CONNIE MACK, Florida

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAU, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
CAROL MOSELEY-BRAUN, Illinois
RICHARD H. BRYAN, Nevada
J. ROBERT KERREY, Nebraska

LINDY L. PAULL, *Staff Director and Chief Counsel*
MARK A. PATTERSON, *Minority Staff Director and Chief Counsel*

CONTENTS

OPENING STATEMENTS

	Page
Roth, Hon. William V., Jr., a U.S. Senator from Delaware, chairman, Committee on Finance	1
Moynihan, Hon. Daniel Patrick, a U.S. Senator from New York	3
Gramm, Hon. Phil, a U.S. Senator from Texas	12
Baucus, Hon. Max, a U.S. Senator from Montana	14
Rockefeller, Hon. John D., IV, a U.S. Senator from West Virginia	17
Grassley, Hon. Charles E., a U.S. Senator from Iowa	18
Murkowski, Hon. Frank H., a U.S. Senator from Alaska	22
Moseley-Braun, Hon. Carol, a U.S. Senator from Illinois	40

ADMINISTRATION WITNESSES

Albright, Hon. Madeleine K., Secretary of State, Washington, DC	3
Barshefsky, Hon. Charlene, U.S. Trade Representative, Washington, DC	6

PUBLIC WITNESSES

Shailor, Barbara, director of international affairs, AFL-CIO, Washington, DC	27
Kumar, T., advocacy director for Asian and Pacific programs, Amnesty International USA, Washington, DC	29
Liang, Qingtun, president, AN Enterprises, and former leader of 1989 Tiananmen Student Movement, San Francisco, CA	30
Pemble, Lawrence, executive vice president, United States-China Industrial Exchange, Inc., Bethesda, MD	32
Torjesen, Edvard, executive director, Evergreen Family Friendship Service, Colorado Springs, CO	34

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Albright, Hon. Madeleine K.:	
Testimony	3
Prepared statement	43
Barshefsky, Hon. Charlene:	
Testimony	6
Prepared statement	48
Baucus, Hon. Max:	
Opening statement	14
Chafee, Hon. John H.:	
Prepared statement	57
Graham, Hon. Bob:	
Prepared statement	57
Gramm, Hon. Phil:	
Opening statement	12
Prepared statement	60
Grassley, Hon. Charles E.:	
Opening statement	18
Prepared statement	58
Hatch, Hon. Orrin, G.:	
Prepared statement	62
Kumar, T.:	
Testimony	29
Prepared statement	63

IV

	Page
Liang, Qingtun:	
Testimony	30
Prepared statement	69
Moseley-Braun, Hon. Carol:	
Opening statement	40
Moynihan, Hon. Daniel Patrick:	
Opening statement	3
Murkowski, Hon. Frank H.:	
Opening statement	22
Pemle, Lawrence:	
Testimony	32
Prepared statement	73
Rockefeller, Hon. John D., IV:	
Opening statement	17
Roth, Hon. William V., Jr.:	
Opening statement	1
Shailor, Barbara:	
Testimony	27
Prepared statement	75
Torjesen, Edvard:	
Testimony	34
Prepared statement	79

COMMUNICATIONS

American Association of Exporters and Importers (AAEI)	117
Business Roundtable on China	122
National Business Association	127

RENEWAL OF NORMAL TRADE RELATIONS WITH CHINA

TUESDAY, JUNE 10, 1997

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

The hearing was convened, pursuant to notice, at 9:04 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Murkowski, Gramm, Moynihan, Baucus, Rockefeller, Graham, Moseley-Braun, Bryan, and Kerrey.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order.

First of all, I do want to welcome our two very special guests. Senator Moynihan, I think these are two of the most distinguished cabinet members. They leave me with pride when I look at their accomplishments, their performance. We are, indeed, pleased to have them here on this most important matter today.

Senator MOYNIHAN. We will make a Democrat out of you yet, Mr. Chairman. [Laughter].

Senator GRAMM. I doubt it. [Laughter].

The CHAIRMAN. Well, I am pleased to hold this hearing on an issue so critical to our Nation's trade and foreign policies, the renewal of China's MFN status, or as I and virtually every other member of this committee prefer to say, the renewal of normal trade relations for China.

At the outset, I believe it is imperative that the administration address this issue at the highest levels possible and make its case not only through hearings like this, but directly with members who have concerns over normal trade relations.

The atmosphere surrounding the consideration of China's normal trade status this year has become more contentious than ever. A diverse coalition of interest groups is working hard to defeat China's normal trade status. Certainly the coalition raises valid concerns about China.

I agree that we cannot passively accept abuses of human rights, religious persecution, and the proliferation of weapons of mass destruction. But I also strongly believe we cannot let the emotions generated by these issues prevent us from making a clear-headed assessment of our National interest.

As I see it, there are five reasons why we must renew China's normal trade status. First, it is in America's strategic interests and central to any responsible China policy. If we revoke China's normal trade status, it will be tantamount to a declaration of economic war.

We will have chosen the path that cuts us off politically and economically from an emerging global power that has approximately one-fifth of the world's people.

I am convinced that cutting off economic and political ties will make this country more belligerent, and less cooperative on critical geopolitical matters, such as the effort aimed at stabilizing the Korean Peninsula.

Second, by continuing normal trade relations with China we also maintain the best environment possible to encourage the reforms we seek in China. Beijing's behavior will be influenced positively by a trade relation that engages China, and one that establishes economic links of trust and communication.

Third, revoking normal trade relations with China will threaten hundreds of thousands of American jobs, billions of dollars in United States exports and investment, and also will be economically disastrous for the people of Hong Kong.

Some estimates predict as many as 200,000 well-paying, highly-skilled U.S. jobs could be lost if MFN were revoked. The economic devastation that Hong Kong would experience if MFN were revoked cannot be overstated.

To paraphrase the recent comments of a Hong Kong official, the logic of MFN opponents is that if China takes away the political liberties of the Hong Kong people, the United States will respond by taking away the jobs and economic hopes of the Hong Kong people.

I very much hope our colleagues in the House will hold their vote on normal trade relations before, rather than after, Hong Kong reverts to Chinese sovereignty and give Hong Kong a vote of confidence by rejecting any attempt to revoke China's normal trade status.

Fourth, by extending MFN to China we are not awarding them any favors, privileges, or special access to the U.S. market. We are simply giving China access to the U.S. market on the same terms we give virtually every other country in the world.

MFN is a normal, not the exceptional, trading status. In fact, we extend tariff treatment that is more favorable than MFN to specific products from over 130 nations under special trade programs and agreements.

To clarify this matter, I, Senators Moynihan, Chafee, Baucus, and 15 other colleagues on the Finance Committee have introduced legislation to replace "MFN" in U.S. trade law with a more apt term, "normal trade relations."

Finally, I oppose the withdrawal of China's normal trade status because I do not believe it will bring about any of the improvements we all seek in China policy. It has never been adequately explained to me how revocation of MFN will advance our China policy goals.

As I said earlier, I believe revocation will just make it more difficult to attain these goals. This does not mean we are without pol-

icy options to address our problems with China; more targeted, specific policy can exist for dealing with China.

For example, we can impose specific trade sanctions if China fails to honor a trade agreement, and sanctions specified under U.S. law if China transfers restricted technology, as the administration recently did upon discovering China provided assistance to Iran's chemical weapons program. We can support efforts undertaken by groups both inside and outside China which are working hard to achieve greater democracy and freedom in China.

I will close by saying that I believe that Beijing's normal trade status should be made permanent in conjunction with China's accession to the WTO on commercially viable terms.

We have a number of very distinguished witnesses today, due to the importance of the China MFN question and the breadth of the issues we have to consider. I am looking forward to hearing their testimony.

So that Ambassador Barshefsky can keep her commitment to testify later this morning in the House, we will move directly to the testimony and questioning of the two witnesses on our first panel after Senator Moynihan's opening statement.

Senator Moynihan.

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

Senator MOYNIHAN. Thank you, Mr. Chairman.

I have excellent news for the Committee, particularly for our Chairman, which is, as of today, we have had our first official diplomatic recognition of "normal trade relations" as the term of choice.

Secretary Albright, in her op-ed article in the Washington Post this morning, "Frank Talk With China," in her second sentence states, "Some argue that we should suspend normal trade relations until Chinese policies," and so forth. That is a first. I do not see any turning back from there. We ought to express our thanks.

Just to make a point that you have made and that we all have to deal with, absent normal trade relations a country's tariff relations with us goes back to the Smoot-Hawley tariff of 1930—with an average tariff rate of 60 percent and a trade-weighted rate of perhaps 44 percent for China—something unprecedented in the world, particularly with a major trading partner.

Thank you, Mr. Chairman. I look forward to the hearing. I know that you want to proceed directly so we can accommodate Ambassador Barshefsky.

The CHAIRMAN. Thank you, Senator Moynihan.

Madam Secretary, we look forward to your comments.

**STATEMENT OF HON. MADELEINE K. ALBRIGHT, SECRETARY
OF STATE, WASHINGTON, DC**

Secretary ALBRIGHT. Thank you very much, Mr. Chairman and members of the committee. I am delighted to be here in the company of Ambassador Charlene Barshefsky, the U.S. Trade Representative, and am very glad to have this opportunity to testify and answer your questions regarding U.S. policy towards China and China MFN.

Senator MOYNIHAN. Whoops!

Secretary ALBRIGHT. Normal trade relations. [Laughter].

It is just so people know what we are talking about.

Senator GRAMM. Lower her test score.

Secretary ALBRIGHT. I will get to it.

Mr. Chairman, the debate over the Chinese trading status and the larger debate about United States-China policy is not about goals, it is about means. Whether you are a human rights monitor, a business person, a missionary, a military planner, a Senator, or Secretary of State, you will want to see a China that is observing international norms, participating actively and constructively in the international system and defining its interests in a way that is compatible with our own.

The question we face, is how best to encourage the evolution of such a China. Although we have a variety of tools, none is a magic wand. We have, and will continue to have, serious differences with China on human rights and other issues.

Some suggest that in response to those differences we should take the dramatic and confrontational step of severing normal trade relations. The administration strongly disagrees.

We believe it is more productive to raise our differences with China within the context of a dialogue that spans the full breadth of our bilateral relationship. We believe that revoking MFN would harm America's strategic interests, and here is why.

First, America and China are working together today in a number of areas that are important to both. For example, when the Clinton administration took office in 1993 the United States and China generally did not see eye-to-eye on nuclear issues and the Chinese were selling dangerous weapons and technologies without regard to our concerns or those of others.

Through our dialogue, we have built a record of general cooperation, agreeing on measures to enhance international nuclear safeguards, ban nuclear tests, and make chemical weapons illegal.

China has also accepted in principle, although not yet fully implemented, effective export controls on sensitive technologies.

China has the same interest we do in preventing instability on the Korean Peninsula. Accordingly, China has been helpful in encouraging North Korea to accept the agreed framework under which that country will dismantle its nuclear program, and has been supportive of talks aimed at long-term reconciliation between Seoul and Peong Yang.

At the U.N. Security Council, China has endorsed or accepted many actions aimed at resolving international conflicts or bolstering the rule of law. These include peacekeeping missions in the Balkans, sanctions against Libya and Iraq, and the creation of the International War Crimes Tribunal.

On economic matters, as Ambassador Barshefsky will describe, we have made progress in opening China's markets and we are moving ahead on efforts to achieve China's accession to the World Trade Organization on commercially acceptable terms.

On the environment, the United States and China have developed a broad agenda for cooperative action that befits the world's two largest producers of greenhouse gases.

For America, the strategic benefits of our dialogue with China are significant. Although China has not evolved as thoroughly or as rapidly as all of us would hope, the overall trend is in the right direction, towards greater interaction with the world community and greater acceptance of international norms.

Mr. Chairman, there is a second reason why our current policy is preferable to revoking MFN. Engagement does not mean endorsement. We do not need to take the drastic step of ending normal trade relations to demonstrate our concern about specific Chinese policies; we do that now.

As our Trade Representative will discuss, we have available, and we use, targeted trade sanctions to achieve specific commercial objectives. We have imposed sanctions against Chinese companies that have sold chemical weapons-related materials to Iran, as you noted.

President Clinton has used U.S. naval power to reinforce America's commitment to a peaceful solution of differences between Beijing and Taipei.

On human rights, we continue to document Chinese practices in our annual report. We again supported a resolution on China at the U.N. Commission on Human Rights, and we have repeatedly called upon China, both publicly and privately, to respect internationally recognized standards.

So, Mr. Chairman, our strategic dialogue has advanced American interests where we and China agree, and revoking MFN is not needed to show our concern in areas where we do not.

Moreover, severing normal trade relations is such an extreme step that it would slam into reverse the current trend towards greater engagement with China and propel us downhill towards hostility and confrontation. This would severely damage America's strategic interests.

For example, the likelihood of further constructed Chinese actions toward the Korean Peninsula where 37,000 American troops are deployed would diminish. We might see a renewal of tension in the Taiwan Strait.

Our efforts to encourage greater restraint on China's arms and arms-related exports would be frustrated. China would well use its veto as a permanent member of the U.N. Security Council to block initiatives that serve U.S. interests.

Economically, revoking MFN would invite retaliation against our exports to China, which directly support 170,000 U.S. jobs and it would add an estimated one-half billion dollars to the cost of products we import.

On human rights, it would likely reduce U.S. influence even further. This explains support for continuing MFN from a number of groups now conducting religious outreach programs in China, and also from well-known dissidents such as Wang Xizhe, one of the heroes of Tiananmen Square. Denial of MFN would also cut the legs out from under the free-market economy of Hong Kong.

Mr. Chairman, at the end of this month I will be traveling to Hong Kong to witness its reversion to Chinese authority. My purpose will be to express American support for the people of Hong Kong, and for the continuation of their democratic way of life.

If Congress votes to suspend MFN, I will have no leverage and very little credibility in conveying that message. To eliminate MFN is to say to the people of Hong Kong, we do not care about your economy, your future, or your freedom. Hong Kong's democratic leaders are unanimous in asking us to remain engaged with China and to continue normal trade relations.

Finally, Mr. Chairman, we return to the question I asked at the outset. What U.S. policy has the greatest potential to encourage China's evolution as a fully-responsible and active participant in the international system? Clearly, revoking MFN is not.

Just as clearly, a policy of acquiescence in which we fail to make clear to China our own interests and values is not it. We believe our current approach is the right one, not because it guarantees instant results which we do not in any case expect, but because it best suits the reality of the United States-China relationship over the long term.

The economic and security future of Asia is not a zero sum game. A China that is integrated economically, that is militarily neither threatened nor threatening, and that is working with others to combat shared global problems would serve the interests of all people, and a China moving in that direction will be exposed constantly to healthy influences from abroad. We cannot, and do not, base our policy on assumptions about the future.

The purpose of our policy is to influence as best we can the shape of that future. Through our strategic dialogue with China, we are doing that, working together where we can, being honest, even blunt, about differences where they persist.

To me, the debate in Congress concerning United States-China policy is instructive, not so much for the differences that are aired, but for the similarities of sentiment that are revealed.

As Secretary of State, I know that regardless of how the MFN issue is decided, I can express American support for open markets, responsible export policies, human rights, and the preservation of Hong Kong's way of life and know that I will have the full support of the American people behind me.

I must also add, however, that it is my judgment as Secretary of State that I will be far more effective in making that case using the means of engagement than by denying normal trade relations.

Thank you, Mr. Chairman and members of the committee. I now will yield the floor to my colleague, Ambassador Barshefsky.

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

The CHAIRMAN. Madam Ambassador, we look forward to your comments.

STATEMENT OF HON. CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador BARSHEFSKY. Thank you, Mr. Chairman and members of the committee. It is a pleasure to appear before you again. This is becoming a weekly event, and I enjoy it.

I appreciate very much this opportunity to discuss the administration's policy toward China, and particularly the trade aspects of that policy. Our bilateral relationship with China is complex and

multifaceted, including, as the Secretary has testified, political, strategic, human rights and trade elements.

President Clinton has implemented a comprehensive policy with China, one which is based on continued engagement on the full range of issues. The reason for that policy is clear: U.S. interests are best served by a secure, stable, and open China.

How China evolves over the next decades will be of profound importance to the American people. The manner in which we engage China will help determine whether it abides by international norms and becomes integrated into the international community, or whether it becomes an unpredictable and destabilizing presence in the world.

We will not achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange, they occurred in times of isolation.

While the administration's policy toward China is one of engagement, let me be clear about what we mean by engagement. As the Secretary has said so well, engagement with China does not mean ignoring our differences. It means actively engaging China to resolve our differences and it means protecting our interests when consultations do not produce results.

The vote on normal trade relations, or MFN, is thus a vote on how best to protect U.S. interests, it is not an endorsement of China's policies. It does pose, however, a choice: a choice between engaging China and making progress on issues that Americans care about, or isolating ourselves from China by severing our economic, and in turn our political, relationship. Our friends and allies, the global community, will continue to conduct normal trade relations with China, displacing U.S. interests and diluting U.S. influence.

Let me turn to the trade aspects of the administration's policy of engagement and why continuing normal trade relations is in the national economic interests of the United States.

I use the term normal trade relations because that is really what we are talking about. MFN status is a misnomer. MFN tariff treatment is the standard tariff treatment we accord virtually all governments. It is this normal treatment that the President's waiver seeks.

As I noted, the United States-China relationship is complex. But trade has played an increasingly central role in that relationship. Just as we should not make apologies for China, we should not apologize for our economic interests in China.

The administration has clear goals that it wants to achieve in its trade policy with China, neither of which would be furthered by MFN revocation. First and foremost, we continue to pursue actively market opening initiatives on a broad scale for U.S. goods, services, and agriculture.

U.S. businesses should have access and the necessary protection for their property in China's market equivalent to that which China receives in the United States, especially in light of our trade deficit with China, due in part to multiple overlapping barriers to trade. We must see greater balance in our overall trade relationship, with high growth in our exports to China in areas where U.S. companies maintain a comparative advantage.

Second, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade. That is, ensuring that China's trade and economic policies are consistent with international trade practices and norms.

Mr. Chairman, neither of these goals will be achieved if MFN is revoked. Rather, bilateral negotiations and the use of targeted trade sanctions where necessary have resulted in landmark textiles and intellectual property rights agreements with China, and in the 1992 Market Access Agreement. Each is based on international norms and each commits China to a rule of law with respect to that particular area.

Under the textiles agreements, China's shipments to the United States have been reduced, illegal transshipment punished, and for the first time market access for U.S. textiles and apparel into China will be possible.

Under the intellectual property rights agreements, China has revamped entirely its administrative and enforcement regimes at both the central and provincial levels for IPR protection.

It has closed some 40 pirating factories, imposed harsh penalties against offenders, and provided market access to our sound recording and motion picture industries.

While serious problems remain, particularly with respect to computer software, important progress has been made. Under the 1992 Market Access Agreement, China has eliminated over 1,000 non-tariff barriers, made its trade regime more transparent, and lowered tariffs.

While we have made some limited progress on agricultural market access, the use by China of non-scientific sanitary and phytosanitary barriers to our agricultural trade remains a persistent problem. This must be rectified, but MFN revocation would only set us back.

Maximizing market access and accelerating the development in China of the rule of law are also at the heart of our accession negotiations for China's entry into the WTO. At this juncture, while China has shown a greater seriousness in the accession talks, it has yet to put forward acceptable market access offers for goods, services, and agriculture. We will continue to work with China on a commercially meaningful protocol of accession, negotiations we should foster rather than jeopardize were MFN to be revoked.

The effects of MFN revocation, of course, go beyond our current and future bilateral and multilateral initiatives. MFN revocation would, as the Secretary has said, cut U.S. exports to China, increase prices to U.S. consumers, and cost jobs in this country. An added factor this year is the destabilizing effect that MFN revocation would have on Hong Kong.

We estimate that the revocation of MFN would increase tariffs on imports from China to a trade-weighted average, as Senator Moynihan has pointed out, of about 44 percent, from their current level of about 6 percent.

Even accounting for changes in trade flows, revocation would result in U.S. consumers paying approximately \$590 million more each year for low-end goods such as shoes, clothing, and small appliances. For manufacturers, the cost of goods made with Chinese

components would increase, reducing the competitiveness of their finished products abroad.

If MFN treatment were revoked, China would be likely to retaliate against U.S. exports by increasing tariffs, exacerbating a negative economic situation. U.S. exports to China have nearly quadrupled over the past decade.

Those exports support more than 170,000 jobs in the U.S. Jobs based on goods exports pay 13 to 16 percent more on average than non-export related jobs. Revoking MFN would jeopardize U.S. exports and U.S. jobs, thus transferring those opportunities and those jobs to Europe, Japan, and other competitors.

The situation in Hong Kong this year provides another compelling reason for continuing normal trade relations with China. MFN revocation would deal Hong Kong a devastating economic blow and would have a destabilizing effect.

Trade is a particularly important part of the economic life of Hong Kong. Somewhere between 50 and 70 percent of United States-China trade is handled through Hong Kong, thus making it highly dependent on continued normal trade relations between China and the United States.

Hong Kong authorities estimate that MFN revocation would slash its trade volume by \$20-30 billion, resulting in the loss of as many as 85,000 jobs. Hong Kong's economic strength is one of its chief assets in ensuring its autonomy and viability. Hong Kong leaders, including Democrat Party leader Martin Lee, British Governor Patten, and Anson Chan, the most senior civil servant, have spoken out strongly in favor of renewal of MFN. The implication is clear: bilateral trade between the United States and China encouraged by MFN treatment provides needed stability at a time of dramatic change.

Mr. Chairman and members of the committee, as I noted earlier, providing MFN tariff treatment is the norm in U.S. trade, not the exception. In every year since 1980, every U.S. President has supported extending it. Granting MFN treatment means that China will receive the same tariff treatment as nearly every other U.S. trading partner.

We have a long history of providing the same basic level of tariff treatment to other countries and maintaining normal trade relations with the global community.

Congress has enacted into our law a presumption that normal trade relations will exist between us and other countries. Maintaining such relations is vital to a broad array of U.S. interests, as Secretary Albright has said, and maintaining normal trade relations with China is no less vital.

Thank you.

The CHAIRMAN. Thank you, Madam Ambassador.

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

The CHAIRMAN. Madam Secretary, every year we have a fight over whether or not to renew China normal relations or MFN, whatever you call it, despite the fact that a majority of Congress, at least to date, have been supportive of continuing it.

One alternative to this would be permanent MFN, or normal trade relations. Under what circumstances would the administration agree to give China permanent MFN?

Secretary ALBRIGHT. I think, Mr. Chairman, you are quite correct in stating that this discussion is one that in many ways is a complicating factor in terms of the way we approach our whole relationship with China. It does raise some very important issues, and I think that we always welcome the raising of issues.

But I think it is our intention to consult very closely with all of you about such possibilities as you are discussing, and we would just like to at this stage say we would like to be involved in consultations widely on the Hill in order to determine whether to move towards a permanent status.

The CHAIRMAN. There have been concerns voiced recently that China may take advantage of the fact that our export control laws are more relaxed for Hong Kong than for China. What steps is the administration taking to ensure that the Chinese do not exploit this difference in treatment?

Let me ask you this further question. What steps are the administration taking to ensure that China does not use its recent purchases of super-computers from the United States for the production of more sophisticated weapons?

Secretary ALBRIGHT. Let me, first, answer the first part of the question on Hong Kong. First of all, the way that the Hong Kong reversion is being set up, it will have a separate Customs area and we will be monitoring very closely, specifically the transfer, as you had discussed the possibility. We are going to maintain a highly disciplined approach in looking at high-tech, dual-use items. So the way that it is set up is one that allows us to distinguish between what is going on in Hong Kong and in China.

In terms of the super-computer question, I would like to give you a fairly full answer on that, because this issue has come up today. The administration, in 1995, revised its controls on super-computers, recognizing that super-computers were becoming more powerful and increasingly available worldwide.

But, in liberalizing these controls, the administration made special provision for licensing super-computers to China, and other countries of proliferation concern, so as to ensure against sales to the Chinese military or for any military end use.

As a result, we require licenses in the range of 2,000 to 7,000 MTOPs for military-related sales, and licenses for all computers to China whose capability is greater and poses a potential national security risk.

It is true that we are investigating some cases of super-computer sales to China, and we are looking at additional ways in which we might be able to provide exporters with more information on entities of proliferation risk. But we continue to believe that our policy takes into account the significant changes in computer technology, while protecting our non-proliferation goals.

The CHAIRMAN. Madam Barshefsky, our growing bilateral trade deficit with China is, indeed, troubling, particularly in view of the fact that much of it is due to the numerous trade barriers China has imposed on U.S. imports.

My question to you is, what is the administration doing to address these barriers, to provide market access, and to open up more export opportunities in China for U.S. companies?

Ambassador BARSHEFSKY. Let me say, first, Mr. Chairman, that we should look at what the causes of the trade deficit might be. We do know that there has been a fairly significant shift of productive capacity from Japan, Taiwan, Hong Kong, and other Asian nations to Mainland China.

If we look at a couple of specific examples, we see that, for example, in footwear, China's share of U.S. imports used to be about 9 percent, and the rest of the world's share was about 50 percent. Those numbers have virtually flipped. Now China is supplying the bulk of footwear, with the rest of the world supplying much less and the Asian nations supplying lesser still.

So we know that there has been a substantial shift and a change in our trade balances with some of the other Asian countries. Apart from that, though, it is absolutely vital that we continue the market opening efforts that we have begun, through the textiles and intellectual property rights agreement, the market access memorandum of understanding, the best opportunity for comprehensive market access, and reform of China's trade regime generally is through WTO negotiations.

The CHAIRMAN. My time is up, but I will ask one more question.

Those who cite the trade deficit with China as one reason to oppose MFN believe that revocation of Most Favored Nation or normal trade relations for China will severely curb our imports of Chinese goods and, thus, improve our trade balance. What is your view of this argument?

Ambassador BARSHEFSKY. First off, certainly there would be a curb of Chinese imports into the United States. But the unfortunate assumption made in the argument, or presumption of the argument, is that that means that those products would be produced or supplied by U.S. manufacturers.

China exports to the United States very low-end goods, low-end apparel, low-end toys, low-end consumer electronics, goods that we have been importing from many sources over many, many years. We would simply be shifting China's trade imbalance to other nations.

The CHAIRMAN. We are limiting members' questions to 5 minutes. Further questions can be submitted in writing any time today.

Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I will just ask one question of the Secretary, on an aspect of our continued engagement with China, which you describe as essential, and, absent normal trade relations, is much less likely to produce results. It is almost a half a century since the Korean War, the first and last war fought under United Nations auspices and working in the manner that the U.N. Charter anticipated.

At one point in the war, China invaded the peninsula. U.S. forces and Chinese forces were at war for the first time, really, ever. A half century has gone by, and that war is still on. It is the only such conflict left in the world.

Do you have any feeling about the Chinese view on this matter, and are we engaged with them? Do you feel that, in the context of continued normal trade relations, we would have an opportunity to deal with this anomaly?

Secretary ALBRIGHT. Senator, I think you have, as is characteristic of you, put your finger on a very important point of this discussion. For the most part, as the discussion plays out, people think that it is a trade-off between human rights and trade policy when, in truth, the issue that we are looking at here is a strategic relationship with the growing power of China within its region. We need to keep our eye on that. Chairman Roth spoke about the importance of the strategic relationship. That is the issue here.

While we are talking about trade and human rights, and those are important from the perspective of the Secretary of State, the strategic relationship is key. Where it is very pointed is especially in the area that you are talking about—Korea.

The Chinese have, in fact, been very helpful to us in terms of dealing with the issue of North Korean potential in the nuclear area, and have been backing us in terms of the framework agreement. They also are very much a part of where we are heading with the Koreans, which is to try to get 4-party talks ultimately on the potential unification of the Korean Peninsula.

Of all of the examples that we have been talking about, their role in terms of our long-range interests in Korea is very important. Their strategic relationship on nuclear non-proliferation issues and on Korea are what we need to keep our eye on. So this is a strategic issue we are talking about, not a trade-off between trade and human rights.

Senator MOYNIHAN. And do you have some grounds for optimism? You cannot have your post without being optimistic.

Secretary ALBRIGHT. That is true. Well, I think that we have had some fairly positive discussions in New York as we have moved forward towards 4-party talks. I do remain optimistic, but I also do not want to get overly optimistic about dates.

Senator MOYNIHAN. Yes.

Secretary ALBRIGHT. But I think that we are moving in that direction, and I think we should have some of those talks in the near future.

Senator MOYNIHAN. Good. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Gramm.

OPENING STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM TEXAS

Senator GRAMM. Mr. Chairman, thank you very much.

I want to thank both of our witnesses for excellent testimony. I am on their side, so I would like to take most of my time in making basically an opening statement.

The newest estimates that I have seen from the Heritage Foundation tell us that about 220,000 American jobs are generated by trade with China, and about 10 percent, or 22,000, of those jobs are in the State that I represent in Texas.

I am not for normal trade with China because it is good for China, though it is good for China. I am fundamentally for it be-

cause it is good for the United States of America and it is good for my State. It creates jobs, growth, and opportunity in my State.

Also, the flip side, which is seldom discussed in the politics of trade, it expands consumer choice in America, it lowers prices for consumer goods, and it raises living standards in America.

I have never been impressed by protectionist arguments, so let me address the isolation and the political argument. I think there are circumstances where, as a matter of foreign policy, we might want to try to isolate a nation. But I do not think you can isolate a billion people. I do not think you can isolate a country that really represents the only country in the world that has the potential of being our rival in the 21st century.

So, I do not see isolation as an option. If isolation really produced reform, North Korea would be utopia. It is hard for me to believe the people who are making the argument for isolation in the name of reform are serious.

Basically, if we want reform we want more freedom. What is clearly happening in China, is that China, very wisely, is expanding economic freedom because that is the key to their economic growth.

Now, I do not doubt that those who run a repressive government in China would like to have economic freedom without its corollary, political freedom. But in wanting that, they are hoping for something that has never, ever existed. Nor do I believe you can preserve political freedom while being oppressive economically. I guess I would have to say that I view freedom as being like pregnancy, you cannot have a little of it.

So I support trading with China because it is in our interests, but I also support it because I believe that their economic liberalization is unleashing a thirst for freedom that cannot, and will not, be suppressed. Ultimately, China cannot have economic growth and political repression.

In the end, I believe that our current policy and China's economic liberalization will ultimately change their political system and in the process will lift the very repression that those who oppose MFN are claiming to want.

But I would say, and I do throw this out as a question in conclusion, I think it is bad policy that we are undertaking here where we vote on this every year. I am sure everybody here will recall that in the last year of the Bush administration, he was forced to veto a bill that would have ended normal trade relations with China. And I do not doubt that there are some people who voted for that bill for political reasons; perhaps the same thing is starting to happen now.

The problem with it is, when people cast these political votes they then find it difficult to come back when they are shooting with real bullets. If we can find some way to end this policy where we have to vote every year on normal trade relations, it seems to me that we eliminate the potential that each year, or as elections occur and different parties are in the White House, we get more and more people who have staked out the wrong position. Ultimately, it is going to put us in a position of really jeopardizing trade.

If we could come up with a way of ending this process and grant, as a permanent status, normal trade relations where the vote

would always be on revoking those trade relations and that would be an extraordinary event, I think we could benefit ourselves greatly and eliminate the risk of what could be a virtually economic insane policy.

I would like to throw that open to both of our witnesses to get their response.

Secretary ALBRIGHT. Let me just start on that. First of all, thank you very much for that statement, Senator Gramm, because I think that you capsulated the points very clearly about the importance of having these normal trade relations.

I agree with you in the way that you describe the effects of isolation on China. Also, I would like to say, and this goes with your real question, is I do think it is important to raise our concerns about Chinese behavior.

We would do that whether there was this annual debate or not, because Chinese behavior does concern us. It does concern us in the human rights area, it does concern us in terms of non-proliferation issues, and it obviously concerns us in the kinds of important issues that Ambassador Barshefsky was talking about, of opening access to their markets.

But I do not think it is necessary, always, to have this kind of a debate that undercuts the strategic value of our relationship. But, as I have said, any grant of MFN permanently would require a change in the legislation and, therefore, does require extensive consultation with all of you. I think that it is important for us to hear what you are saying on this subject now.

Ambassador BARSHEFSKY. I do not have anything to add to that. Thank you.

Senator GRAMM. Mr. Chairman, I would like to put a more lengthy statement in the record.

The CHAIRMAN. Without objection.

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

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. Thank you, Mr. Chairman.

First, Madam Secretary, I want to compliment you on your speech at Harvard. It was very bold, it was forthright, it was a statement that should be made.

Second, I am very impressed with, and very much agree with, the American strategic policy in Asia.

I was in Korea, North Korea, China, Hong Kong 2 weeks ago for 1 week.

I was very impressed with our military forces on the peninsula in Korea, and generally with American foreign policy. I think our strategic goal in trying to establish stability in that part of the world is working, in the main, quite well, and I compliment the administration.

My main point, though, is to follow up a little bit on the points of Senator Gramm. This is really a nutty debate that we are having here. It does not make any sense whatsoever. We obviously should extend MFN to China. This annual debate, I think is de-

structive. It undermines our ability to "engage" properly with China.

We do not have this debate with any other country. What would happen, for example, if we had an annual debate on whether to extend MFN to Japan, or an annual debate on whether to extend MFN to France, or to Germany, or Italy, or any other country?

We would come up with all kinds of reasons why we have problems with those countries. Everybody under the sun would come before the Congress and introduce his resolutions limiting or conditioning MFN, and whatnot.

So my real question is, and it is really Senator Gramm's question, in a sense, is how do we get this issue behind us so that we are dealing with real issues with China, not with MFN?

I have two suggestions. No. 1, is that we do grant permanent MFN once China enters the WTO on commercially acceptable principles. That is only fair, because if China does become a member of the WTO, then it's only fair that we have the same trading relations with China as we do with every other country that is in the WTO.

But beyond that, I urge the administration—in addition to yourselves, I am talking about the President and Vice President—to become more deeply involved in our strategic trade policy for the rest of this year and into the rest of this century.

I am worried, frankly, that fast track is slowing down. It is not that fast. I am worried that the administration, perhaps, is getting a little sidetracked, or perhaps the Chinese are too, about alleged campaign violations. I think if there is any truth to those allegations, they could be handled separately and delinked, not in context of whether we have MFN with China and not in the context of the WTO.

There are precedents. For example, I think some years ago people from India were giving campaign contributions in violation of the law, and those people were summarily prosecuted. I think, if I recall correctly, an ambassador was dismissed. But we dealt with it separately from trading issues or other issues that we had with India. They were delinked.

I do fear that if we do not step up to the plate here as a country and the President and Vice President themselves get more engaged, that we are going to slip, we Americans, with respect to other countries in Asia. When I was over there I heard constantly that other countries are much more active than we Americans. We Americans are liked in China, but other countries are much more active.

If we are going to be No. 1 in the world, and we want to be, as Americans, I think it is critical that we find a way to extend MFN here with as few votes as possible. Because it is stupid, in my judgment, not to extend MFN if you stop and think about it for any length of time at all.

Then to try to work with China on a mutually acceptable basis to try to get China really into the WTO on time, so President Jiang Zemin can come over here and we can grant permanent WTO, and maybe start working on fast track.

But I am very concerned that we are slipping and we are talking around the edges here, to a great degree, rather than getting to the

heart of the matter and getting on with it. I would just urge you to get on with it.

Secretary ALBRIGHT. Let me just take up the latter part of your point, and let Ambassador Barshefsky address the first.

On the issue of, generally, our relationships with Asia, I know it might have seemed symbolic, but I think it was an important symbol that on my first trip abroad I made it a point of going to Europe and Asia, simultaneously, almost, in order to show the equal importance of the regions to American foreign policy.

We are pursuing that tack, in terms of making sure that it is clear that we are a Pacific Nation as well as an Atlantic Nation, that we have broad, not only trade interests, but strategic interests in the region, and also, Senator, that we are progressing on a road map that we have in terms of elaborating and enlarging our relationship with the Chinese across the board in terms of military to military contacts, moving in terms of meetings that we are having at higher and higher levels, and, in fact, making clear that our relationship with a country that now has 1.2 billion people, and will have more, is essential in terms of our looking at all regional strategic stability. We will obviously be talking about this a great deal more.

Ambassador BARSHEFSKY. Senator, may I just say that I do not think that what you see in the current discussion is actually, as you said, sort of talking around the edges. I think what you are seeing is an evolution in thinking on the part of many people with respect to the best way in which to conduct a strategic trade relationship and a strategic overall relationship with China.

There has been a lot of evolution, I think, in the thinking of many, many people. First, that the MFN debate that we have tends to be corrosive of the relationship. I think there is a more widespread feeling that that may be the case.

Second, that we should not have a single issue relationship with China, but that we should work to ensure that the broad array of interests that we have with China, whether human rights, non-proliferation, trade, other matters, can be fully and effectively addressed. That suggests in and of itself a more strategic way of thinking about China.

Third, I think there is a growing consensus that, without helping China to develop notions of the rule of law, we will not make, long term, the kind of progress that we would like to see with respect to the broader strategic relationship or with respect to China's adherence to individual commitments, whether with respect to non-proliferation, human rights, or trade.

On the trade side, of course, the WTO negotiations embody many of these aspects. It would place the trade relationship on a predictable footing. It would provide a rule of law basis on which to judge China's actions in the commercial field, and it would bring China into a global trading community that would, to be frank, discipline many of China's current practices.

Senator BAUCUS. Yes. I agree with your policy. I am just suggesting that the President himself get more directly involved so we can get there more quickly. That is what I meant when I said talking around the edges.

Ambassador BARSHEFSKY. Certainly the President will be more directly involved.

May I add one footnote on fast track, since you raised fast track. That is, fast track is on a fast track. We will be proceeding in consultations with the committee on developing the bill, and we will introduce that bill in the fall.

Senator BAUCUS. So how far away is the end?

Ambassador BARSHEFSKY. The end is 1997.

Senator BAUCUS. All right. Thank you.

The CHAIRMAN. Senator Rockefeller.

**OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV,
A U.S. SENATOR FROM WEST VIRGINIA**

Senator ROCKEFELLER. Thank you, Mr. Chairman. I welcome both our witnesses.

We have had, obviously, as a country just an overwhelming fascinating with China. I know that Senator Moynihan and others will remember Teddy White's book in 1937, I think it was, called Thunder Out of China. It was sort of the whole process of how we did not at all understand what was going on in China at that time.

But, because there has always been this very good relationship in terms of our relationship with them, a feeling back and forth, we have had this feeling that we can manipulate or bend China's internal habits to our own instincts. That is a little bit like Christians trying to reconvert the Japanese. They have been at it for 400 years and there are still less than one-half of 1 percent. I mean, these are not the same kinds of countries that we deal with.

China has a 5,000-year history. It has never for a single day of that period had a democracy. There is no concept of it. It was feudal lords, it was emperors, empresses. It is just very different.

You, yourself, Madam Secretary, pointed out their usefulness in Korea, and also in Cambodia. It seems to me that we have to face the fact that what we are doing here is discussing whether or not to do a truly negative thing.

In other words, we are not saying are we going to give MFN to China, we are going to say, are we going to reject the President's request for his granting again. If we were to reject that, that would be a highly negative thing.

Now, I think you have to sort of take China where it is right now. At least, this is my own view. It is a country with a history 500 times longer than our own, one which is through little things called satellite dishes, through certain provinces on the Eastern coast is awakening dramatically to the whole question of economic capacity. If you look at what is happening in Taiwan, and then imagine what will be happening in China, PRC, it is an extraordinary thought.

It also occurs to me that if we were to reject the President's request, then we would be saying to China, we look at you as we look at Cuba, we look at you as we look at Laos, we look at you as we look at North Korea, we look at you as we look at Serbia Montenegro, et cetera. That, I think, would be an extremely damaging thing to do.

I just want to say that I think that the real question for each of you is a question of, how do you maximize the leverage that you

need, to whatever extent America can influence trade relations, to whatever extent we can influence the diminution of repression of protests in China.

Your own State Department report says that there really is not any of that allowed now. We understand that. There never really has been. It was tried at Tiananmen Square, with terrible results. But that does not mean that China cannot evolve.

I think the great equalizer in the way countries change is what happens to their economy and the way their people have a sense of their own future. If they have a sense of their own future which is positive, and if the younger generation of government leaders coming up in China who are going to be over the next 10 years gradually taking over, more practical people, it seems to me that represents our best hope for leverage.

Therefore, to take away your leverage, as you say, to send you to Hong Kong and having rejected the President's request, rejected MFN for China, would be no favor either to ourselves or to you. If foreign policy, which is today more and more foreign economic policy as well as foreign diplomatic and political policy, it seems the best thing we can do is send you with this MFN well intact.

I think I also would be inclined to think it should be there on a permanent basis, simply because I think that inconsistency is the enemy of sort of the continuity that you are trying to build, each of you in your own way, with China.

So I think I would just say that, and then add one more thing for Ambassador Barshefsky on fast track. That is, there are, I think, at least two bills. Now, that is not related to MFN, I understand it, but you have been discussing it.

There are at least two bills, I believe, in the Senate now which specifically ban the phrase "or appropriate." They include the word "necessary" in fast track, but not "or appropriate."

It is amazing how many people do not know about the importance of the words "or appropriate" and how that relates to your ability, in terms of section 337, intellectual property circumvention, antidumping, all kinds of other areas.

So I would just point that out to you and to the committee, that I think having our colleagues understand the importance of the words "or appropriate" is part of the overall leverage that we are talking about. It is like the 7th Fleet. That is part of our leverage, and so is trade, the ability to sanction and to go back and forth on those. All of these are forms of leverage. And I think a form of leverage, frankly, which will be positive but very slow in coming and not perfect, is continuation of MFN.

I thank the Chairman.

The CHAIRMAN. Senator Grassley.

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY,
A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Thank you, Mr. Chairman.

I know that each of our witnesses would expect me to say that the stakes are very high in this debate for agriculture because it is quite obvious that China is either going to be our biggest competitor or our biggest market.

But I also think that the stakes are very, very high for everybody, on every issue, not only for us, but for the world. I think comity among nations, besides the economic issues that are involved, it is not only a question of comity between the United States and China, but this relationship is going to have an impact on our relationships with a large section of the world, particularly in Asia.

It is not something that we can be namby-pamby about. We have got to look at this straight on. A policy of isolationism is going to not work with China. It might work with some countries, but it is not going to work with China.

It seems to me that, through trade, we are going to promote not only our liberal political philosophies, but also our economic policies of free enterprise. Our belief that these raise the standard of living through the United States and throughout the world has got to apply to the Chinese people as well. I think we have seen that policy already paying dividends.

As that standard of living in China has been raised, it is just going to open up opportunities for trade that are beyond even the possibility of belief today. At least, that is what I believe the future holds for us on this issue.

I believe that not only the United States is better off, but even the Chinese people are better off and the world is better off as a whole as we strengthen our relationships with other countries through trade. So, revoking this tool of normal trading relations is a very blunt and ineffective way of making our points with the Chinese.

I applaud what we have done to be tough with the Chinese when we need to be, but we have done it with a rifle shot approach in each instance, not with a shotgun approach that would be the case if we were to revoke normal trading relations.

We have problems with the Chinese. Well, we have opportunities and forums to deal with those. Right now, what we are doing through the World Trade Organization debate and the conditions on which they come are the way of developing open markets and transparency, and also the balance of trade issues, and all of the things that even involve agriculture.

So I think that is a better forum. It is a legitimate forum. It is a forum where we do not have to worry about the Chinese if they do not get everything the way they want it, turning inwardly.

But this is a condition we have had and a relationship we have had with them now, I think, for 16 years and it is doing some good, I think, economically, a miraculous amount of good, not only for our country but for theirs. We can continue to improve the political and economic environment relationships with China in the process.

If I could, I would like to ask the first question of Ms. Barshefsky on the point that you made, I think, of hundreds of millions of dollars, that if we revoke normal trading relations with China that we are going to have higher prices for our consumers, particularly for clothes and shoes.

So let me ask, from an economic point, of the good to the American consumer. If that does happen, is that not going to fall hardest on the lower income people within our country?

Ambassador BARSHEFSKY. Yes, Senator. It is our estimate that, given the quality of the Chinese merchandise that comes in and its

general price level, that revocation of MFN would fall most hardest on economically less advantaged people in the United States.

Senator GRASSLEY. And you have already discussed that our trade deficit with China should be addressed at the WTO negotiations and not by revoking normal trade relations. So maybe you could give us an update. To what extent can we reverse the direction of our deficit then during these negotiations, or maybe the extent to which you are committed to doing that through these negotiations?

Ambassador BARSHEFSKY. Certainly we have to be committed to seeing substantial improvement in the bilateral balances through bilateral market access opening efforts, as well as through WTO accession.

Thus far, China has demonstrated an increased seriousness in the talks. It has come forward with better offers than in the past, though clearly still unacceptable to us with respect to goods, services, and agriculture.

We have made some progress on the rules side of the equation, that any accession necessitates not only market access, but also adherence to the full range of WTO rules. Here, China has been somewhat more forthcoming. We will be meeting with the Chinese bilaterally next week, we will be meeting with them in Geneva in July, and we would hope to prod them to make further significant progress in the talks.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

I, too, wish to applaud our two witnesses for their very helpful testimony.

Madam Secretary, in your column that appeared in this morning's Washington Post, you have the sentence, "Whether our particular interest in China is diplomatic, security, commercial, or humanitarian, our overriding objective is to encourage in China full respect for the rule of law."

Implicit in that sentence is the feeling that we have some capacity to encourage China towards that recognition and respect of the rule of law. Your testimony today has urged that we put aside the issue of normal trade relations as one of the factors in the influencing of China towards the objective of rule of law.

I would like to ask, therefore, a couple of questions. First, what are the other items that are within our portfolio to influence China towards the full respect for the rule of law?

Second, looking at this chronologically, do you believe that our capacity to use that portfolio of influences is greater, less, or about the same today than it was 10 years ago, and what are the prospects of our ability to influence China towards the rule of law 10 years into the future?

Secretary ALBRIGHT. Senator, let me say first of all, that I think there are a number of tools that countries have to influence the behavior of other countries. They are different, I think, at different stages for each of the countries. That is what we are all paid to do.

I believe that actually there is a close connection between having normal trade relations with China and also encouraging the rule

of law, because what we are finding is that there is legislation or patterns of conduct that are necessary when carrying on trade relations that encourage the rule of law, whether it be in having more organized investment relations or issues to do with any number of the issues that my colleague works on that require a legal basis.

We are pressing this also, for instance, in the former Soviet Union, or in the New Independent States, their investment treaties and tax legislation, that does create within a country a basis for recognizing the importance of the rule of law. So there is kind of incremental understanding of the necessity of rule of law in order to carry on normal relations.

Also, there are a number of other tools that we have, specifically in the human rights area, where we raise the issues that concern us in a number of ways at the United Nations, also in bilateral relationships, and where we are pressing the Chinese to become a part of the international rule of law by signing on to the Human Rights Covenants.

We also are, in fact, looking at ways to increase the amount of freedom of expression. We are looking at the possibility of additional funding for Radio Free Asia that would allow us to talk with them more, or with the people, about the importance of the rule of law.

In fact, funding, specifically, would enable us to work with the Chinese on expanding the rule of law.

You asked the question about 10 years. I happen to think that basically we have much greater influence if we can, in fact, engage with them to kind of perpetuate our ideas and seed our ideas there in terms of the importance of the rule of law.

Therefore, while China, in fact, is becoming more powerful, I would say that our influence with them will increase geometrically with our engagement with them. We are less likely to have an influence on them at all if we do not engage and talk.

But, as I said in my remarks, engagement is not endorsement. Therefore, by engaging and having a dialogue we are more likely to be able to get our ideas about the rule of law across.

Senator GRAHAM. Ambassador Barshefsky, one of the areas of influence over China is in attempting to resolve some of our specific outstanding disputes. Just to mention two, in 1992 there was a memorandum of understanding on market access for agricultural products which has largely gone unrealized.

China, in 1958, became a member of what is referred to as the New York Convention relative to the use of arbitration as a means at resolving commercial disputes. There are now a series of those arbitration awards, which China has refused to recognize.

How do you see us using our influence, other than that which is contained in the denial of Most Favored Nation in order to facilitate the resolution of these and other existing commercial disputes with China.

Ambassador BARSHEFSKY. With respect, Senator, to the disputes on agriculture, I indicated in my testimony that China continues to use non-scientific sanitary and phytosanitary standards as a means of keeping many of our agricultural commodities out.

We have made some progress with China in selected areas, cherries, apples, most recently in grapes just 2 weeks ago, poultry, sev-

eral other areas. Of course, China is a major purchaser of U.S. wheat—though not Pacific Northwest wheat—U.S. wheat, cotton, coarse grains, and so on.

The areas most heavily impacted by its non-scientific sanitary and phytosanitary restrictions are citrus, as well as Pacific Northwest wheat, and some of the stone fruits. We are working with China on those. China understands that it will need to resolve agricultural trade issues in order to be a member of the WTO.

With respect to this question of the enforceability of arbitral awards in China, this is a persistent and continuing problem. Our embassy in Beijing has been actively engaged on these issues, and we will continue to press the Chinese.

May I add one other point with respect to your question to the Secretary when you talked about means of influencing the development of rule of law in China. When we did the intellectual property rights agreements, one of our goals was, in fact, to remedy inadequate access to China's court system with respect to intellectual property violations.

Included in that were, first off, the question of uniform filing fees, the payment to get into a court; second, the evidentiary rules that would apply; third, the need to make decisions coming out of the case; and then fourth, the imposition of fines or criminal penalties for persistent violators.

We worked out rules with China in each of these areas, not only because we needed with them to an effective IPR enforcement regime, but also because better understanding by China of the way in which judicial systems operate in most countries will enhance the rule of law over a broader spectrum of issues than simply intellectual property rights.

The CHAIRMAN. Senator Murkowski.

**OPENING STATEMENT OF HON. FRANK H. MURKOWSKI,
A U.S. SENATOR FROM ALASKA**

Senator MURKOWSKI. Thank you, Mr. Chairman.

I, too, want to greet our Secretary of State and our U.S. Trade Representative.

It would be probably inappropriate, and I will not do it, Mr. Chairman, to mention to Secretary of State Albright the continuing concern I have regarding the Canadian-Alaska Pacific Northwest salmon treaty and the problems we have had with Canadian actions.

Further, the outstanding \$287,000 that the State Department paid the Canadian Government 3 years ago to release Alaska-bound fisherman that were in transit, and that is still an outstanding item, as the Secretary knows.

So I will not bring that up, Mr. Chairman, because we are here today for the annual spring ritual of renewing China's Most Favored Nation status, or, more accurately, normal trading status. But I would predict, Mr. Chairman, that we will in the end retain trading relationships with one of the world's largest emerging economic powers.

Of course, much has been written about the debate over MFN, including whether fundamental change has actually occurred, and whether there are alternative paths. Do we choose engagement,

striving to bring China into the international community on terms we support, or the other alternative, which appears to be isolation, allowing China to enter the international arena on terms beyond our control.

Which path will achieve the goals we want and help the people of China, the people we really want to help? I think the answer is obvious to all of us. I think MFN should be renewed unconditionally, not because it is a reward to the government of China, but because revocation of Most Favored Nation status hurts the very people that we want to help.

We have many concerns with China, ranging from the treatment of dissidents and Christians, weapons proliferation, and I could go on and on, but severing economic ties is not the right tool to address these issues. I think revoking Most Favored Nation status only succeeds in hurting Americans, hurting reformers, and hurting the people of Hong Kong and Taiwan, which leads me to two questions.

I have the honor of leading the Senate delegation to Hong Kong for the transfer from Great Britain to the PRC on the 30th. I noted today—I must admit, in full disclosure, I did not note it, but it was provided to me—from the Los Angeles Times, June 10. “Washington Secretary of State Madeleine Albright would boycott, if invited to the installation July 1 of the new Hong Kong legislature, officials said Monday.” To attend, “would not be appropriate,” the State Department’s Nicholas Brown said, because Hong Kong already had a perfectly good legislative group elected under British rule.

My question, Madam Secretary, is it likely that you will not be invited?

Secretary ALBRIGHT. Well, first of all, can I answer your question that you did not ask?

Senator MURKOWSKI. Sure.

Secretary ALBRIGHT. Let me say that the issue of the salmon is something that has been on my mind, as well as the breakdown in terms of the negotiations. In the last couple of weeks I have been on the phone several times with Foreign Minister Axworthy on this subject, trying to make sure that the negotiations can resume so the stakeholders can have some of their issues dealt with. So on this non-issue we will continue to have a non-discussion.

Senator MURKOWSKI. Thank you for that assurance. [Laughter.]

That gives you a little more time on the other one.

Secretary ALBRIGHT. Let me say on the issue of Hong Kong, I had decided some time ago that I would accept the British invitation to go to witness the reversion of Hong Kong to the Chinese, but I have decided that, if invited at this moment to go to, a conditioned hypothetical installation of the non-elected legislative council, I personally would not attend and it is important for us to make clear that we, at a high level, do not endorse what they are doing.

Besides, it is going to be at 1:30 at night, so we can talk more about what I think your intentions are and how we can work together.

Senator MURKOWSKI. Well, thank you. I do not know whether the members of the Senate delegation that I am going to lead are going

to be up at that time, but I assume we are likely to follow your lead. You are telling us you are not a late-night person on that particular night.

Secretary ALBRIGHT. On that particular night.

Senator MURKOWSKI. I got the message. [Laughter.]

The last question relative to MFN, is we talk about hurting the reformers and the people of Hong Kong and Taiwan. What effect do you think actions in Taiwan prior to the transfer in Hong Kong will have on China-Taiwan relations, recognizing the so-called rally which is going to be held in Taipei on the 28th of June? I believe the rallying cry is, "Just Say No to China."

Secretary ALBRIGHT. Well, I think that here it is important from the American perspective to keep this all separated. I think that from our perspective we would like to make sure that the Hong Kong way of life is preserved.

It is a point that we are making over and over again to the Chinese in a variety of settings. We will continue to do that. That, frankly, is also one of the purposes of my going in the first place, to make clear how important it is to us that the way of life be preserved.

I think that it is essential that the United States keep very clear track of this. I do not particularly want to comment on how the people of Taiwan are looking at this; they have their own agenda on this.

But the U.S. agenda here is to make sure that the reversion is such that it does, in fact, preserve the way of life of Hong Kong and that the very important trading relationships that we have with Hong Kong continue to be preserved, and that the Chinese recognize, as they have, the right for us to have a consulate there and the CHP visits continue. Those are the issues that are of concern to us.

Senator MURKOWSKI. And you will just watch the 28th demonstrations in Taiwan relative to Just Say No to China.

Secretary ALBRIGHT. Yes.

Senator MURKOWSKI. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman.

Madam Secretary, my phone has been ringing a lot on China, and most of the calls are coming in urging me not to support MFN, and most of the calls have some sort of script that they are reading, and they are very much concerned about human rights. That is the dominant concern. I must say, I very much appreciate the increased attention that people in my State are paying to human rights.

My State benefits enormously from trade with China. I know that in your testimony you say that our policy has not failed, at least in that regard. Can you help me with what you think I should be saying to people in Nebraska when they call up and talk to me about how our trade policies, if not our overall policies, with China have not resulted in improvement in their treatment to their own citizens?

Secretary ALBRIGHT. Well, first of all, I think, Senator, that it is very important for your constituents and other Americans to understand what this debate is about. It is about whether to have normal trading relations with a country that has 1.2 billion people and that is important to the United States for strategic reasons.

This debate, to a great extent, comes down in the popular media to a discussion of trade versus human rights, and that is not what this ought to be about. It ought to be about what our relationship with this huge, and potentially powerful, country should be. Strategically, they have been useful and important to us in terms of dealing with Korea, Cambodia, issues of non-proliferation, and environmental issues.

So to do a trade-off here is, I think, a mistake in terms of how this discussion is portrayed. But I do respect those who are concerned about human rights in China. I have been, and continue to be, myself. But I think the issue here is what the right tool is.

We will pursue trying to get China to improve its human rights record, whether it is through the United Nations or through our continued sanctions as a result of the Tiananmen Square incident, and also by making it clear that it is essential for them to improve their human rights record, generally.

Senator Rockefeller spoke a lot about the history of China, and I think it is very important for us to understand that. It is also very important for us to understand American history and our own dedication to human rights.

Senator KERREY. I guess what impresses me, Madam Secretary, is that people are saying we understand that we get tremendous benefits from the trade, but we are willing to pay a price.

We had 60,000 people turn out in the rain to see the Moving Wall that came to Nebraska. Senator Hagel and I sponsored it, and it is coming there. Although there was great disagreement in the country about whether that war should have been continued, I am very much impressed with how people are saying that America fought for freedom.

We fought for the liberation of a people. What was moving about the end of the Cold War was the liberation. It must have been far more moving for you than for me. We paid a price in the Cold War. We did not achieve a victory as a consequence of saying that we are going to just do business as usual, we are saying we are going to pay more. We are going to put ourselves on the line and we are going to take some chances.

I have voted for MFN, and I intend to this time around, but it seems to me that we need a strategy that puts liberty at the top of our agenda and says that, at times, we are going to subordinate our economic interests and we are going to be willing to put ourselves on the line for somebody else's freedom.

You spoke very eloquently about this on the 50th anniversary of the Marshall Plan at Harvard last week, and I must say I was very moved myself by the words. But at some point we, as you quite know, need to act.

Let me ask whether or not specifically, because it seems to me that one of the things we need to be doing is shifting this agenda, this debate, over into the WTO. One of the problems we have in just going bilateral with China, is that Airbus comes in right be-

hind us and takes advantage of whatever it is that we do. One of the reasons that the Cold War was successful, was that it was multilateral.

As you look at accession into the WTO, are you, Ambassador Barshefsky, looking at and considering some kind of both carrot and stick to get the Chinese to do what is necessary to ascend in the WTO, specifically on the stick side looking at the possibility of saying that some kind of tariff is going to be applied if accession does not occur?

In other words, it seems to me that it is in our interests, as well as the long-term interests of the Chinese, for them to ascend in the WTO. But I also believe that China is going to suffer some tremendous dislocation as they move into a market economy.

I mean, they have got, what, 400 million people living on farms, 40, or as much as 50 percent live in rural areas. In a straight market economy they can tolerate maybe 3 or 4 percent. So there is no question there will be disruptions that will occur as a consequence of meeting the requirements of the WTO.

So I am wondering if you have considered some sticks as well as carrots and could talk to me a little bit about what the Administration is doing to expedite this process of getting China into the WTO.

Secretary ALBRIGHT. Before Ambassador Barshefsky answers, let me just make the following point. I appreciate your kind words about my speech, and I obviously stand by them.

I think the issue here is that it is not a matter of denigrating our own interest in human rights in China by saying we ought to go forward with MFN.

The mistake, I think, is that many people believe that by linking human rights to trade, that we are actually getting more purchase or more leverage on getting human rights situations rectified in China. We have found that that is not true and that it is very important to go at the human rights agenda separately and to make sure that we stay engaged with China, and, as I said, engagement is not endorsement.

It is essential that we keep the human rights agenda front and center, but not literally cut off our nose to spite our face here because not only would we lose trade, but we would lose access to the Chinese society. In order to push for human rights, I think we need to have that kind of engagement, and then make very clear the importance that we place on human rights.

Ambassador BARSHEFSKY. Senator, let me just say that the accession talks are moving slowly, but they are moving. China understands that it is in its interests to join the WTO, both because it accords China a kind of political recognition it does not now have, and also because, particularly with respect to reform elements in China, it locks China into a path that they view as one leading to greater prosperity within its own country.

While we have not raised with China specifically an increase in duties were it not to become a member of the WTO in a timely fashion by making market access and other commitments, we have communicated to the Chinese that the benefits of the recently concluded Information Technology Agreement and Telecommunications

Agreements will not be provided to China unless it is a member of the WTO.

Senator KERREY. The red light is on, and I am done. But would you be friendly to, or opposed to, changing U.S. law that would impose tariffs or duties if accession does not occur?

Ambassador BARSHEFSKY. I think it is an issue we would want to look at fairly carefully and work with you on. Certainly there may be some difficulties with that approach, but we would like to sit down with you and work on the issue.

Senator KERREY. I know fear works for me.

The CHAIRMAN. Well, I want to thank both of you for being here today. We said we would get you out by 10:40, and I think we will achieve that. Let me just emphasize that I think this is only the opening salvo for ensuring that normal relations continue.

I think, as Bob Kerrey and others have expressed, there are strong forces to the contrary and they raise some very, very legitimate points. But I do think by working together and by leadership being provided, not only by the two of you but at the highest level, we can assure that Most Favored Nation treatment will continue, but it should not be taken for granted.

Thank you both for being here. We look forward to continuing to work with you on this most critical issue.

Secretary ALBRIGHT. Thank you very much.

Ambassador BARSHEFSKY. Thank you very much.

The CHAIRMAN. Thank you.

Our next panel of witnesses include Ms. Barbara Shailor, who is director of International Affairs for the AFL-CIO; Mr. T. Kumar, who is an advocacy director for Amnesty International; Mr. Qingtun Liang, who is president of AN Enterprises, and former leader of the 1989 Tiananmen Student Movement; Mr. Lawrence Pemble, who is executive vice president of United States-China Industrial Exchange; and finally, Mr. Edvard Torjesen, who is executive director of the Evergreen Family Friendship Service.

Welcome. I think what we will do is proceed in the order we introduced you.

Ms. Shailor.

STATEMENT OF BARBARA SHAILOR, DIRECTOR OF INTERNATIONAL AFFAIRS, AFL-CIO, WASHINGTON, DC

Ms. SHAILOR. Thank you, Mr. Chairman and members of the committee, for this opportunity to present the views of the AFL-CIO on the extension of Most Favored Nation trading status to China.

As we have in the past, we are opposing granting China continued access to the U.S. market on the same terms as other trading partners. Our opposition has not changed, but then neither have the objective conditions with respect to China's denial of basic worker rights, its brutal repression of dissidents, its flaunting of international agreements on arms sales, market access, intellectual property rights, forced labor, and the environment.

The massive and growing U.S. trade deficit with China makes clear the serious consequences of China's non-reciprocal and discriminatory trade and investment policies. These policies have cost

American workers jobs and have created a downward pressure on their wages.

What has changed, is that another year has gone by, another year in which the Chinese Government has failed to improve its human or worker rights conditions, and has failed to honor the agreements it has signed.

Our trade deficit continues to grow, while our exports remain stagnant. If anything, repression has worsened. The State Department's human rights report declares, "No dissidents were known to be active at the year's end." This is because each and every one is in prison, exiled, intimidated into silence. Over one billion citizens and not one active dissident.

MFN proponents have argued that continued trade growth will bring democracy to China. Already the Chinese Government has announced that it is rolling back civil liberties in Hong Kong.

The U.S. Government has extended MFN trading privileges to China every year for the last 17 years, and has little to show for it. What should be clear, is that passivity in the face of repression and abuse of power is not working. What we should have learned from these past 8 years is that accommodation, mixed with hopes, does not, has not, and will not work.

The few signs of progress we have seen, either in human rights or in intellectual property rights protection, have come when trade sanctions seemed most imminent. When Congress voted to impose trade sanctions against China in 1989 and 1990 in the wake of the Tiananmen Square massacre, Chinese Government responded by releasing several hundred dissidents. When President Clinton delinked MFN from human rights in 1994, most efforts by the Chinese Government to demonstrate progress on human rights ended.

The U.S. Government did not get the attention of the Chinese Government with respect to intellectual property rights until Ambassador Barshefsky threatened to impose trade sanctions in 1995.

Ours has been a strategy of accommodation, both to the Chinese Government and to U.S. companies investing in and trading with China. Meanwhile, the Chinese Government has accelerated its mercantilistic growth strategy, consolidating political, economic, and military power.

The issue of greatest concern to the AFL-CIO is the Chinese Government's repression of free and independent labor unions. Attempting to organize a union independent of the Communist Party is a crime. Labor organizers face longer sentences than students or intellectuals. Perhaps this is because the establishment of free trade unions poses the greatest threat to a totalitarian government.

Working conditions in industries such as toys, apparel and electronics, many Chinese firms that are exporting goods to the United States are deplorable: excessive working hours, violation of minimum wage laws, poor health and safety conditions, and physical abuse by managers.

Terrible working conditions and the lack of unions may in the end undermine the very stability U.S. multinational corporations have sought to foster in China.

It is an ongoing scandal that companies owned by the Chinese People's Liberation Army continue to sell their goods in American stores.

The Chinese have failed to comply with the 1992 memorandum of understanding on prison labor. Forced labor products continue to come into our country, while our trade deficit continues to skyrocket, reaching nearly \$40 billion this year.

For all the hoopla about the size of the Chinese market, the United States sold more goods last year to Belgium, Singapore and the Netherlands. And for all the talk about jobs supported by U.S. exports to China, 9 out of 10 of the top exports surplus categories were in raw materials and in intermediate goods.

With China's policy of extorting technology transfers and production capacity from American companies, exporting to China is costing the United States good jobs in aircraft and in the automotive sectors. Transfer in technology for short-term market access will take its toll for decades to come.

The AFL-CIO supports trade expansion, international engagement, and sustainable development, but the Chinese Government is not engaging in free trade and we will help neither the vast majority of the Chinese citizens, nor our own country by ignoring this basic fact.

Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. Thank you, Ms. Shailor.

[The prepared statement of Ms. Shailor appears in the appendix.]

The CHAIRMAN. Next, we will call on Mr. Kumar.

STATEMENT OF T. KUMAR, ADVOCACY DIRECTOR FOR ASIAN AND PACIFIC PROGRAMS, AMNESTY INTERNATIONAL USA, WASHINGTON, DC

Mr. KUMAR. Thank you, Mr. Chairman and distinguished members of this committee.

Amnesty International is pleased to testify at this hearing. I have been asked to focus on the human rights implications of maintaining normal trade relations with China.

I would like to point out that unless the administration gives priority to trade and human rights, the current abuses are likely to continue.

Amnesty International does not take a position on a number of issues, including linking human rights to economic sanctions. Since we do not take a position on economic sanctions, we also do not take a position on the renewal of normal trade relations, or MFN.

However, we strongly believe that the protection of human rights around the world should be taken into consideration whenever U.S. foreign policy is addressed.

The human rights situation in China has deteriorated in recent years. As a result, last year Amnesty International launched an international campaign to highlight the abuses in China. Dissent in any form is repressed in China. Even high-profile political prisoners like Wei Jingsheng and Wang Dan have been imprisoned without any hesitation.

We have released several reports detailing the human rights situation in China. These reports include torture, unfair trials, imprisonment of dissidents, mass executions, widespread of forced labor, persecution of religious groups, the practice of forced abortion to enforce the one child policy, and the operation in Tibet.

On the issue of Tibet, Amnesty International wishes to recognize the longstanding work of Senator Moynihan. Thank you, Senator, for your leadership on this issue.

Over the years, Amnesty International has pressed the Clinton administration to pursue a strong, clear, and consistent human rights policy towards China and other countries.

The Clinton administration deserves praise for being willing to publicly confront China at Geneva, especially in light of the extremely disappointing behavior of some other countries, particularly France. However, the Administration has given mixed and confusing signals to China regarding its concern over human rights.

One shocking example of this took place last December, when President Clinton met in the Oval Office with Chinese defense minister General Chi Haotian, who, at the time of the Tiananmen Square massacre, had operational control over the involved troops.

This meeting was not required by protocol, it was plainly a good-will gesture to the man who personally directed the butchery in Tiananmen Square. Worse still, it took place literally on the eve of International Human Rights Day, December 10.

By meeting with General Chi Haotian, President Clinton has given a clear signal to the Chinese, that human rights are not a priority. It is ironic, Mr. Chairman, that while President Clinton gave a red carpet welcome to General Chi, he only paid a drop-by visit to His Holiness the Dalai Lama, our fellow Nobel Laureate.

Actions such as these have damaged the credibility of the Clinton administration and its seriousness in pursuing and advocating human rights.

U.S. actions regarding China have gone much too far towards signaling that one issue dominates United States-China policy. But that issue is not human rights, it is trade. We are not against trade. What we are concerned with is trade without human rights.

Despite improved trade relations, human rights abuses are on the rise in China. Unless human rights and trade are given equal priority, human rights abuses are likely to continue in the current pattern in China.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Kumar.

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

The CHAIRMAN. Next, I would call on Mr. Liang.

STATEMENT OF QINGTUN LIANG, PRESIDENT, AN ENTERPRISES, AND FORMER LEADER OF 1989 TIANANMEN STUDENT MOVEMENT, SAN FRANCISCO, CA

Mr. LIANG. Thank you, Mr. Chairman and thank you to all the members to give me this opportunity to testify today about a very serious concern, trade relations with China.

Part of my general background is already somehow familiar to all of you through my more famous colleagues of Tiananmen Square, Wang Dan, Cai Lin, Shen Tong, and others.

I have never told my own story to the American public until now. However, I am moved to do so now in this MFN debate in order to explain why I, a former student leader in Tiananmen Square, support MFN trade status to China.

First, let me tell you just a bit about myself to put a human face on what I have to say. Nothing in my life, before or since, will ever compare to those days in the spring of 1989 in Tiananmen Square where I was one of the student leaders.

Elected to the nine-member committee of the Autonomous Federation of Students in Beijing, one of China's first true non-governmental associations, I participated in all major decision-making processes of the 1989 Movement, including the failed negotiation with Premier Li Peng to end the hunger strike. And, while struggling to organize the withdrawal of the students in the Square on June 4, 1989, I experienced first-hand China's darkest hour.

After funerals and memorial services for the innocent students who died in the massacre, I had to go into hiding, since the Chinese Communist Party posted my name as No. 7 on the Most Wanted list everywhere in China.

During my year underground I outgrew my instinctive anger and had time to instead think rationally about China's contemporary situation and its future.

The close contacts I had with China's common people strengthened my opinion of the necessity for China to continue on its path of reform and change, and that such change could only come through peaceful evolution; and the deep sorrow I still felt towards all the dead in the Movement, common citizens of Beijing, students, and even soldiers fooled by the power brokers reminded me that they sacrificed their lives not for political power struggles, but the prosperity and welfare of the Chinese people.

With these beliefs in mind, I joined the overseas democracy and human rights organizations, chairing both the Promotion and Fundraising Committees of the Alliance for a Democratic China, the largest pro-democracy organization overseas, and served as Council Member and a long-time advisor for the Independent Federation of Chinese Students and Scholars, which IFCSS is a familiar term to most of the members.

Continuing to take an active part in the Movement for human rights, democracy, freedom, and justice in China, in 1995 I made an independent step of my own. By this time, China's economy had grown and pockets of independent space were emerging in between the state and the mass society.

Inspired by the ultimate goals of the students movement and even the hunger strike—seeking dialogue between the decision-makers and the people at all levels of society—and out of concern for the Chinese people's welfare instead of ideological conflicts, I founded China Society.

Its purpose, to promote and maintain constructive communication, exchanges, and dialogue between China and the United States and to foster civil society in China by strengthening its non-government organizations in the fields of art, culture, education, rural development, environmental protection, religion, and spirituality and other areas ignored or even outlawed by the Chinese Government.

During my 7 years of exile thus far, my contacts with Chinese independent artists, musicians, educators, law professionals, business leaders, legislators, and even senior governmental officials in local and central government did not cease, but instead increased substantially, in no small part due to flourishing trade. My con-

fidence in the emergence of a viable civil society and democracy in China is stronger than ever.

In general, I support MFN trade status to China from the following perspective. No. 1, trade creates exchange of information and ideas as well as of goods and capital. I, myself and other colleagues in the Student's Movement may be the best example. We all derived our political philosophy from the Open Door era, which was actually forced to be open by China's economic situation.

No. 2, trade acts as a leverage for promoting human rights, democracy, and the rule of law in China, and business people can be the best lobbyists for those causes.

No. 3, China's free thinkers, including myself, my colleagues in prison, such as Mr. Wang Dan, Wei Jingsheng, all support MFN. They are all told that we should think of the people instead of ourselves. We should be the mature representatives of the people.

No. 4, China's common students, who died in Tiananmen Square, all supported MFN. What they died for is communication, dialogue, engagement, not containment and not isolation.

No. 5, trade helps to establish, development, and maintain human changes between our two great nations and, furthermore, fosters a civil society in China.

All of China's society's changing programs are either directly benefitting or directly enhanced by the trade relationship between the United States and China.

Today, a week from the anniversary of the June 4 massacre, I am honored to have been given such an important opportunity to properly commemorate my colleagues with this testimony supporting normal trade relations with China.

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

The CHAIRMAN. Thank you, Mr. Liang.

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

The CHAIRMAN. Next, we will call on Mr. Pemble.

STATEMENT OF LAWRENCE PEMBLE, EXECUTIVE VICE PRESIDENT, UNITED STATES-CHINA INDUSTRIAL EXCHANGE, INC., BETHESDA, MD

Mr. PEMBLE. Thank you, Mr. Chairman.

I would like to thank the committee for the opportunity to speak today on the subject of normal trade relations with China. It is an issue that, in my opinion, the United States approaches poorly and with repeatedly detrimental results.

I hope that perhaps my company's experience will provide an unusual point of reference for you. At the core of my company, which is United States-China Industrial Exchange, also known as Chindex, is a group of Americans who have been working exclusively in China since 1981. We are all fluent Chinese speakers. Many of us have degrees in Chinese and Asian studies. Many of us have lived in China for extended periods of time.

By American corporate standards, Chindex is a small public company. We employ 135 people, 120 of whom are in China. We export American medical and industrial equipment to China, and will open the first in a series of private hospitals in China this year.

Chindex desires normal trade relations between the United States and China. It is a fact that through normal relations,

through the process of normal interaction and engagement, that the most progress is made on all fronts: humanitarian, diplomatic, strategic, cultural, educational, spiritual, and commercial.

I have spent my career taking an American message to China. The benefits and influences which my company has brought to both America and China in the course of my work extend far beyond the balance sheet.

But we need your help to continue to do that. We need a firm, reliable, and stable relationship between the United States and China in order to continue to grow. We need your help to stay competitive in the international marketplace.

We need your help to reassure our employees, both American and Chinese, that we will live through another year of this China-bashing process. We need your help to reassure our Chinese customers that we will be around next year to support the goods that we have sold them.

We need your help to prove to them that our government will not pull the rug out from under us. The revocation of MFN status, normal trade status, would be a devastating blow to Chindex, a U.S. company and the exporter of approximately \$35 million in medical and industrial equipment which we are responsible for annually.

In such a scenario, our 135 employees would no longer have jobs. Beyond that, it would seriously affect the U.S. manufacturers whose equipment we sell in China. Our clients are headquartered in 14 States across the country, and we have exported equipment from almost every State in America. All of these companies would be adversely affected if the United States dissolved the normal trading relationship that it has now with China.

Throughout Chindex's history as a company, one of our goals has been to improve the condition of health care in China. This year, after several years in development, Chindex will open its first private hospital in Beijing, a women and children's hospital.

Our plans are to open several more of these hospitals throughout China during the next several years. Without MFN and a sustained normal trading relationship between the United States and China, our programs, which are improving health care in China, will be seriously jeopardized.

American business is often criticized in this China MFN dialogue for being focused solely on commercial issues. We are accused of being lobbyists for Beijing and of selling out on human rights.

Frankly, I think the people who accuse us of this are spending too much time in the United States reading and thinking about China, and not enough time in China learning about what is really going on there and how much progress has been made.

Of course, we should all understand that progress is not perfection. Those of us who know China best have a keen awareness of the problems there. But we also have an appreciation of the context of these problems and an appreciation of how a trade war with China will make them worse, not better.

When I first went to China as a student in 1979, I found a country whose citizens were very suspicious, distrustful, and fearful of their government. Today, there is a much more open and frank discussion. Today there is also no hesitation or fear in rendering frank opinions of China's leaders, which can all be quite unflattering.

Our company and others like it, large and small, transfer American values and business practices to China. At Chindex, our Chinese managers are using American concepts of competitiveness, level playing fields, flexibility in the marketplace, cooperation, fairness, honest dealing, and a commitment to customer service.

Through the normal course of engagement between America and China, Chinese can now rent American videos, buy a copy of the International Herald Tribune, watch the NBA playoffs, eat dinner at Pizza Hut, buy Robert Ludlum novels, King James bibles, and the Koran, and sign onto the Internet. I can tell you from personal experience that none of these things was possible in 1979.

Why should we renew unconditional MFN status this year? The reasons are the same as they have always been: only America loses in a trade war with China. The bottom line is simple. American interests are best served through stable, reliable, and sustained engagement with China at all levels.

Thank you for the opportunity to have appeared before you today on behalf of myself and all of my colleagues at Chindex. I sincerely hope that you will continue to support normal trading status in China.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Pemble.

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

The CHAIRMAN. Finally, Mr. Torjesen.

**STATEMENT OF EDVARD TORJESEN, EXECUTIVE DIRECTOR,
EVERGREEN FAMILY FRIENDSHIP SERVICE, COLORADO
SPRINGS, CO**

Mr. TORJESEN. I represent the Evergreen Family Friendship Service, which is a public benefit service corporation operating in China. We have a long, long history in China, dating back to my parents' work in China in the 1920's and 1930's. I, myself, was born out there.

Let me just read a few statements from my paper. In 1937, when I was 13, and as our family was back en route to China after a home assignment, the news came of the Japanese army's unprovoked attack and aggression into North China. We got off the ship in Hong Kong and got inland as far as Hankou in Central China.

Gradually, my father was able to relocate our family in a safe area in South Central China. However, during those transfers I saw with my own eyes unforgettable scenes of the devastation caused even in the Central Yangtze Valley as a result of Japan's invasion and air attacks.

In time, my father was able, through patient negotiation, to get safe conduct passes from both Nationalist commanders and the Eighth Route Army, enabling him to get back up to Hequ, his station in Northwest Shanxi. Here he soon found himself busy helping to provide better security for the local people in the insecurity they were facing as a result of the military actions in the area.

Two years later, my mother was able to join him. However, by then the Japanese aggression had escalated to air attacks against those remote, small towns of N.W. Shanxi. In one of those air attacks my father's life also was taken.

I will skip down a little bit. I am glad that I can now take you to a new step in our personal involvement with China. Through a remarkable set of circumstances, in 1988 the doors were open for my sister and brother to visit our hometown of Hequ.

They learned during those two visits that our father's—name in Chinese, Ye Yongqing, meaning Leaf Eternally Green—was on the county's list of martyrs for the people. His grave had long since been leveled, however, the town leaders now assured them, you come back and we will set up a memorial for your father.

In 1990, during a formal meeting in the Governor's reception hall in Taiyuan we were invited to come back to Shanxi and live there on a long-term basis and help with the province's needed social and economic development.

On the basis of that invitation, the Evergreen Family Friendship Service was incorporated in California in 1992 as a nonprofit, public benefit organization. In 1993, our registered office was opened in Taiyuan, Shanxi's capital. In 1996, last year, we were granted incorporation in this province as a wholly-owned foreign enterprise under the name Shanxi Evergreen Service.

Stranger than fiction? Yes, maybe. But these developments happened under God's grace and in accordance with the laws of both Shanxi and California. We are deeply grateful.

However, if we just deal with China in terms of our American perspective, we will totally miss the mark. We need to get into China, learn Chinese, and understand the dynamics of the Chinese society.

You have asked me to focus my testimony on the religious issues involved in this MFN debate. This would require both a balanced consideration of the main religious groups within the United States and China, and also an evaluation of their relationships to the total society in both countries.

Your motion for today's meeting focuses positively on renewing the normal trade relations with China, which should be our first consideration. However, if this motion should fail does this committee then have an adequate picture of the impact such a failure would have on our two countries?

I am aware that some Christians here in America are calling for the revocation of China's Most Favored Nation status. However, that position cannot be described as the Christian position. These friends seem not to have accepted that MFN is not a favor which the United States capriciously grants to its trading partners.

The CHAIRMAN. Please proceed.

Mr. TORJESEN. It is the backbone of the United States-China relationship, a relationship which has also been beneficial for the church in China. Moreover, if the United States were to revoke the MFN status for China the result likely would be the opposite of what these friends are hoping for.

Because of the agitation of these friends here in our country, the church out there could be blamed for undermining the government's economic program of reform. Christians in China could be subject to the wrath of their political leaders, as well as the populace in general, if they should see their hope for a better future dashed. Our own work in the country could also suffer, getting curtailed rather than expanding, as now.

It is clearly in the interest of the church in China that normal trade relations between China and the United States be retained. I know of no Chinese Christian who favors revoking MFN.

On the contrary, my fellow believers in China recognize that it is by keeping the door open that we can work together to create a more and more open China where Christians can gradually get a greater and greater role in shaping the future of that great country.

Today, I encourage you to take that same long-term view, realizing that the seeds of commitment to the Chinese people and nation which you sow now will bear lasting fruits in terms of peace and prosperity not only in China, but also in the world at large.

I thank you for your patience.

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

The CHAIRMAN. I thank you very much for your very eloquent statement, Mr. Torjesen.

I wonder, what sort of measures would you recommend we take to promote greater religious freedom in China?

Mr. TORJESEN. I think the most important thing is to encourage the development of the church that is functioning above ground and legally, rather than as so many that are working with an underground church.

That is causing embarrassment because the Chinese society is an autocratic society and the stability of the government depends on it being able to show that it keeps the society intact and cohesive. When they see movements going off to the right or left or too much that is not in conformity, they get very, very concerned. With much of the underground movement, you see that happening.

There are house churches that are functioning in perfect peace and they are working with nearby registered churches, and things are going very, very well. But when underground or unregistered churches get very active and get foreign support, it does cause trouble. I would say the best thing we can do is to help the church that functions legally, and it is growing very, very fast and it has experienced tremendous spiritual revivals.

The CHAIRMAN. Let me ask you one further question. Could you tell us, has there been any difference in the treatment of Christians before and after China instituted economic reform?

Mr. TORJESEN. There certainly has been a change of the treatment. Under Mao Tse Tung, when he started the peasant revolution, all Christians, all independent thinkers, as well as the land owners were treated pretty roughly in the people's courts, and so on. Many of the Christians were sent out to remote areas to learn from the people.

When Mao Tse Tung continued his work and the ship of state went on the rocks and the economy went down, it became very, very clear that China needed to develop economically and modernizations came into play. These, of course, are what has driven Chinese developments in the last 20, 30 years.

During that period, they learned that the Christians were the best workers in the communes and work brigades. There was a saying which I learned about in my research back on the Evangelical China Committee. There was a saying circulating that the

best Communists in China are the Christians, not because they were politically inclined, but they delivered the goods in a faithful way.

When the ship of state went on the rocks and Deng Xio Peng came on the scene and abolished the planned economy and put the country on a free, open-market economy, they realized that they needed to get the Christians back into the active stream of society, largely to counteract the corruption and greed that was appearing. During that time there was also a tremendous concern that we get back to the old gospel which they used to hear from their grandparents.

Then Deng Xio Peng realized that it was time to get all of these Christian leaders that had been in prison 10, 20, 30 years, to get them back into society. These men and women who had been in prison 10, 20, and 30 years, they were in their 60's, 70's, and 80's, they came back to their home churches, villages, and cities and they became the honorary leaders, chaplains, of many of these churches. As a result, there has been just a tremendous development of spiritual growth in these Chinese churches. We have witnessed, in the open, registered churches, baptisms of over 500 people at a time, taking 3 to 4 hours.

Just 6 weeks ago in Beijing, we were in a church in the center of the city that had 1,300 people on its main floor listening to a 2-hour service. In the basement they had another 1,000 people listening by radio loudspeaker, and watching on a TV screen.

There has been a tremendous difference, started when these old men and women were released from prison and came back to their home churches. Right now, we need to support this movement with all the help we can give them.

The CHAIRMAN. Thank you.

Ms. Shailor, I appreciate your being here. I know that organized labor has consistently argued that we should not maintain normal trade relations with China, largely because of the denial of basic worker rights.

But I guess my question is, how does revocation of normal trade relations improve the condition of workers in China, or for that matter, the United States?

Ms. SHAILOR. Thank you, Mr. Chairman. President Sweeny had the opportunity, with leaders from the G-7 labor unions around the world, to speak with President Clinton, Vice President Gore, Secretary of the Treasury Ruben, as well as the Secretary of Labor Alexis Herman on a number of issues. Most significant in those discussions was the inclusion of worker rights discussions within trade agreements.

So to answer your questions specifically on China, we believe by extending a normal trading relationship with China these last 17 years we have not seen the kind of progress that would indicate that we should continue to treat China as a normal trading partner. We are hopeful that we can find mechanisms in which we can create pressure that would open up what is rapidly becoming a state capitalist system.

I have had the opportunity to travel through China and through the aerospace and auto industrial facilities on a number of occasions, and I can tell you that the conditions in American facilities

are such that the mechanisms we have used so far are clearly not moving the labor openness forward in any way that would benefit American workers.

The CHAIRMAN. Thank you.

Mr. Liang, among the young, do you think there still is a thirst for freedom and for democracy in China? Do you think the movement still exists?

Mr. LIANG. Certainly. I think they are still pursuing freedom and democracy, and obviously prosperity in China. In the last 8 years, since 1989, people started to realize that, first of all, China should be changed. Second, we should change our peaceful approach, we have been always consistent with the Tiananmen Square Students Movement.

Students in China obviously are concerned about prosperity more than ever, but somehow they are still pursuing the freedom of academic research and they are also pursuing the independent culture inside China, which is one of the most important issues that China's society has been dedicated to promote, the independent cultural movement.

China Society, my own organization, and some other colleagues inside China, such as Mr. Wang Dan, the No. 1 student on the Most Wanted list who was one of my colleagues in Tiananmen Square with me, all agree that China should be changed peacefully, and that the best way for us to change is to follow the models of the West, and also to promote the ideals of civil society.

The CHAIRMAN. Do you have any estimate of how many Chinese students study abroad?

Mr. LIANG. Well, while I was one of the council members for IFCSS, we got nearly 80,000.

The CHAIRMAN. Eighty-Thousand.

Mr. LIANG. Eighty-Thousand members. That was about a year and a half ago. Thank you, Mr. Chairman.

The CHAIRMAN. My last question I would ask of you, Mr. Liang, but also the other two gentlemen, Mr. Pemble and Mr. Kumar.

How do you compare freedom today with the time before the economic reform began? Do you see any significant change in liberty, freedom, human rights? Mr. Liang?

Mr. LIANG. Well, I do see a lot of changes since the beginning. First of all, we got more space to promote the ideas of civil society in China. Back in the 1980's we could not do anything about the independent cultural movement.

Rock musicians were prohibited from performing, and all other independent artists, such as avant garde artists, were not allowed to do anything abroad or domestically in China.

But what we do see is a lot of delegations of musicians, delegations of artists in the fields of performing arts, video arts, and other areas coming out from China, coming to the United States and to other Western countries. This could be a very significant change.

I also see that the freedom of economy in China also grants people freedom to speak against, or speak independently from the government. Now they have private property and the work relied on the government for salaries, now they do have private property. They do have their own strengths to be independent from the gov-

ernment, and I think it is very important for them to pursue further freedom in China.

The CHAIRMAN. Mr. Kumar.

Mr. KUMAR. Yes, I would like to comment on the human rights aspect of it. From Amnesty International's perspective, things have deteriorated drastically over the years. I do not think there is anyone who disagreed with that assessment.

Even the State Department's own country report last year, 1996, stated, "All public dissent against the Party and the government was effectively silenced by intimidation, exile, the imposition of prison terms, administrative detention or house arrest. No dissidents were known to be active at year's end." So we totally agree with that, and obviously it shows the same thing. Thank you.

The CHAIRMAN. Mr. Pemble.

Mr. PEMBLE. Mr. Chairman, thank you. I think among the community of people who travel often to China, it is often heard that every time you go to China things are dramatically different, from several perspectives. My opinion here is very much along those lines. Things have changed certainly in dramatic ways since I first went to China in the late 1970's and early 1980's, in many, many ways.

As has been commented here today and often in this discussion, you cannot have economic development without political and social development. I think Mr. Liang's comment is quite appropriate in this context. Chindex also engages in an aspect of training Chinese physicians here in the United States and we, every year, have several hundred Chinese physicians coming through the United States being exposed to health care. This is one of our primary areas of endeavor.

We see this as a fundamental component of change and freedom of the mind, exposure to conditions in America in the health care system, and by connotation these physicians are in a position over time to bring about some fundamental change in the quality of life and the freedoms available to the Chinese people.

The CHAIRMAN. Thank you.

Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, this has been an extraordinarily helpful panel to me and such extraordinary persons on it. I hear two things, and I think it is possible to understand that there would be. To start, just an anecdote. My first visit to Peking was in 1975. There in the middle of Tiananmen Square were two vast flagpoles, if you will.

Looking down in the center of the square were two hirsute, 19th century German gentlemen, with stiff collars and black ties, Marx and Engels. Then a rather Mongoloid Stalin, and then Mao. Absolutely closed. I mean, what on earth was going on in the minds that were running that place? A big issue.

Our then representative, George Bush, took me around. We would go from embassy to embassy, to the ambassadors' residences. The big question was, when would the, I think, Fourth National People's Congress take place? It was going to be a mass affair, 10,000 people in Tiananmen Square, in the great hall of the people.

Well, the French were certain it was going to be in June. This was now January. The British thought sooner. They thought maybe

April. Others thought it was going to be canceled altogether. Wherever you went, you got a different view. After a week there, I flew off to Tokyo and we learned that the Fourth People's Congress had taken place that week. Nobody noticed 10,000 people coming in and out, it was that closed. Now we learn that you get the Herald Tribune, Time Magazine at the newsstand. It is obviously a very different world.

I was struck by the similarity in our testimony today. Mr. Liang commented that China's economic growth has created pockets of independent space between the state and mass society, and I think that is something that you spoke about, Mr. Torjesen, in the notion of pockets of autonomy. That was helpful.

I think it is true that you apparently are having the emergence of state capitalism, market Leninism, or something like that. But it is not the closed society it was. Amnesty International, to which the world owes so much. Mr. Kumar, do not ever settle for anything less than what you think is right. Things are a little different now.

It was just appalling that our President should greet the Chinese defense minister in the Oval Office, the man who had been in charge at Tiananmen Square, whilst just dropping by the Dalai Lama.

Still, think of all of those Chinese students in this country. There were no Chinese students in this country in 1975, would that not be right, sir? Nobody was given a passport here; there was no expectation that they would come back. Something has changed. I do not know more than I have just said, but there has been change.

This testimony has been very powerful and very helpful, and I thank you all.

Mr. Kumar, you were very generous in your remarks.

Mr. KUMAR. Thank you very much.

The CHAIRMAN. Senator Moseley-Braun.

OPENING STATEMENT OF HON. CAROL MOSELEY-BRAUN, A U.S. SENATOR FROM ILLINOIS

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

I also want to congratulate and commend the panel for a really illuminating discussion. I had occasion within the last month to meet with a small manufacturer of lamps in Illinois, outside of Chicago.

The first question he put to me had to do with renewal of MFN for China and he expressed some concerns that his industry did not have access to Chinese markets, and indeed had suffered because of what he considered to be dumping of cheaply-produced goods into this market.

So we talked about his business and we talked about the impacts in terms of the trade issue, but he was really unsettled, as I think many people are, by the notion that there is almost nothing one can do about it because it is such a huge market, and to turn around and try to resort to what would effectively be unilateral sanction would kind of be cutting off your nose to spite your face.

So we have this debate back and forth, and I have been very troubled by this issue precisely because it is one that has so many aspects, but as much the point, for those of us who believe that our

foreign policy ought to follow our values, we are really troubled by the difference, by the fact that there is no free press, for all intents and purposes. There may be pockets of autonomy, but individual liberty is an alien concept. The markets may be more free now, but it is still a controlled economy.

So we are troubled by these things, particularly when you talk about human rights and labor standards. I mean, I, for one, am very interested in what happens with regard to child labor. There is no consensus there about child labor.

So, having said all of that, one of the great unspokens in this whole debate about renewal of MFN is why it is that we go through this exercise every year to begin with.

Senator Moynihan's staffer was kind enough to get me the statutory language, because title 4 of the Trade Act of 1974, known as Jackson-Vanik, relates to freedom of emigration in East-West trade, but it says, "To assure the continued dedication of the United States to fundamental human rights, and notwithstanding any other provision of the law on or after the date of the enactment of this act, products from any non-market economy country shall not be eligible to receive non-discriminatory treatment, e.g., MFN." Then it goes on to say, "unless the President certifies that emigration is open."

Well, the salient point here is that China, you can call it a state capitalist system or a Communist system under reform, but the fact is, it is still a controlled economy with Communist roots. That makes it very different than the free markets, the open markets and free enterprise that we start up. So you are almost starting from two polar opposite perspectives in terms of dealing with the trade issues. So I find it kind of curious.

Unfortunately, I was not here for the Secretary or the Trade Representative's actual testimony, although I watched it at the other meeting I was at. I am really troubled that it almost gets ignored in the discussion. We are making progress and moving forward without any real discussion of why it is that we are here to begin with.

We are here because we are talking about a Communist country that is changing, but has not yet gotten to the point where its handling of the fabric, its mending of the fabric of its society in any way comports with our own system of values regarding freedom, human rights, and trade standards, and labor rights, and child labor, and freedom of the press, and the like.

Now, in addition, when the human rights get violated it is not just private sector actors that are violating human rights or relying on child labor or jailed labor, but that the violation of those labor and human rights standards are officially condoned. That also puts yet another dimension on all of this.

Having said that, I have reached the conclusion that denial of MFN, however, is a singularly inelegant response, for reasons I think that come out of this primarily because I do not know but that we do not foreclose our own voice in favor of human rights if we move in that direction.

So I am still very, very torn on this issue and very concerned because, as Ms. Shailor has said in her statement, it has been 17

years and we have been saying for 17 years that engagement will get us to reform, and it has not happened yet.

But then I am struck by the fact that our policy has been all over the map in that 17 years. So, in the absence of consistency in the way that we relate to other parts of the world and in the absence of consistency in terms of guidance, what our expectations are, I do not know but that Jackson-Vanik, this trade act, does not give us a necessary kind of protection and leverage that we ought to keep in place, at least, in order to raise this debate and hopefully shape the debate in favor of human rights and in favor of the emergence of the individual autonomy and religious freedom, about which everyone here has spoken.

So, Mr. Chairman, that is my observation. Thank you very much. I thank the members. I had a question on child labor, but I will pass on it and perhaps give it to you in writing. Thank you.

The CHAIRMAN. Thank you.

Let me also thank the panel for the excellence of their testimony. I think it has been extraordinarily insightful and we appreciate the opportunity of hearing from each of you.

The committee will be in recess, subject to the call of the Chair.
[Whereupon, at 11:38 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MADELEINE ALBRIGHT

Chairman Roth and Members of the Committee, I am pleased to have this opportunity to testify before you.

Largely as a result of strong U.S. leadership from Administrations of both parties, we now have an unprecedented opportunity to integrate the world around basic principles of democracy, open markets, law and a common commitment to peace.

Not every country is yet able to participate fully in this integration. Some are in transition from centralized planning and totalitarian rule to democracy. Some have only begun to dip their toes into economic and political reform. Some are still too weak to participate meaningfully in the international system. And a few have governments that actively oppose the premises upon which that system is based.

It is in America's interests to strengthen the system, to ensure that it is based on high standards and sound principles of law, and to make it more inclusive. We do this by helping transitional states to play a greater role, by giving a boost to the weak states most willing to help themselves, and by making it clear to the outlaw states that they cannot prosper at the expense of the rest; they must either reform or suffer in isolation.

Mr. Chairman, there is no greater opportunity—or challenge—in U.S. foreign policy today than to encourage China's integration as a fully responsible member of the international system. President Clinton's decision to extend most-favored-nation or normal trade relations with China reflects our commitment to this goal.

At the same time, the Administration fully shares many of the concerns expressed in Congress and elsewhere about some Chinese policies and practices. Principled criticism of Chinese actions that offend our values or run counter to our interests is vital—because it demonstrates that the concerns we address through our diplomacy are deeply rooted in the convictions of the American people.

We believe that America's leadership in Asia and our interests in China—including Hong Kong—can best be advanced by continuing to engage Chinese leaders on a wide range of security, economic and political issues. This would not be possible if we revoked MFN.

In two weeks, I will begin a trip to Asia that will end in Hong Kong, where I will attend the joint reversion ceremony. I will emphasize America's continued interests and our support for the Hong Kong people as they enter China. Mr. Chairman, as I will describe in more detail later, the revocation of MFN would undermine Hong Kong's prosperity at the very moment when the Hong Kong people most need to demonstrate their strength and autonomy. For this reason alone, the denial of MFN would be a bad idea.

But this morning I want to describe the forest as well as the trees. In particular, I would like to clarify our interests in relation to China, explain how the Clinton Administration has been promoting them and discuss how a revocation of normal trade status would harm them.

Since coming to office, President Clinton has repeatedly made clear that America is and will remain an Asia-Pacific power. In a region where we have fought three wars in the last half-century, our role continues to be vital—from the stabilizing effects of our diplomatic and military presence, to the galvanizing impact of our commercial ties, to the transforming influence of our ideals. Our commitment is solid because it is solidly based on American interests.

Because of China's relative weakness for the past several centuries, its emergence as a modern power is a major historical event. Indeed, no nation will play a larger

role in shaping the course of 21st-century Asia. Already, China affects America's vital interests across the board.

China possesses nuclear weapons and the world's largest standing army. It also has a rapidly advancing industrial and technological capacity. And it seeks to reunify its national territory and settle its contested borders with its neighbors. For all these reasons, China affects our core security interests: the nonproliferation of weapons of mass destruction; the protection of sea lanes in the Pacific and Indian Oceans; the stability of the Korean Peninsula; and the peaceful resolution of issues between Taiwan and the PRC.

The Chinese economy is already one of the largest in the world, and many observers predict that if China's current growth rates continue it will be the largest within several decades. Therefore China affects our primary economic interest in expanding American exports and creating a more open global trade and investment regime in the coming century.

With its 1.2 billion people rapidly modernizing, China will have a huge impact on the environment. In addition, China borders on the world's largest opium-producing areas, and it is a potentially huge source of human migration. That is why China affects our urgent global interests in preventing environmental degradation and in combating terrorism, narcotics and alien smuggling.

Although China is undeniably more open today than two decades ago, its people still lack basic civil and political liberties. The manner in which China is governed affects virtually all of our security and economic interests in the region as well as our abiding interest in promoting respect for universally recognized standards of tolerance and law.

The fundamental challenge for U.S. policy is to persuade China to define its own national interests in a manner compatible with ours. That's why we are working to encourage China's development as a secure, prosperous and open society as well as its integration as a full and responsible member of the international community.

In so doing, we have not acquiesced in Chinese violations of international norms—and we will not. On the contrary, we have taken determined actions to curb such violations and to protect our interests.

For example, the United States continues to be concerned about Chinese sales of dangerous weapons and technologies. Through our dialogue, however, we have built a record of cooperation on agreements to ban nuclear explosions, outlaw chemical arms and enhance international nuclear safeguards. In addition, by stating our willingness to use targeted sanctions or by actually imposing them, we have obtained China's commitment not to assist unsafeguarded nuclear facilities, and its agreement not to export ground-to-ground missiles controlled under the Missile Technology Control Regime as well as to abide by the regime's guidelines and parameters. And last month, in accordance with both our policy and U.S. law, we imposed economic penalties against Chinese companies and individuals for their knowingly and materially contributing to Iran's chemical weapons program.

The United States has also contributed to a lessening of tensions in the Taiwan Strait. In March 1996, responding to Chinese efforts to influence Taiwan's historic presidential elections through military exercises and missile tests, President Clinton dispatched two U.S. aircraft carriers to the area. Our deployment helped lower the risk of miscalculation by authorities in Beijing and Taipei. Moreover, our action reassured Asia and the world that the United States stands by its commitment to both a "one China" policy and the peaceful resolution of outstanding issues. The situation in the Strait has since improved, and commercial ships have sailed between Taiwan and the mainland for the first time in almost 50 years.

In the economic area, as Ambassador Barshefsky will describe in greater detail, we have made progress in opening China's markets. In February, we reached a bilateral agreement that provides, for the first time, significant steps to increase U.S. access to China's textile market. It also strengthens enforcement against illegal trans-shipments.

Last year in response to China's inadequate implementation of an agreement to protect U.S. intellectual property (including music, videos and software), President Clinton prepared to apply tariffs of 100% on \$2 billion of Chinese exports to the United States. The President's action led to an important follow-up accord providing more effective protection for our intellectual property and expanded access for our movies and videos. During the past year, China has taken strong measures to implement this agreement, seizing 10 million pirated disks, closing some 40 illegal CD factories and establishing hot-lines that are offering rewards 20 times the size of the average annual wage for tips leading to the closing of such a factory.

We have also advanced negotiations on China's accession to the World Trade Organization. The Clinton Administration has taken the lead in insisting that China make meaningful commitments to lowering its trade barriers before it could join the

WTO. At the same time, we made clear that the United States supports China's membership on commercially acceptable terms. We have worked closely with China to identify the steps it must take to broaden access to its markets and bring its trade practices into line with WTO rules. Our combination of rigorous entry criteria and generous technical assistance has paid off. Although differences remain in the negotiations and the outcome remains uncertain, China has become increasingly serious in the proposals it has put forward, and is coming to understand that membership is not a right but a privilege accompanied by responsibilities.

In the environmental field, our two governments have increased our cooperation by establishing the U.S.-China Environment and Development Forum. Vice President Gore inaugurated the Forum during his recent visit to China. The Forum has set an ambitious agenda for collaboration in four areas: energy policy, environmental policy, science for sustainable development, and commercial cooperation. The combined efforts of our two Environmental Protection Agencies have already resulted in China's recent decision to eliminate the use of leaded gas and in the undertaking of joint studies on the health effects of air pollution.

On human rights, overall progress has been hard to quantify. On the one hand, China's exposure to the outside world has brought increased openness, social mobility, choice of employment and access to information. On the other hand, as we have documented in our annual human rights report, China's official practices still fall far short of internationally accepted standards.

It is our hope that the trend towards greater economic and social integration of China will have a liberalizing effect on political and human rights practices. Given the nature of the China's government, that progress will be gradual, at best, and is by no means inevitable.

However, economic openness can create conditions that brave men and women dedicated to freedom can take advantage of to seek change. It diminishes the arbitrary power of the state over the day to day lives of its people. It strengthens the demand for the rule of law. It raises popular expectations. And it exposes millions of people to the simple, powerful idea that a better way of life is possible.

It is worth noting, for example, that China recently passed legislation that addresses some of the most serious concerns about its criminal justice system. These changes resulted in large part from China's engagement with the international community and its exposure to foreign legal systems.

We will continue to actively promote human rights in China through bilateral dialogue as well as public diplomacy. We regularly raise our concerns with Chinese officials at the highest levels. We continue to call for the release of dissidents such as Wei Jingsheng and Wang Dan, who have been sentenced without due process to long prison terms for their non-violent advocacy of democracy. We are working with U.S. businesses and NGOs to promote the rule of law and civil society. We have increased the flow of uncensored world news by launching Radio Free Asia. And again this year we co-sponsored a resolution at the UN Human Rights Commission that urged China to improve its human rights practices.

We have important differences with China on several issues in addition to human rights.

For instance, we remain concerned about China's arms-related export practices, particularly to Iran and Pakistan. We are troubled by the growth of our bilateral trade deficit to almost \$40 billion in 1996. We are seeking closer Chinese cooperation on investigating suspected cases of prison-labor exports to the U.S. And we are concerned by recent measures to disband Hong Kong's elected legislature and to amend various ordinances on civil liberties.

Because of these and other frustrations, some members of Congress conclude that our engagement with China has failed and that we should adopt a confrontational approach: revocation of normal trade status. The Administration agrees that we are not yet where we want to be in our strategic dialogue with China; China has not evolved as thoroughly or rapidly as all of us have hoped. We believe very firmly, however, that the potential for further progress in China and for the overall advancement of American interests is far greater through continued dialogue than through revocation of MFN.

It is important to remember, first of all, that MFN is a powerful symbol of America's global commitment to open markets. Despite its name, MFN is not a privileged status accorded only to our closest allies and friends. On the contrary, it is the standard tariff treatment we extend to virtually every nation in the world, including many with whom we have substantial disagreements. We offer low tariffs because of our fundamental belief that open trade is a foundation for peace and prosperity.

Moreover, the revocation of normal trade relations would eliminate prospects for U.S.-China cooperation on a wide range of issues. Unlike the targeted sanctions we have used in specific areas, revocation would affect policies across the board, harm

our interests as much or more than China's, and imperil innocent bystanders such as Hong Kong and Taiwan. Since the United States and China normalized relations in 1979, every American President, Democratic and Republican, has shared this view.

Revoking MFN would not only damage our growing commercial relationship; it would also deny us the benefits of our entire strategic dialogue. And because China's politics are in flux, especially during the run-up to this fall's Party Congress, the withdrawal of MFN would almost surely strengthen the hand of those who have been seeking to fill the country's ideological void with a belligerent nationalism. It would postpone rather than hasten improved Chinese behavior in the areas where we have the greatest concern.

Mr. Chairman, let me explain in more detail how ending normal trade relations would harm U.S. interests.

China's economic ties with the world are important because they give it a huge incentive to participate in the international system. If the United States, the world's largest and most open economy, were to deny China a normal trading relationship, China's stake in the international system would shrink. The consequences would be grave, indeed.

First, on regional security, we could lose China's critical cooperation on dismantling North Korea's nuclear program and on pursuing a permanent peace settlement on the Korean Peninsula. We might see a renewal of tension in the Taiwan Strait and a stiffening of China's attitude on its territorial claims in the South China Sea.

Second, in the area of non-proliferation, the denial of MFN would surely undercut our efforts to get China to strengthen its export controls and to expand our cooperation in the development of peaceful nuclear energy. It would disrupt our initiatives to curtail China's transfers of advanced weaponry and technology to unstable regions.

Third, we would risk losing Chinese support for U.S. initiatives at the UN—including organizational reform, peacekeeping and sanctions on Iraq. On other global issues, we would find it more difficult to cooperate on stopping drug shipments—especially from Burma, the world's major source of heroin. And China, destined to displace the United States as the largest producer of greenhouse gases, could withhold its participation in a global agreement on preventing climate change that is scheduled for completion in Tokyo this December.

Fourth, the withdrawal of MFN would devastate our economic relationship. It would invite Chinese retaliation against our exports, which have nearly quadrupled in the last decade and totaled \$12 billion in 1996. These exports support an estimated 170,000 jobs in the United States.

The ending of MFN would also damage future opportunities for American investment, as China would steer contracts to our many economic competitors. According to World Bank estimates, China's new infrastructure investment will total \$750 billion in the next decade alone. Revocation would also add more than half a billion dollars to the annual shopping bill of American consumers, due to higher prices on imports.

The disruption of normal trade ties would retard the progress gained from bilateral agreements to protect American intellectual property and to increase market access for American textile and telecommunications products. Perhaps most important, it would threaten the negotiations on China's membership in the WTO, destroying our chance to shape its participation in the global economy of the 21st century.

Fifth, the damage to our commercial ties could well spill over into our efforts to improve human rights in China. Because non-state firms account for half of China's exports, the revocation of MFN would weaken the most progressive elements of Chinese society. It would also create a tense atmosphere in which Chinese leaders might be even less likely to take the actions we have been encouraging: to release political dissidents, to allow international visits to prisoners and to open talks with the Dalai Lama on increasing Tibetan autonomy.

Further, our trade and investment have been helping to expand the habits of free enterprise and independent thinking throughout China. American and Chinese institutions are now engaged in thousands of educational, cultural and religious exchanges. Although China is still far from being a free nation, it is more open today than two decades ago in part because of its economic and cultural ties with the West.

Without MFN, many of these opportunities for the long-term opening of Chinese society might be closed. This is a concern shared by the China Service Coordinating Office, an umbrella organization of more than 100 Christian groups involved in outreach to China. And this concern is equally shared by many Chinese dissidents—including Wang Xizbe, who spent 14 years in prison and escaped re-arrest last fall

by fleeing to the United States. Wang writes, "The goal of exerting effective, long-term influence over China can only be achieved by maintaining the broadest possible contacts with China, . . . thus causing China to enter further into the global family and to accept globally-practiced standards of behavior."

Sixth, as I have suggested, the denial of MFN to the PRC would deal a severe blow to the free market economy of Hong Kong and also damage that of Taiwan. Taiwan's investment in the PRC totals between \$20 and \$30 billion, much of which is in export industries. Similarly, Hong Kong firms own, finance, supply or service thousands of export factories throughout China's booming southern region. In addition, Hong Kong benefits from the billions of dollars of Chinese and American goods that every year pass through on the way to their final destination. The Hong Kong government has estimated that revoking MFN might cut as much as \$30 billion of the territory's trade, eliminate as many as 85,000 jobs and reduce economic growth by half.

The United States must not undermine Hong Kong during the critical period of its reversion to Chinese authority. That is why Hong Kong leaders across the political spectrum support the continuation of MFN. In a recent letter to me, British Governor Chris Patten wrote, "Anything other than unconditional MFN renewal would be profoundly misguided." And the pro-democracy leader Martin Lee has stated: "If the United States is concerned about the handover, then the best thing is to assure the community by making sure nothing dramatic happens to Hong Kong. The Democratic Party [of Hong Kong] has always strongly supported renewal of MFN for China unconditionally."

In sum, revoking a normal trade relationship could seriously undermine our ability to influence China's development and instead turn China further in the direction of isolation, suspicion and hostility.

No matter how hard we might wish, we will not be able to transform China's behavior overnight. With all due respect, Mr. Chairman, there is neither a single piece of legislation by the U.S. Congress nor a single act of our President that could accomplish such a feat. Promoting positive change in China's domestic and foreign policies is a long-term venture that will require the broad and steady support of the American people and the international community alike.

Mr. Chairman, for the United States to proceed with the historic and vitally important task of helping to integrate China as a full and responsible member of the international system, we require nothing less than a comprehensive engagement that is guided by a clear-eyed view of our interests and fortified by the renewal of normal trade relations. Thank you very much.

**Senate Finance Committee Hearing
Renewal of MFN Status for China
Statement of U.S. Trade Representative Charlene Barshefsky
June 10, 1997**

Mr. Chairman, distinguished Members of the Committee, I appreciate this opportunity to discuss the Administration's policy toward China, in particular, the trade aspects of that policy.

Our bilateral relationship with China is complex and multifaceted, including political, strategic, human rights and trade elements. President Clinton has implemented a comprehensive policy with China, one which is based on continued engagement on the full range of issues. The reason for that policy is clear: U.S. interests are best served by a secure, stable, and open China.

On May 29, President Clinton sent to Congress the formal waiver recommending extension of MFN treatment to China for another year. The President's decision to renew normal trading relations with China, MFN status, is based upon his judgment about what is in the national interest of the United States.

How China evolves over the next decades will be of profound importance to the American people. The manner in which we engage China will help determine whether it abides by international norms, and becomes integrated into the international community, or whether it becomes an unpredictable and destabilizing presence in the world. That is why we have pursued a policy with China of engagement. It is the President's judgment that engagement with China, rather than isolation from it, is in the best interest of the American people. Mr. Chairman, we will not achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange--they occurred in times of isolation.

While the Clinton Administration policy toward China is one of engagement, let me be clear about what we mean by "engagement." Engagement with China does not mean *ignoring* our differences. It means actively engaging China *to resolve* our differences and it means *protecting our interests* when consultations do not produce results.

The vote on MFN is thus a vote on how best to protect U.S. interests, not an endorsement of China's policies. Engagement is not an end unto itself. Engagement is a means by which we can expand the areas of cooperation with China and deal face-to-face with the Chinese on areas of difference.

China's adherence to international norms is fundamental to advancing the entire range of issues between our two countries. Engagement furthers U.S. interests in many areas where China's cooperation is important, such as our ongoing efforts to dismantle North Korea's nuclear

weapons program, fighting terrorism and drug trafficking, reinforcing UN peacekeeping efforts, and putting a halt to alien smuggling. We have seen some positive movement on the part of China in these areas, and Secretary Albright has described that progress. Much, of course, remains to be achieved. We continue to have basic disagreements with China on human rights and some of their weapons sales, each of which has been addressed by Secretary Albright.

The issue before Congress today concerns a choice--between engaging China and making progress on issues that Americans care about--or isolating us from China by severing our economic and, in turn, our political relationship. Our friends and allies--the global community--will continue to conduct normal relations with China, displacing U.S. interests and diluting U.S. influence.

Let me turn to the trade aspects of the Administration's policy of engagement and why continuing normal trade relations is in the trade and economic interests of the United States. I use the term "normal trade relations" because that is precisely what we are talking about. Most-favored-nation or MFN status is a misnomer. MFN tariff treatment is the standard tariff treatment we accord virtually all governments. This "normal treatment," however, is a critical element of our relationship with China. We cannot determine China's direction, but we can help to influence its direction if we remain fully engaged with China.

Maintaining Normal Trade Relations

As I noted, the U.S.-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, and are critical when basic international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection. Trade, however, has played an increasingly central role in our relationship. Just as we should not make apologies for China, we should not apologize for our economic interest in China.

We cannot ignore the fact that the United States has a significant commercial stake in China. It is the fastest growing major economy in the world, with growth rates averaging more than 10 percent in recent years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

Today, China is the world's tenth largest trading nation and the United States' fifth largest trading partner. U.S. exports to China have quadrupled over the past decade. At least 170,000 Americans owe their jobs to U.S. exports to China.

The Administration has clear goals that it wants to achieve in its trade policy with China. First and foremost, we continue to pursue actively market opening initiatives on a broad scale for U.S. goods, services and agricultural products. U.S. businesses should have access--and the necessary protection for their properties--in China's market, equivalent to that which China receives in the United States. Especially in light of our trade deficit with China, we must see

greater balance in our trade relationship--with high growth in our exports to China in areas where U.S. companies maintain a comparative advantage. Second, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade--that is, ensuring that China's trade and economic policies are consistent with international trade practices and norms.

The Trade Relationship

The United States is China's largest export market. U.S. imports from China were nearly \$51.5 billion in 1996 (or nearly 25 percent of China's exports to the world). By contrast, U.S. exports of goods to China last year stood at only \$12 billion. While the large trade deficit with China is the result of many factors, China's multiple, overlapping barriers to trade and investments are clearly of serious concern.

Despite China's movement away from a centrally planned economy toward a quasi-market economy in recent years, China still maintains one of the most protectionist trade regimes in the world. China appears to be following in the footsteps of other major trading nations in East Asia--maintaining export-led growth while protecting its domestic markets. China's failure to meet fundamental international norms--such as national treatment, transparency, or the right to import or export freely--holds back the U.S. side of the bilateral trade equation and hurts U.S. businesses and workers.

During the past several years, as a result of our bilateral initiatives, China has liberalized its markets for many U.S. products. While U.S. access to China's market is far greater now than it was, U.S. access falls far short of what it should be. As we continue to press China on market access issues, we also intend to work with the Chinese Government in support of its economic reform program.

As I noted, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade--that is, ensuring that China's trade and economic policies are consistent with international trade practices and norms, such as those of the World Trade Organization (WTO). Bilaterally our market access, intellectual property rights and textiles agreements have all been thoroughly grounded in the GATT and now the WTO. Clearly, the ongoing negotiations over China's accession to the WTO are part of our overall approach of creating an effective framework for our trade relationship.

In this respect, trade cannot be separated from the broader considerations of creating a more open, rules-based society in China. Reforms of China's legal system, institution of new laws and regulations, and notions of due process and transparency all build a better trade relationship and, in part, will spring from that relationship. In the WTO accession negotiations, as in the case of our negotiations on IPR enforcement and other bilateral agreements, we will work together with China's negotiators to create a regime that strengthens the legal system and the rule of law in general.

The United States has pursued an aggressive, but balanced, trade policy toward China. To achieve our goals, we have put together a strong, complementary policy that combines bilateral, regional (APEC) and multilateral initiatives. Rather than severing the economic relationship through revocation of MFN, the Administration has sought, and has achieved, tangible results on market access, intellectual property rights (IPRs) and textiles. We have carefully used targeted trade sanctions as an effective tool to achieve U.S. trade objectives when other reasonable means have been exhausted.

Bilateral Initiatives

IPR Enforcement

In 1995, the United States reached an historic agreement with China on the enforcement of IPRs, particularly copyrights and trademarks, and improved market access for U.S. firms in the computer software, motion picture, publishing and sound recording industries. In the 1995 Agreement, China committed to put a basic structure in place for enforcement of IPRs at the central and provincial level and in the major cities. China also undertook improved Customs enforcement of IPRs at the border and to strengthen the protection for well-known trademarks. We reached this agreement after threatening to impose nearly \$2 billion in trade sanctions on China's exports.

Over the next year, we carefully monitored China's implementation of the 1995 Agreement. China created enforcement task forces and embarked on some enforcement efforts. However, overall piracy rates remained extremely high and U.S. companies were frustrated in their efforts to achieve market access. That is why, in May 1996, the Clinton Administration threatened to take action against China for failure to implement satisfactorily China's commitments from the 1995 Agreement.

In June 1996, after substantial verification activities on the part of the U.S. government and U.S. industry, we determined that a critical mass of enforcement actions in connection with the 1995 Agreement had been taken by the Chinese, and sanctions were averted. Among the steps confirmed at that time was the closure of 15 factories engaged in piracy, stepped up police activity, arrests and the imposition of fines for piracy, as well as issuance of regulations to crack down on underground factories and the import of CD presses.

Since June, we have seen continued progress. IPR enforcement is now part of China's nationwide anti-crime campaign. Police are now involved in investigating IPR piracy on a regular basis. A nationwide campaign against pornographic and illegal publications has targeted copyright infringements. Pirates are being arrested and the courts are imposing fines and jail terms on people running "underground," i.e., unlicensed, CD factories.

In late 1996, Guangdong Province (a region near Hong Kong that has been a center of pirating activity) launched a major crackdown on underground CD factories. The campaign

began with an announcement of a reward of 300,000 RMB (US \$37,000) for information leading to the closure of underground plants. According to State Council officials, so far Guangdong has paid out more than 1.2 million RMB. The reward system has met with such a success that it has been extended to include six southern and coastal provinces.

Overall, 39 production facilities not approved by the central government have had their licenses confiscated or have been closed since June. According to U.S. industry sources, the 22 legitimate factories, i.e., those that have been thoroughly investigated and registered by central government authorities, have turned their attention to domestic production while piracy of foreign sound recordings has dropped dramatically. In all, more than 10 million pirated CDs have been destroyed by Chinese government authorities.

Although we have seen significant improvements in enforcement, serious problems remain. Piracy of computer software continues at high levels. While market access for copyrighted products has improved, particularly with respect to sound recordings, we need to see further substantial improvement so that legitimate products are available to meet market demand. The problem of pirate CD factories also affects Hong Kong. Hong Kong is often used as a point for export of pirated product and importation of CD production line equipment. We have been working with the authorities there to address these problems and expect further progress.

Textiles

In 1994 and in February of this year, the Administration concluded bilateral agreements to achieve fair trade in textile products. The February agreement builds on and improves the 1994 Textiles Agreement with China. For the first time, our bilateral agreement provides for market access for U.S. textiles and apparel into China's market. China has also agreed to ensure that non-tariff barriers do not impede the achievement of real and effective market access for U.S. textile and apparel exports. Following on cutbacks in China's textile shipments achieved under the 1994 Agreement, the 1997 Agreement further reduced the overall quota to address enforcement issues.

China has agreed to bind its tariffs at its applied rates, thereby assuring security and certainty for U.S. exporters. In addition, China will lower tariff rates over the 4-year term of the Agreement. For certain high priority products, China has agreed to accelerate tariff reductions so that they are completed within two years.

The issue of illegal transshipments of textiles from China has been a significant concern in the past and the Administration has demonstrated its resolve to act against such imports. In 1994 and 1995, the Administration found and charged transshipped products against China's quotas. In 1996, we triple-charged China's quotas. In the February 1997 agreement, we reduced China's quotas in fourteen apparel and fabric product categories where there had been agreement on violations through transshipment or over shipment. The Agreement also includes procedural

measures to improve the bilateral consultation process, including arrangements to implement an "electronic visa" information system to more effectively track textile and apparel shipments. Moreover, a special textiles import safeguard mechanism will remain in effect until four years after the WTO Agreement on Textiles and Clothing has terminated.

Market Access Agreement

Obtaining effective implementation of the October 1992 market access agreement is another example of the Administration's continuing pursuit of market opening. In that Agreement, China committed to make sweeping changes in its import regime: China committed to eliminate import substitution policies, publish its trade laws in an official journal, apply the same testing and standards requirements to domestic products and imports, decrease tariffs on certain products, apply sanitary and phytosanitary measures only on the basis of sound science and eliminate licensing and quota requirements on more than 1,200 products over a 5-year period.

China has taken some significant steps in implementing the 1992 Agreement. China's trade regime is more transparent than previously; China has lowered tariffs on many products and has eliminated well over a thousand non-tariff barriers. While China has removed a substantial number of these barriers, we are concerned with China's tendency to give with one hand and take with the other. In some instances, for example in the medical equipment sector, China has replaced a quota with a tendering and registration requirement, thus impeding market access.

A number of other market access problems remain, in particular for U.S. agricultural products. In the 1992 Agreement, China committed to eliminate unscientific sanitary and phytosanitary restrictions used as barriers to market access. China's implementation of this commitment remains incomplete. Over the last four years, we have reached agreement on measures that permit the importation of live horses; apples from the states of Washington, Oregon, and Idaho; cattle, swine, bovine embryos, and cherries. Just last month, our negotiators completed a bilateral protocol and work plan that will permit exports of U.S. grapes to China. This new market for U.S. grape producers could reach more than \$45 million in the next two to three years. China remains a major purchaser of U.S. wheat, corn, cotton, coarse grains and other bulk products.

Restrictions affecting such U.S. exports as pacific-northwest wheat, stone fruit, citrus, poultry and pork products are not based on sound science and remain in place. This is a particular source of concern. We are engaged in an active work program to resolve these sanitary and phytosanitary restrictions on our exports. I have created the new position of Senior Advisor and Negotiator for Agriculture at USTR, with responsibility for leading our bilateral efforts to improve market access for this important sector of the U.S. economy.

WTO Accession

The process of negotiating the terms of China's accession to the WTO Agreement is a major focus of our efforts. It is a means not only to expand market access for U.S. exports, but also to bring China into the international rules-based trading system.

President Clinton has repeatedly affirmed U.S. support for China's accession to the WTO, but only on the basis of commercially meaningful commitments that provide greatly expanded market access and ensure compliance with WTO obligations. At this juncture, while China has evidenced a new seriousness about the negotiations, it has yet to put forward acceptable offers on market access for industrial goods, services and agricultural products. In addition, significant reforms will be needed to bring China's practices into conformity with WTO rules. The timing of China's accession is in China's hands. We are prepared to move as quickly as China, based on serious offers that provide genuine market opening and a means to achieve the balance that is lacking in our trade relationship.

Successful WTO accession would also achieve important broader objectives. Upon accession, China would be required to conform its current trade laws and practices to internationally-agreed rules and base any future laws on the same international norms that apply to the United States and other WTO members. Basic WTO principles, such as publication of all laws and regulations, the right to appeal administrative decisions, application of all of its trade laws uniformly throughout the country, and equal treatment for domestic and imported goods, all fosters the rule of law. Moreover, China's implementation of these basic principles would be subject to dispute settlement based on the same rules that apply to all WTO Members. The United States has used the WTO dispute settlement system successfully against major trading partners, such as Europe, Japan and Canada, as well as against countries such as Korea and Pakistan.

WTO accession would also accelerate economic reforms, moving China toward a more market-oriented economy. WTO accession would require elimination of measures that protect state monopolies, take government out of commercial transactions through limiting the use of price controls and eliminate trade distorting subsidies, quotas and export performance requirements. In short, China would be required to open its market to a broad range of goods and services in areas in which U.S. companies are internationally competitive. We are now engaged in comprehensive negotiations to accomplish this objective. A commercially meaningful accession package would result in tangible gains for U.S. companies and workers.

Effects of MFN Revocation

Revocation of MFN tariff treatment jeopardizes our current and future bilateral and multilateral trade initiatives. MFN revocation would cut U.S. exports to China, increase prices for U.S. consumers and cost jobs in this country. An added factor this year, is the destabilizing affect that MFN revocation would have on Hong Kong.

We estimate that revocation of MFN would increase tariffs on imports from China to a trade-weighted average of about 44 percent, from their current level of about 6 percent. Even accounting for changes in trade flows, revocation would result in U.S. consumers paying approximately \$590 million more each year for goods such as shoes, clothing, and small appliances. For manufacturers, the cost of goods made with Chinese components would increase, reducing the competitiveness of their finished goods in domestic and international markets.

If MFN tariff treatment is revoked, China is likely to retaliate against U.S. exports by increasing tariffs on these products and other measures. China has threatened such actions in the past in response to our use of trade sanctions.

U.S. exports to China have nearly quadrupled over the past decade. Those exports support more than 170,000 jobs in the United States. Jobs based on goods exports, on average, pay 13 to 16 percent more than non-export related jobs. Revoking MFN would jeopardize U.S. exports and U.S. jobs, thus transferring those export opportunities and those jobs to Japan, Europe and other competitors.

Revocation of MFN would also derail current bilateral and multilateral negotiations. Instead of engagement, China may, for example, cease bilateral negotiations on sanitary and phytosanitary restrictions on agricultural products and would likely decrease efforts to enforce our bilateral IPR agreements. Moreover, negotiation on WTO accession would stop, creating uncertainty over how China's markets will evolve. In short, we would lose the opportunity to shape the evolution of China's trading system in a manner compatible with international norms and U.S. expectations.

The situation in Hong Kong this year provides another compelling reason for continuing normal trade relations with China. MFN revocation would deal Hong Kong a devastating economic blow and would have a destabilizing effect. Trade is a particularly important part of the economic life of Hong Kong. More than 50 percent of U.S.-China trade is handled through Hong Kong, thus making it highly dependent on continued normal trade relations between China and the United States.

Hong Kong authorities estimate that MFN revocation would slash its trade volume by \$20 to \$30 billion, resulting in the loss of between 60,000 and 85,000 jobs. Hong Kong's economic strength is one of its chief assets in ensuring its autonomy and viability. Hong Kong leaders, including Democratic Party leader Martin Lee, British Governor Patten, and Anson Chan have spoken out strongly in favor of renewal of MFN. The implication is clear: bilateral trade between the U.S. and China, encouraged by MFN tariff treatment, provides needed stability at a time of dramatic change.

Mr. Chairman, as I mentioned earlier, providing MFN tariff treatment is the norm in U.S. trade, not the exception. In every year since 1980, every U.S. President has supported extension

of MFN tariff treatment to China. Granting MFN treatment means that China will receive the same tariff treatment as nearly every other U.S. trading partner.

The United States has a long history of providing the same basic level of tariff treatment to other countries and maintaining normal trade relations with the global community. Congress has enacted into our law a presumption that normal trade relations will exist between us and other countries. Maintaining such relations is vital to a broad array of U.S. interests; maintaining normal trade relations with China is no less vital.

Conclusion

Congress is again faced with a decision whether to pursue a positive agenda for trade and our overall relations with China or to sever our economic relations with that country and isolate ourselves from it. While achieving our objectives through positive engagement and the use of targeted measures is a slow and difficult process, it yields results. MFN treatment should be renewed.

PREPARED STATEMENT OF HON. JOHN H. CHAFEE

I want to thank the Chairman for holding this important hearing, and I look forward to the testimony of Secretary Albright, Ambassador Barshefsky, and the other distinguished witnesses here today.

The question of whether to renew Most Favored Nation status—i.e., normal trade relations—for China is by no means new. Since 1989, Congress has engaged in an annual and very public debate on this question. More than once, we have gone to the brink and nearly overturned the President's decision to renew MFN. But each time, normal trade relations with China ultimately have been continued.

However, this annual cycle has carried a heavy price tag, with little-to-no positive results to show for it. The constant debate as to whether or not the U.S. should continue normal trade relations with China has come at great expense to the overall health of the bilateral relationship between these two great and powerful nations. And that, in turn, has had real—and negative—repercussions for the United States, its citizens, and even the Chinese people themselves.

A stable, long-term relationship between the United States and China clearly is in the best interests of the American and Chinese people. A solid, stable relationship with the Chinese can, over time, bring improvements in human rights; progress in international security matters; and continued economic growth for both nations.

In contrast, not only does threatening to revoke MFN fail to achieve any of these goals, but it directly thwarts the establishment of that long-term relationship. Therefore, I believe we should get off this annual MFN roller coaster, and instead aim to achieve the normal trading relationship that is both necessary and desirable between two superpowers.

In sum, normal trade relations—i.e., MFN—for China is in the best interest of the United States and her citizens. We should end for once and for all the annual debate that is actively hindering, not helping, the achievement of important American goals. By refraining from this annual debate, we can begin building the stable long-term relationship that can bring prosperity, security, and growth to our nation and the Chinese.

I look forward to hearing from our Cabinet members, both of whom are extremely knowledgeable about matters involving China, on this point.

PREPARED STATEMENT OF HON. BOB GRAHAM

Mr. Chairman, I would like to thank you for holding this hearing, and for your leadership on this issue. It is a pleasure to welcome Secretary Albright, Ambassador Barshefsky, and the other distinguished panelists. I look forward to hearing our panelists' views on renewing China's most favored nation status.

China, as the world's most populous nation, will be one of the economic superpowers of the twenty-first century. In the past ten years, the government of the People's Republic of China has liberalized China's economy. These efforts at reform have caused unparalleled economic growth and ever increasing prosperity for the Chinese people.

While these economic reforms have proceeded, the Chinese government has tightened its political control and continues to deny the most basic human rights to its citizens. The government in Beijing continues to imprison dissidents and deny Christians the right of religious freedom.

These contradictions in China, of reform on one hand and authoritarian policies on the other, have made the bilateral relationship between the United States and China more difficult. We must view our relationship with China in the long-term, requiring a consistent approach that includes trade, security, and human rights considerations. It is not in our best interest to isolate China. We have historically conducted a vigorous policy of engagement that promotes our economic and strategic interests.

However, for an engagement approach to work, China must be willing to engage us as well. One of the most troubling aspects of our relationship has been China's unwillingness to abide by bilateral and international agreements it has signed. In 1992, China and the United States signed the Memorandum of Understanding concerning market access for U.S. goods and services. Five years later, many outstanding issues remain unresolved, including market access for citrus products. The result has been a significant loss for Florida agriculture. In fact, the U.S. as a whole has seen its trade deficit with China continue to expand at an alarming rate, even though China has signed various agreements aimed at reducing trade barriers between our two countries. Since 1994, our trade deficit with China has grown by \$10

billion, to almost \$40 billion in 1996. Barriers to agriculture, manufactured goods, and service persist even after agreements to liberalize trade have been signed.

Those businesses which have been able to gain entry into Chinese markets have been faced with numerous unfair business practices. Resolving business disputes which result from these unfair practices is nearly impossible. As a signatory of the New York Convention on

Recognition and Enforcement of Foreign Arbitral Awards, China has agreed to abide by international arbitration awards to foreign companies conducting business in China. In actuality, however, China selectively upholds its trade agreements, and often refuses to recognize and enforce international arbitration judgments. Many businesses from my state have gone to China, signed contracts and found that the Chinese only selectively adhere to their agreements. When American businesses have sought relief from international arbitrators for broken agreements, China has simply refused to enforce any adverse awards. This is not fair, and goes to the heart of whether there can be a normal trading relationship with China.

In order to have a normal trading relationship with China, American businesses must have a more level playing field. This would include open and fair market access, enforcement of international arbitration agreements, and China's entry into the World Trade Organization on a commercially viable basis. I support the idea of engaging China on trade issues in an effort to encourage China to recognize the provisions of its international trade agreements. However, we need to see more progress from China on trade issues as well as human rights, democratization, and adherence to international non-proliferation agreements. Without some indication of progress in these areas, traditional supporters of MFN status for China such as myself, will find it increasingly more difficult to support the continued renewal of China's MFN status.

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

Mr. Chairman, I want to thank you for holding this important hearing. I will support the President's decision to extend most-favored-nation status, or normal trading relations' to China. I think there are a lot of good reasons to do so. I trust that our witnesses will be able to tell the Committee the importance of extending normal trading relations and how critical it is to American businesses, workers and consumers.

The problems with China on trade, security and human rights are well documented. And I won't take the time to repeat them here. But I'll just say that we are all concerned with China's poor record of promoting democracy, free enterprise and human rights. I'm especially concerned with the persecution of Christians in China.

But I think the question comes down to what is the best way to influence policy within China. Is it more effective to have a policy of isolationism, where we have virtually no trading relationship with China? This is what would happen if normal trading relations is revoked.

Or is it more effective to build a closer relationship with China through our trade policy? Trade serves to promote free enterprise and raise the standard of living of the Chinese people. It allows us to "export" our principles of liberty and democracy. I believe that the United States, and the Chinese people, are clearly better off by strengthening our relationship through trade.

Integrating China into the world community has already paid dividends. Recognizing that China still has many problems, most people would agree that significant progress has been made just in the last 10 to 20 years. I believe our economic and diplomatic relations with China have helped push this progress along.

This is not to say that we shouldn't be tough with China. Retaliatory measures can be very effective in encouraging further reforms in China. But retaliation should be targeted and specific.

I recall that last year at this time, USTR announced \$2 billion in sanctions against China for breaching its commitment on intellectual property rights. Now I'm told by the Administration that China has taken significant strides in cracking down on the pirating of intellectual property. Firm sanctions targeted at specific behavior can force change in China.

Revoking our normal trading relations is a blunt, ineffective tool. It would also hurt American workers, businesses and consumers. Our \$12 billion in annual exports to China would be put at risk, jeopardizing over 200,000 American jobs. And the increase in tariffs on China's exports into this county amounts to a stiff tax on American consumers.

The costs of revoking normal trading relations with China—to American workers and consumers and in terms of our inability to effectuate change in China—clearly outweigh any perceived benefits. I find it hard to believe that Beijing will suddenly promote democracy and human rights because the United States ends its trading relationship with China.

Engagement is the right policy for encouraging change in China.

Some opponents of MFN are concerned, not with these other important issues, but with the trading relationship itself. They point to the United State's expanding trade deficit with China. Which last year amounted to just under \$40 billion.

The current negotiations with China on its accession to the World Trade Organization is an opportunity to address the trade imbalance. We must get meaningful market access concessions from the Chinese before they are allowed in to the WTO. American products deserve the same access to the Chinese market as their products enjoy in the United States.

The stakes are very high. In the agriculture sector, these negotiations will determine whether China becomes our largest export market or our biggest competitor. We cannot afford to make the same mistakes made when Japan entered the GATT in 1954. The U.S. is still shut out of that market in many respects. We need a tough, fair agreement with China.

It's time to move forward in our trading relationship with China. Let's get beyond this annual debate over trading status. And focus on how we can best improve access to China's market for American workers and businesses. While improving the lives of the Chinese people, by promoting human rights and serving as an example of democracy.



HOLD FOR RELEASE
June 10, 1997

CONTACT: LARRY NEAL 202 224 0704

FOR AMERICA'S SAKE, EXTEND MFN
Statement of U.S. Sen. Phil Gramm,
June 10, 1997 Finance Committee Hearing
With the Secretary of State and U.S. Trade Representative

"Mr. Chairman, Madam Secretary, Madam Ambassador,

"The United States should not continue normal trade relations with China because, as some would argue, it helps China. We should continue our trade relations with China because it is in the best interests and traditions of the United States to do so. It is true that our continued and expanded trade relations with China will also help the people of China, as our trade helped create the conditions for freedom for the people of the Soviet Union, but that is an added benefit. Our main concern must always be, how will it help the people of this nation? What will it do for our workers and consumers in Houston, Wilmington, or Buffalo?

"There are legitimate reasons to be concerned about the status of human rights in China. It remains the largest totalitarian nation on the planet and its efforts to suppress democracy have been consistent, stretching from Mao Tse Tung's Long March through the massacre at Tiananmen Square right up to today. A question we have to answer is, will cutting off trade with China make the Chinese people more or less likely to acknowledge these shortcomings and cure them? Some say yes, isolate China until it comes to its democratic senses. I ask, was it President Carter's decision to cut off the sale of wheat to Russia or President Reagan's steadfast policy of peace through strength that broke up the old Soviet Union? Did 20 years of self-imposed solitary confinement make China a less oppressive society? If isolation cured tyranny, North Korea would be heaven on earth.

"I ask the advocates of disrupting our trade, where is the evidence that trade isolation will promote respect for human rights in China? When was the last time that China was isolated from the international community? Did that policy promote respect for human rights? No. It produced the decade-long terror called the Cultural Revolution.

"The history of MFN, and exactly what it is and is not, is worth noting as we begin our discussions of whether to continue it with China for another year. One of the absurdities in our trade policy is the fact that 'most favored nation' status is simply normal trade relations. As you know, every country in the world has so-called most favored nation trading status with the United States except Afghanistan, Cuba, Cambodia, Laos, North Korea, Serbia-Montenegro, and Vietnam.

"MFN is a misnomer that really means that China currently receives roughly the same treatment as any other trading partner or, more precisely, treatment that is 'not less favorable.' It is a term of

diplomacy, not public relations. It is worthwhile remembering that it was the United States, during the last century, that first sought most favored nation treatment from China, in order to counter the efforts of Britain, Germany, and Japan to keep Americans out of the Chinese markets. Under our MFN agreement with China, any concession that China gave to one nation it also had to give to the United States. MFN was an effective tool to keep open America's access to the markets of China.

"That history is now generally forgotten in this debate. Today MFN is used by protectionists as a rhetorical device that invites attack because opponents of trade conveniently misapply the term as if it meant 'special privileges'. In practice, you almost have to declare war against America to be accorded anything less than most favored nation trade status

"In the final analysis, we employ the MFN concept because the United States has been the greatest beneficiary of most favored nation trading rules. MFN has meant that certain basic rules of international trade would be applied by all the members of the global trading community without discrimination. Exceptions are rare. Since MFN replaced the protectionism of Smoot-Hawley as the general principle of U.S. trade law, the United States has benefited from an improving set of global trade standards, as they have lowered barriers all across the globe to the products of American workers. In 1996, the United States exported \$836 billion in goods and services, most of which would have been impossible without these basic rules of international trade that are meant by the term MFN. Workers in my home state of Texas participated in over 10% of that trade.

"If the United States now abandons normal trading relations with China, is there any doubt that our trade competitors would step in to take our place? Is there any doubt that Japan, France, or Germany are eager to take advantage of a foolish American trade war with China?"

"Ultimately, the policy question that we are here to decide isn't whether we want to do China some kind of favor, but whether we're going to give Americans the opportunity to benefit from trading with the largest nation on earth. Currently, 220,000 American workers hold jobs directly related to exports to China. The price of sanctions against China will be paid first by those men and women and their families because the cost of sanctions on foreign countries is always the loss of jobs in America. I believe that we should sanction other countries when there is no alternative, which is almost never, and that we should trade when it benefits America, which is almost always. If you don't think so, ask a wheat farmer about President Carter's grain embargo against the Soviet Union. When we pull a trade gun to plug an offensive foreign government, we don't want to shoot an American family by mistake.

"The events of the last half-century should teach us that we can choose to deal with China in one of two ways: as an isolated, outlaw nation with nuclear weapons and a crumbling economy, or as a trading partner whose people are exposed each day to the power of democracy and free enterprise. We have tried both policies, and we understand what each produces. President Truman suspended normal trade with China in an effort to isolate the Communist Chinese regime, and President Carter resumed normal trade relations as we abandoned our policy of isolation. Presidents Reagan, Bush and Clinton have each extended normal trade relations to China.

"Sooner or later, trade protectionists of all stripes say the two words that they think will give their position a ring of patriotism: "America first." They don't mean it, but I do. The only good reason for continuing normal trade relations with China has nothing to do with China and everything to do with America. Our first responsibility is to policies that benefit working Americans and their families. The Chinese government, the Chinese people and Chinese interests come second.

"I recall the words of President Reagan, spoken in his final State of the Union address. He expressed the genius of what America has to offer to oppressed people everywhere: "One of the greatest contributions the United States can make to the world is to promote freedom as the key to economic growth. A creative, competitive America is the answer to a changing world, not trade wars that would close doors, create great barriers, and destroy millions of jobs. . . Where others fear trade and economic growth, we see opportunities for creating new wealth and undreamed-of opportunities for millions in our own land and beyond. Where others seek to throw up barriers, we seek to bring them down; where others take counsel of their fears, we follow our hopes."

"I agree with those words. I strongly support the continuation of our normal trade relations with China, because it means jobs, growth and opportunity for American families, and hope for people all around the world."

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, I join in welcoming our distinguished panels today. I wonder, Mr. Chairman, if you purposefully chose this date for this hearing. It is quite appropriate. It was on June 10, 1971, that President Richard Nixon lifted the 21-year-old trade embargo on China.

Clearly, this is not an issue new to the Senate. I recall well our debates over the conditional MFN legislation vetoed by President Bush in 1992, which this body wisely sustained. The issues have not changed, and one of our duties will be to determine if China has changed enough to warrant status as a most favored nation.

I believe that the many religious, family values, labor, and other groups that oppose MFN for China have made important arguments. There is much to consider here. And, the question must be answered: If by extending MFN status to China are we sending the wrong message with respect to China's human rights policies, labor practices, or religious liberties? I think we must respond to the assertion that has been made by some that MFN is merely a tool for U.S. business.

Yet, there are substantial reasons to expect that general democratic foundations in China will improve given strong U.S. influence that comes from closer economic relationships between our two countries.

Over thirty years ago, Professor Robert Dahl of Yale wrote a monumental work, if not a classic on the evolution of healthy political democracies. Essential to this process, he maintained, was the emergence of certain types of defenses against excessive state coercion. The historical dimensions of his work showed that the development of parallel sources of influence come largely from changes in the control of resources. In a few words, the emergence of middle classes along the lines that has been occurring in China over the past two decades.

All Americans ought to take great pride in the development. But we have paid a price for it. Those who oppose an extension of MFN understand these particular costs well. They are correct when they say that American foreign policy is not all business. It isn't. The moral element in our foreign policy will always be part of our legacy.

We also have a current \$39 billion trade deficit with China, at least from the perspective of many American workers who see Chinese exports benefiting from outrageous labor practices. Family-oriented groups find intolerable any appearance of sanction of China's population control policies; and religious interests object to the widespread denial of religious freedom. China's uncooperative nuclear, arms control, and regional security practices have led to continued U.S. investment in regional military vigilance.

Mr. Chairman, I do not minimize these concerns. They are legitimate and they are important. Yet, despite these shortcomings in our China relationship, I have always supported MFN for China. My grounds for this position are straight forward.

- *Our national security interests are best promoted though continued engagement.* China did not use its Security Council veto to jeopardize multilateral actions against Iraq during the Persian Gulf Crisis and has worked steadfastly with us in urging North Korea to forego nuclear weapons developments.
- *Continuing commercial relationships foster democracy.* Professor Dahl's hypotheses have been validated: China doesn't have a U.S.-style middle class, but the past 20 years have been epochal. Initializing this transformation of Chinese society was Deng Xiaoping's own statement that "to get rich is glorious." Chinese exports have skyrocketed to \$290 billion in 1996 from \$38 billion in 1980. The effect has been rising prosperity that has awakened the world's third largest economy to the benefits of democracy, for which, in my judgment, the likelihood of reverse is not immediate. I see nothing but continuation of this trend as we maintain our steadfast pressure on China to agree to the intellectual property reforms that will bring not only developmental technologies, but the unrestricted access to outside news sources and influences that have already begun to occur in Cuba.
- *We can't—and shouldn't—ignore China.* By far, China is the fastest growing market for U.S. exports. As stated earlier, its irreversible growth as a global power needs to be integrated in as many ways as possible into every conceivable international effort for world stability—including accession to the World Trade Organization.
- *And, of course, the China trade carries many benefits for the U.S. economy.* Denial of MFN renewal would lead to duties at levels ranging as high as 90 percent of the basic import price of many goods, such as household electrical and electronic items, toys, clothing, plastic articles, and many other goods. Those hurt the most would be lower income consumers. This trade is reciprocated in the rapid growth of major U.S. exports, such as agricultural goods, for which

China is our country's sixth largest market—and growing. My state, Utah, is China's major supplier of soda ash fertilizers. In addition, the World Bank forecasts that China will spend \$760 billion in infrastructure development costs that I want our companies to bid for.

Despite my strong support for China MFN, Mr. Chairman, I am not ready to relax my collateral support for continuing sanctions where China fails to cooperate, whether in the sectors of international arms control, nuclear proliferation, or fair trade practices, such as intellectual property protection. But, I would hope that the Chinese will have learned from decades of American foreign policy that MFN, even if made permanent, as I hope will occur with China's WTO accession, will not provide a *carte blanche* for continued bad behavior. MFN signals a form of trust. And, Richard Nixon knew well the diplomatic mantra to "trust but verify." We must continue to hold China to its agreements.

PREPARED STATEMENT OF T. KUMAR

Thank you Mr. Chairman, and distinguished members of this committee. Amnesty International is pleased to testify at this hearing. I have been asked to focus on the human rights implications of maintaining Normal Trade Relations (Most Favored Nation—MFN status) with China. I would like to point out that, unless the administration gives equal priority to human rights and trade, the current trend of human rights abuses is likely to continue.

Amnesty International is an international—grassroots—human rights organization which has over a million members around the world and over three hundred thousand members in the United States. We focus on the protection and promotion of human rights around the world but do not take a position on a number of issues including linking economic sanctions to human rights.

Since we do not take a position on economic sanctions, we also do not take a position on the renewal of Normal Trade Relations (Most Favored Nation—MFN). We do not oppose linking MFN status to human rights. Nor do we support or call for such linkage. However, we strongly believe that the protection of human rights should be an important part of the United States foreign policy. Accordingly, when discussing any foreign policy issue, we believe that human rights conditions in those countries should be taken into account.

Amnesty International USA welcomes Secretary Albright's statement that no one issue will be permitted to monopolize or dominate our bilateral relations with China. We welcome it because US actions regarding China have gone much too far toward signaling that one issue does dominate that relationship. But that issue is not human rights, it is trade. No one would quarrel with a policy of "consistent principles but flexible tactics," unless "flexibility" is a code ignoring human rights when raising human rights issues will anger major trading partners. There are disturbing signs regarding the US relationship with China, which I will discuss in greater detail below.

The human rights situation in China has been of grave concern to us for several years. Last year, we launched an international campaign to highlight these concerns. Even though new and updated laws were introduced in March 1996 in China with respect to the Criminal Procedure Law (CPL) and the Administrative Punishment Law (APL), there has been no fundamental change in the governments' human rights practices. Dissent in any form continues to be repressed. Even high profile political prisoners like Wei Jingsheng and Wang Dan have been sentenced without any hesitation. Indeed, the Clinton Administration's own human rights report is forthright in noting that, if anything, human rights in China have deteriorated since the Clinton Administration de-linked trade and human rights. It would be very difficult to contradict that conclusion.

An official 'strike hard' anti-crime campaign resulted in at least 3,500 executions in 1996 alone. Most prisoners did not receive fair trials and many were executed soon after their death sentences were pronounced. More people are executed in China than in all other countries of the world combined, and the crimes for which they are executed include counterfeiting value-added receipts.

We have released several reports detailing the human rights situation in China, including reports on torture, unfair trials, imprisonment of dissidents, mass executions, the wide scale use of forced labor camps, wide spread oppression in Tibet, persecution of religious groups, and the practice of forced abortion to enforce "the one child" policy.

Over the years, Amnesty International has pressed the Clinton Administration to pursue a strong, clear and consistent human rights policy towards China and other countries. The Clinton Administration deserves praise for being willing to publicly

confront China at Geneva, especially in light of the extremely disappointing behavior of some other nations there, in particular France. However, the Administration has given mixed and confusing signals to China, regarding its concern over human rights. We can cite numerous examples, but I would like to mention one incident that shocked the human rights community.

Last December, President Clinton met in the Oval office with the Chinese defense minister Gen. Chi Haotian, who, at the time of the Tiananmen Square massacre of June 1989, had operational control over the involved troops. The meeting was not required by protocol. It was plainly a good will gesture to the man who personally directed the butchery in Tiananmen Square. Worse still, it took place literally on the eve of International Human Rights Day, December 10th.

To this day, the Chinese government has refused to hold an impartial investigation into that massacre, where at least a thousand civilians were killed by troops. The impunity granted to the military leadership responsible for these killings, allows them to continue to violate human rights. By meeting with Gen. Chi, President Clinton has given a clear signal to the Chinese that human rights is not a priority. We hope that it was a blood-red carpet that the Clinton Administration rolled out for Gen. Chi. It would be a step in the right direction if the Clinton Administration would just take the 'Hippocratic oath' on China: 'First Do No Harm'. This would entail not meeting with Gen. Chi in the Oval office and not sending the signal that trade is more important than human rights.

It is ironic that while President Clinton gave a red carpet welcome to Gen. Chi, he only paid a 'drop by' visit to His Holiness the Dalai Lama, our fellow Nobel Laureate.

Actions such as these, have damaged the credibility of the Clinton Administration and its seriousness in pursuing and advocating human rights. As a result, when the Administration is serious in pursuing human rights issues, these attempts usually end in failure in international forums. This was the case last year with the motion to censure China at the UN Human Rights Commission. The motion which the Administration cosponsored was defeated. Unless the Administration has a clear and consistent human rights policy backed by real diplomatic muscle, experiences like this will be repeated in future forums.

The Administration has failed to utilize different trade related forums to raise the issue of human rights in a meaningful way. For example, on the official agenda of the annual APEC conference, where our President meets the President of China to discuss trade, the Clinton Administration did not propose the inclusion of human rights in the official agenda. Why is the Administration reluctant to propose this idea?

The "trade first" policy of this Administration has seriously damaged the basic rights of Chinese civilians. When the only super power in the world, the United States, is shying away from raising human rights issues with China, how can any other country be expected to raise such issues? In reality, the United States is the only country in the world which can take the lead in tackling the issue of human rights with the Chinese in a meaningful way.

Despite improved trade relations, human rights abuses are on the rise. For example, the Administration's (US State Dept.) own 1996 human rights country report on China states "All public dissent against the party and the government was effectively silenced by intimidation, exile, the imposition of prison terms, administrative detention or house arrest. No dissidents were known to be active at year's end".

Unless human rights and trade are given equal priority, human rights abuses will continue in the current pattern as detailed below:

ADMINISTRATIVE DETENTION

In recent years 'shelter and investigation' and 'reeducation through labor', both forms of administrative detention, have been increasingly used to silence and punish dissidents and members of religious or ethnic groups.

'Shelter and investigation' allows the police, on their own authority, to detain anyone without charge for up to three months, merely on the suspicion that they may have been involved in a crime. In around a third of known cases, people are held for longer than three months. Several hundred thousand people have been detained on average each year for 'shelter and investigation' since the early 1980s.

'Reeducation through labor', imposed by local government committees without charge or trial, was increasingly used to arbitrarily detain dissidents for up to three years in labor camps.

Wang Donghai and Chen Longde, two pro-democracy activists from Zhejiang province were detained in May 1996 after issuing a petition calling for the release of political prisoners. Similarly Liu Xiaobo, a leading dissident was detained in Octo-

ber 1996 after cosigning a letter calling for political reforms. Wang Donghai, Chen Longde and Liu Xiaobo were assigned terms of three years detention for 'reeducation through labor'.

In Liu Xiaobo's case, the administrative sentence was imposed with unprecedented speed, a few hours after his arrest, and in breach of the safeguards for a fair and public hearing guaranteed by the new Administrative Punishment Law, which had come into force one week before his arrest.

UNFAIR TRIALS

Trials continue to fall short of international standards, often with verdicts and sentences allegedly decided by the authorities before the trial.

In a case which received international attention, prisoner of conscience Wang Dan, a former student leader during the 1989 pro-democracy protests, was sentenced on October 30, 1996 to 11 years' imprisonment after being convicted of 'conspiring to overthrow the government'. The sentence was handed down after a trial from which foreign journalists and independent observers were excluded. No defense witnesses were called in court and there was evidence that the text of the verdict had been prepared in advance. Wang Dan's appeal against the verdict and sentence was rejected by a high court in November after a 10 minute hearing.

In another case, Ngawang Choephel, A 30 year-old student of performing arts has been detained since August 1995. He was tried behind closed doors at Shigatse Intermediate People's Court and handed down an 18-year jail term for 'espionage activities'. A young musicologist of some repute, he traveled from India to Tibet in July 1995 to film and record traditional Tibetan performing arts. Amnesty International has received detailed information indicating that his travel to Tibet had no other purpose than the study of performing arts. The authorities have provided no evidence that he was involved in activities threatening national security.

TORTURE AND ILL TREATMENT

Torture is endemic in China, despite the government's declared opposition to its use. Criminal suspects are frequently tortured to make them 'confess'. The continued use of torture by police to speed up confessions was acknowledged in November 1996 by the official Guangming Daily in an article denouncing increasing corruption among judicial personnel. The authorities however have failed to introduce safeguards to prevent torture or to bring many torturers to justice and many cases of torture and ill treatment, including some resulting in death, continue to be reported by unofficial sources.

In March 1996 for example, information came to light about Wang Jingbo, a young factory employee in Beijing who was reportedly beaten to death a few days after his arrest by the Chaoyang district police in late 1995. An autopsy showed that he had 12 broken ribs and had suffered a brain hemorrhage. Police reportedly told his family in March 1996 that he had been beaten by other prisoners, but no judicial investigation into his case is known to have been carried out.

The most common forms of torture include severe beatings, whipping, kicking, the use of electric batons that give powerful shocks, the prolonged use of handcuffs or leg-irons and suspension by the arms.

In mid-August 1996, prisoner of conscience Chen Longde was reportedly kicked, punched and beaten with an electric baton by a prison officer at the Luoshan labor camp in Zhejiang province, and jumped from a third story window in order to escape the beating. He suffered serious injuries, including hip and leg fractures and was admitted to hospital. The beating was reportedly inflicted on him to make him 'acknowledge his guilt'.

POLITICAL DISSIDENTS

On June 4, 1989 the Chinese authorities sent tanks and troops to 'clear' Tiananmen Square in Beijing. At least a thousand people were killed and Amnesty International considers these deaths resulted from extra-judicial executions: deliberate and targeted killings of peaceful demonstrators by government forces. In the crack-down that followed, hundreds of people were sentenced to long term imprisonment for 'counter-revolutionary' offenses.

Eight years after the massacre, people attempting to commemorate the victims of the crackdown or to monitor the human rights violations which resulted from it, have been harassed or jailed. Over 300 prisoners of conscience remain incarcerated for their activities during the protests.

The Chinese Government has still not officially accounted for those killed injured or arrested. The authorities still justify the events as the suppression of a 'counter-revolutionary' riot, and have taken no steps to publicly investigate the cir-

cumstances of the killings and bring to justice those found responsible for human rights violations.

THE DEATH PENALTY

More people are executed every year in China than in all other countries of the world combined. In China there are about 68 offenses punishable by death, including theft, burglary, hooliganism, seriously disrupting public order, pimping, the trafficking of women, taking bribes, corruption, forgery and tax evasion. Condemned prisoners tend to be paraded at mass rallies or through the streets before being privately executed.

Spates of executions often precede major festivals or international events and usually accompany official announcements of anti-crime campaigns. A 'strike hard campaign' against crime, for example, led to at least 3,500 executions in 1996.

Execution is usually carried out shortly or immediately after the sentence is publicly announced. In Jilin province, for example, three men, Tian Zhijia, Tian Zhiquan and Zhaolian, were executed on May 31, 1996—seven days after their arrest—for allegedly committing a robbery on May 21, 1996. Their trial, sentencing, as well as the hearing of one of the three men's appeal and the review and approval of the three death sentences by a high court, all took place between their arrest on May 24 and May 28 1996.

Some people are executed solely on the basis of confessions which may have been extracted under torture. Executed prisoners' organs are used for transplants and there has been some correlation between the need for organs and the number of executions which take place.

RELIGIOUS PERSECUTION

Over the last 15 years there has been a revival of religion in China. There are five officially recognized religions in China: Buddhism, Daoism, Islam, Catholicism and Protestantism. Within these recognized religions a believer must register and only attend an officially recognized place of worship. Those who join the growing number of unregistered religious groups face heavy fines, harassment and imprisonment.

The government recently reiterated the need to emphasize 'patriotism' in all religious activities especially in the practice of Buddhism in Tibet, and Islam in Xinjiang, where religion may be seen by the authorities as a threat to their power.

Christians

Christians are free to worship in government affiliated Churches. But if they join one of the growing number of unregistered religious groups they face heavy fines, harassment and imprisonment.

Who is at Risk?

- Official statistics claim that there are 10.5 million Catholics and Protestants in China.
- An internal Chinese Communist Party document (Feb. 1996) however stated that there were 25 million Catholics and Protestants in China.
- According to these internal documents, many Catholic and Protestant believers in cities are intellectuals, management executives and educated middle-aged people. In villages many are newly enriched peasants or village officials.

Restrictions on Worship

Since the 1950's government approved organizations have been established to ensure that religious practice in China is "free of any foreign domination." The Chinese Catholic Patriotic Association (CPA), for example was created to replace the authority of the Pope over the Chinese Catholic Church. Over the years, Catholics who remained loyal to the Vatican and refused to join the CPA have been persecuted. Similar persecution was meted out to Christian groups who organized religious activities independently of the government sanctioned Three-Self Patriotic Movement of Protestant Churches (TSPM).

Increased Repression

Repression of unauthorized religious activities has intensified since 1994. Many peaceful but unregistered religious gatherings have been raided by police, and those attending have been beaten, threatened and detained. Religious leaders usually tend to be the primary targets of harassment and imprisonment.

Harassment of Christians has often increased prior to, and during, important events or Christian festivals such as Christmas or Easter. During the United Nations World Conference on Women several Christians were temporarily detained by

the police, many were harassed, questioned, put under surveillance or told not to leave their homes. A few examples of religious persecution follow:

Protestants

- Lin Xiangao, also known as Samuel Lam, aged 71, is the leader of a Protestant house-church in Guangzhou, Guangdong province, which is reported to have about 1600 members. He has spent more than 20 years in prison and has suffered regular police harassment.
- In November 1995 at least six house churches in Shanghai were raided simultaneously and hundreds of Bibles and other Christian literature confiscated by police.
- A number of political and labor activists who were active Christians have also been detained. Xiao Biguang for example, 34, an academic and labor activist, is an active Christian and member of the Gangwashi church, an officially registered church in Beijing. In 1996 he was assigned to 3 years reeducation through labor for creating a "negative atmosphere" among his students at a theological seminary.

Roman Catholics

- In April 1995 during Easter celebrations between 30 and 40 Roman Catholics were detained by police officers from Linchuan city, Jiangxi province, after a mass prayer meeting was held on Yujiashan mountain. Most of those detained were released after payment of a fine equivalent to about three months' income but four people, Pan Kunming, Yu Qixiang, Yu Shuisheng, and Rao Yanping were charged, sentenced and are currently serving prison terms.
- Guo Bole, a 58 year-old Jesuit priest went missing from his home in Shanghai in November 1995 after he celebrated Mass for 250 fishermen on a boat. On January 4, 1996 he was assigned to two years' reeducation through labor.
- In May 1996, over 2000 troops supported by armored cars and helicopters are reported to have prevented Roman Catholics from attending an annual pilgrimage to Dong Lu, Hebei province. Catholic Priests and lay people were detained as a result of the crackdown.
- In April 1996, a group of Roman Catholics from Xiao county, Anhui province, were detained and many of them beaten after petitioning local authorities for the return of church property. Fourteen Roman Catholics were subsequently detained.

Tibet (Buddhists)

Thousands of Tibetan monks, nuns and juveniles have been arbitrarily detained and many tortured. While new arrests were carried out in 1996 and 1997, over 600 prisoners jailed in previous years are believed to remain in prison.

A crackdown on suspected nationalists and religious groups in Tibet was carried out during a 'strike hard' campaign in early 1996. Authorities ordered the closure of monasteries which had 'political' problems. Between May and October 1996, official propaganda teams carried out a political 're-education' campaign in several monasteries, resulting in the arrest of at least 15 monks and the expulsion of many more from their monasteries.

Amnesty International is also currently concerned about the welfare of eight year old Gedhun Choekyi Nyima who has not been seen for over two years. Gedhun was chosen by the Dalai Lama to be the 11th Panchen Lama, the second holiest Tibetan spiritual leader. Beijing does not recognize the Dalai Lama's choice of the Panchen Lama.

After two years of incommunicado detention and a secret trial, a senior Tibetan Lama (Chadrel Rimpoche) and two other Tibetans (Champa Chung and Samdrup) have been convicted of political 'crimes' and sentenced to prison terms for communicating with the exiled Dalai Lama over the search for the reincarnation of the Panchen Lama.

Xinjiang (Muslims)

There are 30-40 million Muslims in China, most of which live in Xinjiang (North West China). In May 1996, private scripture classes and teaching of religion in schools and factories were banned. All books dealing with Islam can only be published by the Xinjiang People's Publication house after approval from the authorities.

According to unofficial sources, 180 Muslim religious leaders, Koranic professors and students were arrested between May and September 1996 and over 100 Koranic schools closed down. Between late April and early June 1996, 2,773 suspected 'separatists', alleged terrorists and ordinary criminals were arrested in Xinjiang in a 'strike hard' anti-crime campaign.

On February 20, 1997, ethnic unrest in Yining led to 15 arrests, according to official sources. Nine other people have formally been arrested for alleged involvement in bombings which took place in Urumqi, the capital of Xinjiang, on February 25, 1997. Three bombs exploded on public buses that day, reportedly killing nine people and injuring 74. Amnesty International is concerned that all detainees should have a public and fair trial, with adequate time and facilities to prepare their defense, in accordance with international standards. Exiled opposition groups claim that the riots were provoked by the execution of 30 Muslim nationalists and growing restrictions on religious freedom.

Inner Mongolia

The Chinese authorities are cracking down on suspected nationalists in Inner Mongolia. Two ethnic Mongol intellectuals (Hada and Tegexi) accused of 'separatist' activities have recently had their appeals against harsh political sentences (10 and 15 years imprisonment respectively) rejected by the Chinese authorities.

WOMEN AND THE 'ONE CHILD POLICY'

Birth control has been compulsory in China since 1979. Government demographers set a target for the stabilization of the population by the year 2000. The target currently stands at 1.3 billion, which they claim can only be achieved through "strict measures." Strict measures involve the quota system, and the "one child policy" and sanctions are enforced if these are not complied with.

The Quota System

Women must have official permission to bear children. Birth control is enforced through quotas allocated to each work or social unit (such as school, factory or village). The quotas fix the number of children that may be born annually in each unit. Since 1991 Local Officials (cadres) have become directly responsible for monitoring the quotas and a cadres performance, in part, is now evaluated on the implementation of the birth control policy. Cadres may lose bonuses or face penalties if they fail to keep within the quota.

"The One Child Policy"

"The one child policy" is China's official birth control policy. The regulations, sanctions and incentives of "the one child policy" are left almost entirely to the county level administration, who determine them "according to the local situation."

- In most regions, urban couples may have only one child, while rural couples may have a second if the first is a girl. A third child is "prohibited" in most available regulations.
- Regulations covering migrant women indicate that abortion is mandatory if the woman does not return to her home region.
- Abortion is mandated for unmarried women.
- Couples diagnosed as having serious hereditary diseases have been the target of additional measures and new laws.

Sanctions

Couples who have a child "above the quota" are subject to sanctions, this may include one or more of the following:

- heavy fines
- a withdrawal of a work bonus
- dismissal / demotion (state employees)
- Detention and ill-treatment of relatives of those attempting to avoid abortion or sterilization. This still occurs despite a Supreme People's Court ruling against it in 1990.
- psychological intimidation and harassment, commonly used to "persuade" pregnant women to have an abortion. This may involve visits, often in the middle of the night, from groups of family planning officials.

In the face of such pressure, women facing unwanted abortion or sterilization are likely to feel they have no option but to comply.

Forced Abortions and Sterilization

Family planning officials working in Liaoning and Fujian Provinces from the mid-1980s to the mid-1990s gave testimony as to the treatment of women pregnant with "out of plan children." They stated that women were detained in storerooms or offices for as long as they resisted being "persuaded" to have an abortion. This could last several days. One official reported being able to transfer women to the local detention center for up to two months if they remained intransigent. Once a woman relented, the official would escort her to the local hospital and wait until the doctor performing the abortion had signed a statement that the abortion had been carried

out. Unless the woman was considered too weak, it was normal for her to be sterilized straight after the abortion.

Official Chinese Policy

A White Paper on family planning was produced by the Chinese government in August 1995 as the basis of official comments on birth control in China at the World Women's Conference and NGO Forum.

The authorities asserted that "coercion is not permitted" and that the "Chinese government is against promoting induced abortion." However sanctions are imposed on officials who fail to meet quota targets, women who deviate from the "one child policy" and those who assist women to circumvent the official policies. This is in strong contrast to the lack of sanctions taken against officials who use coercion. It is evident that official policy is inconsistent with what occurs in practice.

Amnesty International remains concerned that there is no evidence that the authorities have yet set in place effective measures to ensure that such coercion is not only forbidden on paper, but persecuted, punished and prevented in practice.

It is time to put human rights on an equal footing with trade. Without this change, the current disturbing trend of human rights abuses will continue in China. Thank you for inviting Amnesty International to testify before this committee.

PREPARED STATEMENT OF NICK LIANG

Thank you very much for the opportunity to testify today about a very serious concern: trade relations with China. There may be hundreds of reasons to support or to revoke MFN trade status to China.

But I just want to give you five reasons from my own background as to why I, a former student leader in the Tiananmen Student Movement, support engagement and normal trade relationship with China. These five reasons are:

1. TRADE CREATES EXCHANGE OF INFORMATION AND IDEAS AS WELL AS OF GOODS AND CAPITAL.

The freedom of choice inherent in free trade further enhances independent thought which is a requisite for democratic process.

2. TRADE ACTS AS LEVERAGE FOR PROMOTING HUMAN RIGHTS, DEMOCRACY, AND RULE OF LAW IN CHINA, AND BUSINESS PEOPLE CAN BE THE BEST LOBBYISTS FOR THOSE CAUSES.

Human rights, democracy, and rule of law are simply good, healthy business practices. And business people—whether in sales and management or executives—are well-positioned to promote them.

3. CHINA'S FREE THINKERS, INCLUDING DISSIDENTS NOW IN PRISON, SUPPORT MFN TO CHINA.

In a closed society such as China, its intelligentsia can nevertheless play an important role in influencing policy. And China's dissident intellectuals support MFN.

4. CHINA'S COMMON STUDENTS, WHO ARE THE FUTURE OF CHINA, SUPPORT MFN. SOME HAVE GIVEN THEIR LIVES, FOR DIALOGUE AND EXCHANGE, OVER CONTAINMENT AND ISOLATION.

The spirit of their dedication and sacrifice urges us to support MFN to China.

5. TRADE HELPS TO ESTABLISH, DEVELOP, AND MAINTAIN HUMAN EXCHANGES BETWEEN OUR TWO GREAT NATIONS AND, FURTHERMORE, FOSTERS A CIVIL SOCIETY IN CHINA.

Civil society and exchange of ideas across borders are both essential ingredients for democracy to flourish. And I believe all of you gathered here today join me in wishing to see democracy flourish in China.

* * * *

My name is Nick Liang, and I am 28 years of age. Part of my general background is already somehow familiar to all of you through my more famous colleagues of Tiananmen Square, Wang Dan, Cai Lin, Shen Tong, Wu'er Kaixi, et al. I've never told my own story to the American public until now. However, I am moved to do so now in this MFN debate in order to explain the aforementioned reasons.

First, let me tell you just a bit about myself, to "put a human face" on what I have to say. Nothing in my life, before or since, will ever compare to those days in

the spring of 1989 in Tiananmen Square where I was one of the student leaders. Elected to the nine-member standing committee of the Autonomous Federation of Students in Beijing—one of China's first true nongovernmental associations—I participated in all major decision-making processes of the 1989 Movement, including the failed negotiation with Premier Li Peng to end the hunger strike. And, while struggling to organize the withdrawal of the students in the Square, on June 4 1989, I experienced first-hand China's darkest hour.

After funerals and memorial services for the innocent students who died in the Massacre, I had to go into hiding since the Chinese Communist Party posted my name as #7 on their Most-Wanted list everywhere in China. During my year underground, I outgrew my instinctive anger and had time to instead think rationally about China's contemporary situation and its future. The close contacts I had with China's common people strengthened my belief in the necessity for China to continue on its path of reform and change, and that such change could only come through peaceful evolution; and the deep sorrow I still felt towards all the dead in the Movement, common citizens of Beijing, students, and even soldiers fooled by the power brokers, reminded me that they sacrificed their lives not for political power struggles but the prosperity and welfare of Chinese people.

With these beliefs in mind, I joined the overseas democracy and human rights organizations, chairing both the Promotion and Fundraising Committees of the Alliance for a Democratic China, the largest pro-democracy organization overseas, and served as Council Member and long-time advisor for the Independent Federation of Chinese Students and Scholars (IFCSS).

Continuing to take an active part in the Movement for human rights, democracy, freedom, and justice in China, in 1995 I made an independent step of my own. By this time, China's economy had grown and pockets of independent space were emerging in between the State and mass-society. Inspired by the ultimate goals of the student movement and even the hunger strike—seeking dialogue between the decisionmakers and the people, at all levels of the society—and out of concern for Chinese people's welfare instead of ideological conflicts, I founded China Society. Its purpose, to promote and maintain constructive communication, exchanges, and dialogue, between China and the United States and to foster civil society in China by strengthening its nongovernmental organizations (NGO's) in the fields of art and culture, education, rural development, environmental protection, religion and spirituality, and other areas ignored or even outlawed by the Chinese government. During my seven years of exile thus far, my contacts with China's independent artists, musicians, educators, law professionals, business leaders, legislators and even senior governmental officials in local and central government did not cease but instead increased substantially—and in no small part due to flourishing trade. My confidence in the emergence of a viable civil society and democracy in China is stronger than ever.

As one of the players, I have not stopped fighting for human rights and democracy in China. And I strongly believe that the West has many good vehicles to help improve human rights in China, such as military exchanges, rather than MFN trade status. Speaking from my own special background, I am supporting normal trade relationships between China and the United States from the following perspectives.

1. TRADE CREATES EXCHANGE OF INFORMATION AND IDEAS AS WELL AS OF GOODS AND CAPITAL.

Born in the so-called Great Cultural Revolution, I and my fellow students in Tiananmen Student Movement came of age in the years when China had to adopt the Open Door policy for economic development. When trade brought our eyes beyond China's borders, we were shocked by the huge discrepancies between China's overwhelming poverty and high-quality standard of living in the West, and we began to challenge the dreams depicted long time ago by the communist party.

Intellectuals and students of our generation began the journey to explore real solutions to China's problems. In the early 1980s, trade with the West also brought to China a flood of information: Western beliefs and thought on history, human nature, social change, and political systems. Intellectuals of Mr. Fang Lizhi's generation deliberately introduced to China a large volume of works from the United States and other Western countries. And the political philosophy of many leading Chinese dissidents, including myself and many of my colleagues in the Tiananmen Student Movement, was derived from this open era in China.

Actually, the Student Movement was able to attract international attention and support because China had become so involved in the international economy. Furthermore, the Tiananmen Student Movement cost \$200,000.00/day for tents, food and medicines and couldn't have lasted for as long as did if there hadn't been for

donations from private entrepreneurs in China, tourists, and businessmen from overseas. Perhaps economic development will not automatically bring democracy, but trade and economic exchanges did help China's liberal forces shape democratic changes and improvements in human rights.

Most importantly, economic trade is building the foundations for a well-operating democratic social and political system—a market economy with hard-working, creative spirits, respect for private property, and fair competition. And no businessman can operate without binding contracts, so trade is also strengthening China's transition to rule of law.

2. TRADE ACTS AS A LEVERAGE FOR PROMOTING HUMAN RIGHTS, DEMOCRACY, AND RULE OF LAW IN CHINA, AND BUSINESS PEOPLE CAN BE THE BEST LOBBYISTS FOR THOSE CAUSES.

You might be aware that without normal trade relationship, the Chinese government leaves no room for engagement with the Chinese people due to its rigid concepts of "friends" versus "enemies." Hence, only in the normalized trade relationship between China and the United States could democratic influences continue to assist the liberal forces in China. Global economic interdependence grants leverage to influence China's unfair policies, such as export of prison-labor goods. You are already familiar with the importance of letting Chinese "keep face" in diplomatic relations. Business people thus have excellent opportunities to engage Chinese leaders off-the-record on matters of concern such as human rights abuse.

Promoting human rights is promoting a healthy business environment. And, as I have learned, concern for human rights is very much an American principle. Companies such as Reebok, Sears, and Levis, and individuals such as John Kamm—familiar to you all—have set a great example for all of us. Their work, however, is contingent on normal trade relations.

3. CHINA'S FREE THINKERS, INCLUDING DISSIDENTS NOW IN PRISON, SUPPORT MFN TO CHINA.

In the spring of 1994, I had a long phone conversation with Mr. Wang Dan, the student leader named No. 1 on the Most-Wanted list, during his short time of freedom. As in all discussions related to how to change China effectively, MFN issue was one of our focuses.

In our talk, we agreed that China and the Chinese people need trade relationships with the United States, and that Chinese democracy movement leaders should represent the people in China, speak out for Chinese people's welfare, and take a stand on the MFN issue. In the early 1990s, Chinese government leaders tried to defame Chinese democracy movement leaders by blaming them for conditionalizing MFN trade status, accusing them of seeking their own benefits, traitors of the nation's interest, betrayers of the Chinese people's will. But the real leaders like Mr. Wang Dan in my generation, and Mr. Wei Jingsheng, representative of the generation of my mentors, all made statements supporting unconditional MFN trade status to China. (Wei Jingsheng insisted to John Shattuck, of the State Department, that trade sanctions would only hurt ordinary people, not officials). They are not only representatives of the democracy movement in China, but also mature representatives of all the Chinese people's interests.

4. CHINA'S COMMON STUDENTS, WHO ARE THE FUTURE OF CHINA, SUPPORT MFN. SOME HAVE GIVEN THEIR LIVES.

In your country, 10% of your students go on to a higher education. In my country, only 1% They thus represent the future of the nation.

The students of the Tiananmen Movement of 1989 sacrificed their lives for increased communication, exchange, and dialogue rather than containment and isolation. The spirit of the Movement guides us to support MFN status for China. The Tiananmen Student Movement and its bloody ending somehow was one of the major issues of MFN debates in earlier years. Anger, sympathy, and other emotional reactions to the results of the wrong-doings of the Chinese government regarding this historic event might have become the most appealing reasons to revoke MFN trade status to China. However, I believe none of the common students who participated in the movement would ask for revoking China's MFN trade status.

The ultimate goal of the hunger strikers was to have free and equal dialogues between the society and the government, communications among all levels of society, and exchanges between China and the West. The students realized that social conflicts in China could be only resolved through open dialogue and communications between the people and the government, and that China could be only further changed following models of the West. They had been seeking for communication

channels with the government since the beginning. After the declaration of martial law in Beijing, the hunger strikers asked only to have dialogue with the government and negotiate a peaceful end to the demonstrations.

Though the efforts in 1989 failed due to power struggles in the Chinese Communist Party, students and intellectuals have continued to seek opportunities to have dialogue with various governmental branches in order to advance social and political reform in China. The spirit of the Tiananmen Movement is not one of confrontation, not one of hatred, not one of containment, but one of engagement. And as one of the students from Tiananmen carrying on this spirit, I support MFN trade status, which is a very primary and effective vehicle of engagement.

5. TRADE HELPS TO ESTABLISH, DEVELOP, AND MAINTAIN HUMAN EXCHANGES BETWEEN OUR TWO GREAT NATIONS AND, FURTHERMORE, FOSTERS A CIVIL SOCIETY IN CHINA.

One of the people of the Tiananmen Square Movement who had the most influence on me was Zhou Duo, then 43 years old. He had been a lecturer at Beijing University but in 1989 he was the head of one of China's first independent think tanks, funded by China's biggest computer company. He impressed on me the importance of civil society to China's evolution—so people could express their energy and creativity and freely engage in independent thought and exchange of ideas, without central government control. This may sound normal to you, but in China this was extraordinary. And his personal example showed that sponsorship by private enterprise could make that possible.

We are all aware of the brutal, tragic, and stupid ending the Chinese government put to our Movement, which I deeply regret. Six years later, however, despite Western sanctions and the government's own mistakes, the economy flourished, and that independent sector I had only glimpsed was now starting coming back.

So, inheriting from Tiananmen Square the spirit of self-sacrifice, the approach of peaceful evolution, and the willingness for dialogue, I founded China Society, dedicated to fostering a civil society that is only now newly emerging in China. Its goal can only be achieved through contacts, dialogues, communications, and exchanges between China and the democratic West. Among all forms of exchange, trade has been the most irresistible force bringing China not only a new material lifestyle but also new ideas, new mentality, and new philosophies of life and social activities.

For trade and economic reasons, over 200,000 Chinese officials, business executives come to the United States every year since 1992. China Society takes the advantage to "re-educate" these officials and social elites with American thought, business ethics, managerial skills, and most of all, the facts of prosperity and freedom in democratic society.

Among other things, China Society designs a series of training programs for Chinese private entrepreneurs who are already highly inclined to accept Western business models and play an active role in the social changes in China.

In an environment of trade and economic exchanges with China, China Society can directly help the independent cultural movement in China with cultural exchanges programs. In 1995, we sponsored the premier U.S. tour for Mr. Cui Jian, the No. 1 rock musician in China (with a billion followers throughout Asia) who is also an activist and long-time colleague in the independent cultural movement. In 1996, we curated art exhibitions in the United States for China's leading avant guard artists who are disapproved by the official Chinese propaganda machine. In 1997, we brought to the West Chinese film and TV producers and directors, artists, writers, and other professionals in the fields of culture, education, and social science—despite the Chinese government lack of support of, or even opposing to, their direct exchanges with the West.

In addition to supporting China's independent cultural and educational movements, China Society is also working on its fledging environmental movement, non-governmental organizations and other independent social movement or developmental trends. We have brought Chinese delegations on environmental protection to the United States. We are also planning to host a training programs for organizers and managers of NGOs. Though most civic organizations in China still rely on the government for financial support and thus are under governmental influence and control, they certainly gain strength from the private sector to become independent, grass roots, policy-shaping, social organizations in China.

All of China Society's exchange programs are either directly benefited or indirectly enhanced by the trade relationship between the United States and China. Today, a week from Anniversary of the June Fourth Massacre, I am honored to have been given such an important opportunity to properly commemorate my colleagues with this testimony supporting normal trade relationship with China, supporting ex-

changes fostering the civil society, and supporting engagement accelerating peaceful evolution in China, which are what they sacrificed for!

Thank your for your considerate attention.

PREPARED STATEMENT OF LAWRENCE PEMBLE

I would like to thank the Committee for the opportunity to speak today on the subject of MFN renewal for China. First and foremost I applaud the Committee's choice of names for this hearing; it is indeed "normal" trade relations that are the true subject at hand.

The renewal of unconditional MFN trade status, the pursuit of "normal" trade relations with China, is an issue of national importance that directly affects us all. Not only me and the people that work with me, and the American business community, but all of us as Americans. It is an issue that, in my opinion, the United States approaches poorly and with repeated detrimental results.

I hope that my testimony here today will provide perhaps some new insight or some new perspective for you. Our company may be an unusual point of reference for many of you. At the core of my company, known as Chindex, is a group of Americans who have been working exclusively in China since 1981. We are all fluent Chinese speakers, many of us have degrees in Chinese or Asian studies, many of us have lived in China for extended periods of time. By American corporate standards Chindex is a small public company. We employ 135 people, 120 of whom are in China. We export American medical and industrial equipment to China and will open the first in a series of private hospitals in China this year. By American China trade standards we have an extraordinary longevity of experience. We have seen everything there has been to see in terms of the U.S.-China trade relationship over the past 16 years. We remember a time when we did not endure this annual China-bashing ritual of recent years, and we have weathered the ups and downs it has caused all of us since then. I hope that this experience and the insights we have gained from it will be useful to you in your deliberations on the MFN issue this year.

As an American business in China, Chindex has a very clear and very definite desire for normal trade relations between our two countries. It is in fact through the process of normal commerce that we move toward our goals, not simply as businesspeople, but as international citizens. It is precisely through the process of normal interaction and engagement that the most progress is made on all fronts: humanitarian, diplomatic, strategic, cultural, educational, spiritual and commercial.

I've spent my career taking an American message to China. I believe that the benefits and influences which my company has brought to both America and China in the course of my work extend far beyond my company's balance sheet. But we need your help to continue to do that. We need a firm, reliable and stable relationship between the United States and China in order to continue to grow. We need your help to stay competitive in the international marketplace. We need your help to reassure our employees, both American and Chinese, that we will live through another year of this process that has everyone on eggshells for three or four months a year and always seems to threaten our current and future projects. We need your help to reassure our Chinese customers that we will be around next year to support the goods we have sold them and that our government will not pull the rug out from under us.

The revocation of China's MFN status would be a devastating blow to Chindex. We already face fierce competition in the Chinese marketplace from European, Japanese, and Australian manufacturers. The end of MFN would mean that China would adopt similar tariff increases so that the prices of U.S. goods to Chinese customers would become completely non-competitive against goods from countries who have normal trade relations with China. The end of MFN would threaten the existence of Chindex as a U.S. company, and the export of \$35 million in medical and industrial equipment which we are responsible for exporting to China annually. In such a scenario, our 135 employees would no longer have jobs, and beyond that, it would seriously affect the U.S. manufacturers whose equipment we sell in China. Our clients are headquarter in fourteen states across the country, and we have exported equipment from almost every state in America. All of these companies would be adversely affected if the United States dissolved the normal trading relationship that it now has with China.

Throughout Chindex's history as a company, one of our goals has been to improve the condition of healthcare in China. We began working toward this goal from the beginning by supplying the Chinese marketplace with high-quality U.S. medical equipment and instrumentation. This year, after several years in the development,

Chindex will open the first private hospital in Beijing—a specialty hospital for women and children. Our plans are to open several more of these hospitals throughout China during the next several years. Without MFN, and without a sustained, normal trading relationship between the United States and China, the continual process of improving healthcare in China over time will be seriously jeopardized.

American business is often criticized in this China MFN dialogue for being focused solely on commercial issues. We are accused of being lobbyists for Beijing, and of selling out on human rights. Frankly I think the people who accuse us of this are spending too much time in the United States reading and thinking about China and not enough time in China learning about what is really going on there and how much progress has been made. From what they say it seems to me they have not been speaking to many Chinese people about how good U.S.-China economic relations have improved their lives and the lives of their families.

Of course, we should all understand that progress is not perfection. Those of us who know China best have a keen awareness of the problems there. But we also have an appreciation of the context of these problems and an appreciation of how a trade war with China will make them worse, not better.

When I first went to China as a student in 1979 I found a country whose citizens were very suspicious, distrustful, and fearful of their government. For example, my Chinese friends had to take me to a secret place to tell me about their experiences during the Cultural Revolution. Chinese society has since become considerably more open, and today my Chinese friends and business associates openly joke about their lives during the Cultural Revolution. The fear that affected many Chinese in the wake of the Tiananmen Square massacre dissipated even more rapidly. Chinese who in 1991 would only discuss their opinions about or involvement in the 1989 demonstrations in secret with close friends, now, if asked, are more willing to speak openly about it to near strangers.

Perhaps the most simple survey of progress in China is what I call the “taxi cab test.” If a study were made of the content of conversations held between taxi drivers and foreign passengers in 1980, 1985, 1990, and 1997, it would certainly find a trend that replicates the trend that we have seen in Chinese society since modern China opened to the West in 1979. Whereas in 1980, foreigners were a spectacle to be gawked at, in 1997 they are a fountain of information about politics, business and prosperity, religion, and new cultures. On a recent visit to Beijing, I had a lengthy conversation with a taxi driver about entrepreneurship and his own goals and dreams. Today, there is also no hesitation or fear in rendering frank opinions of China’s leaders, which can often be quite unflattering.

Our company can serve as a good example of the gradual transfer of American values and business practices within a Chinese context. When we began in 1981, all management positions were filled by American expatriates. As we have grown and different layers of management have developed, an increasing percentage of management positions have been filled by Chinese nationals. Our employees receive business and technical training both in China and in the United States. We have seen that as our Chinese employees begin to witness and understand the U.S. business and management practices which we follow in China, they begin to follow our leadership on the full range of business management issues. I wish that I could show you a videotape of a Chindex management meeting in Beijing. You would see our Chinese managers openly discussing concepts of customer service, competitiveness, level playing fields, flexibility in the marketplace, cooperation, fairness, honest dealing, and developing strong and lasting relationships with our customers.

I hope if you haven’t seen China recently that you will find an opportunity to go. You might find some new, familiar things there amidst the old and unfamiliar. If you do not want to spend an evening seeing Peking Opera, you can rent a Sly Stallone video. If you become tired of the China Daily, you can buy a copy of the International Herald Tribune or TIME magazine at a local newsstand. If you are not interested in Chinese-language news broadcasts, you can tune in to CNN or watch the NBA playoffs. When you crave American food, you can eat dinner at Pizza Hut and have dessert at Baskin Robbins. Bookstores sell not only the works of Confucius and the I Ching, but now also Robert Ludlum novels, King James Bibles, and the Koran. If you have a computer, you can even sign onto the Internet.

Why should we renew unconditional MFN status this year? The reasons are the same as they have always been.

1. “Most Favored Nation” is not a “favor;” it is not a gift we give to China. It is the normal bilateral trade relationship the United States has with virtually every country in the world, excepting only Afghanistan, Cuba, Laos, North Korea, Serbia-Montenegro, and Vietnam. Even countries like Iraq and Libya, which are under complete trade embargoes, enjoy MFN status granted by the United States. MFN certainly does not extend to China any special treatment;

rather the withholding of MFN diminishes China's status to one in the lowest class of countries, with whom the United States has no political, much less economic, relations.

2. MFN status is a two-way street, and in the case of China, a bilateral issue. Because China has not yet joined the WTO, each of China's trading partners must individually decide to extend these normal trade terms to China. China then reciprocates and extends their normal trade terms to their trading partners. If the United States takes MFN away from China, China will surely take it away from the United States. Without bilateral MFN status, there will be virtually no bilateral trade. This amounts to economic warfare: the bilateral closing of markets. From a pure commercial perspective, the winners in this situation are the U.S. competitors in the international marketplace: the Europeans, Japanese, Australians, etc.

3. If the United States revokes China's MFN status, both America and China lose. The United States loses an estimated 200,000 high-skill, high-wage, export-related jobs supported by the \$14 billion in exports to China. China loses import markets for the wide variety of Chinese goods supplied to the American market today. And the more than 100,000 Chinese employed by American business in China lose. This is really just the beginning of the price. These are figures that people like me use to impress upon you, elected officials, that there is direct tie to your constituencies here. The fact is that huge American corporations are not the only beneficiaries of good, stable economic relations with China; the number of small business throughout the United States that are pursuing and gaining business opportunities in China is growing every day. Furthermore, imports from China not only provide U.S. consumers nationwide with economically-priced goods, but these imports also generate American jobs in transportation, distribution, retail, financial services, and other sectors. American business in China is affecting people all over this country.

4. By maintaining a strong and stable commercial relationship with China, the United States continues to have the opportunity to participate as an agent of change in China. This is one of the most important aspects of the economic engagement between our countries. U.S. business is a powerful and influential catalyst of reform in China. This influence can be seen in many areas of Chinese society as the impact of American business expands over time. The simple fact is that America's interests are best served through stable, reliable and sustained engagement with China on all levels. This is how the message is getting through. These are the pipelines of new information and new ideas that are fueling the dramatic social change in China that we have seen over nearly two decades.

Why do we hear from people all over the world that this China MFN syndrome we have in the United States is counterproductive? We hear this from renowned and respected figures in international relations. We hear this from China, Hong Kong and Taiwan. We hear this from Chinese dissidents now in exile in the United States. We hear the same message from all of these people who share a common sense. I believe this is because they all understand that more progress is made from a basis of fundamental stability than from one of turmoil. China is too big, too environmentally significant, too economically active, too strategically important, for the United States to simply ignore or alienate. We consistently hear about the benefits of engagement rather than confrontation. Our company is living proof that engagement works and that progress in all of these fields can best occur when there exists a stable commercial environment.

Thank you for the opportunity to have appeared before you today. On behalf of myself and all of my Chindex colleagues I sincerely hope that you will support continued normal trading status for China.

PREPARED STATEMENT OF BARBARA SHAILOR

Thank you, Mr. Chairman and members of the Committee, for this opportunity to present the views of the AFL-CIO on the extension of most favored nation (MFN) trading status to China. As we have in the past, we oppose granting China continued access to the U.S. market on the same terms as most of our other trading partners. Our opposition has not changed, but then neither have the objective conditions with respect to China's denial of basic worker rights, its brutal repression of dissidents, and its flouting of international agreements on arms sales, market access, intellectual property rights, forced labor, and the environment. The massive and growing U.S. trade deficit with China makes clear the serious consequences of Chi-

na's non-reciprocal and discriminatory trade and investment policies. These policies have cost American workers jobs and increased downward pressure on their wages.

What has changed in this year's debate relative to last year's is that another year has gone by: another year in which the Chinese government has failed to improve its human or worker rights record and has failed to honor the agreements it has signed. Another year in which our trade deficit grew by \$5 billion, while our exports remained stationary.

If anything, the repression has worsened. The State Department's Human Rights report this year stated baldly that "No dissidents were known to be active at year's end," as each and every one was in prison, exiled, or intimidated into silence. Over one billion citizens and not a single active dissident. This should be enough to chill anyone's blood.

MFN proponents have argued that continued trade growth will bring democracy to China. Instead, China seems intent upon stifling democratic developments in its neighbors. This year, the Chinese government announced that it would roll back civil liberties in Hong Kong after July 1st. In addition, China has aggressively threatened the emerging democracy in Taiwan, refusing to renounce the use of military force there.

The U.S. government has extended MFN trading privileges to China every year for the last 17 years, and has nothing to show for it.

What should be clear is that passivity in the face of repression and abuse of power is not working. It has been eight years since Tiananmen Square. For eight years, the U.S. Congress has debated granting China MFN status every spring, but has taken very little action. What we should have learned from these last eight years is that accommodation mixed with hope does not, has not, and will not work.

The few signs of progress we have seen—either in human rights or in intellectual property rights protection—have come when trade sanctions seemed most imminent. When Congress voted to impose trade sanctions against China in 1989 and 1990 in the wake of the Tiananmen Square massacre, the Chinese government responded by releasing several hundred dissidents. When President Clinton delinked MFN from human rights in 1994, most efforts by the Chinese government to demonstrate progress on human rights ended.

Similarly, the U.S. government finally got the attention of the Chinese government with respect to intellectual property rights protection when the U.S. Trade Representative threatened to impose trade sanctions on \$1 billion worth of goods in 1995.

Overall, however, the message we have sent has been that we fear confrontation above all. Ours has been a strategy of accommodation, both to the Chinese government and to U.S. companies investing in and trading with China. Meanwhile, the Chinese government accelerates its mercantilist growth strategy, consolidating political, economic, and military power.

The issue of greatest concern to the AFL-CIO is the Chinese government's repression of free and independent labor unions. Attempting to organize a union independent of the Communist Party is a crime. Worker activists whose only crime was to promote a discussion of labor rights under China's legal framework have been sentenced to the Laogai, China's system of forced labor camps. Labor union organizers (or those who write or speak about such a possibility) actually face longer sentences than students or intellectuals—maybe because the establishment of free labor unions poses a greater threat to the government.

Certainly, historically, free trade unions have contributed to strong democracies, to vibrant political debates, and to the establishment of a stable middle class. If the Chinese government's goal is to preserve power and concentrate the benefits of growth in its own hands, maybe it is right to fear an independent labor movement.

While a large majority of all foreign or mixed enterprises have union representation, in fact most of these unions serve to control workers, not to represent them. Australian academic Anita Chan has reported, for example, that in the Minhang district of Shanghai, 67% of union leaders are on the managerial staff of companies, and 20% are Communist Party officials. Many "organized" workers are not even aware of the existence of a union in their own factories. U.S. investors implicitly endorse this charade by their silence.

China's official unions do not attempt to conceal their subservience to the Communist Party. In 1994, the All China Federation of Trade Unions' (ACFTU) official magazine declared that, "The premise for unions [in China] is to carry out the tasks of the party." In 1995, the ACFTU General Secretary reaffirmed this position, saying that, "Unions in China should resolutely uphold the unitary leadership of the party. Unions at all levels should maintain a high degree of unanimity with the party politically, in ideas and actions."

Working conditions in industries such as toys, apparel, and electronics, in which there is significant foreign investment, are unacceptable and, in many cases, illegal: excessive hours worked, violation of minimum wage laws, poor health and safety conditions, physical abuse by managers, and illegal levies and deductions. Deplorable working conditions and phony unions may, in the end, undermine the very stability U.S. multinational corporations have sought to foster in China.

It is an ongoing scandal that companies owned by the Chinese People's Liberation Army continue to sell their goods in American stores. Harry Wu, the Chinese human rights activist, revealed recently that K-Mart purchased 73 tons of men's rainwear and ponchos in 1996 from China Tiancheng, a company the U.S. Defense Intelligence Agency confirms is owned by the People's Liberation Army General Political Department.

The Chinese have failed to comply with the 1992 Memorandum of Understanding on prison labor. Forced labor products continue to come into our country. Just recently, evidence was provided to the Senate Foreign Relations Committee concerning binder clips and auto parts produced in Chinese prisons.

U.S. policy toward China makes American consumers its unwitting accomplices. When Americans go shopping, they shouldn't have to support the repressive Chinese military apparatus, buy goods produced in forced labor camps, or subsidize the profits of companies that treat their workers disgracefully.

Last year, the United States racked up a merchandise trade deficit with China of almost \$40 billion. In the first three months of this year, that deficit was up by 38%. The Chinese deficit may surpass our deficit with Japan soon; the only difference is that our exports to Japan are much greater than those to China. Last year, we exported \$68 billion worth of goods to Japan, but only \$12 billion to China.

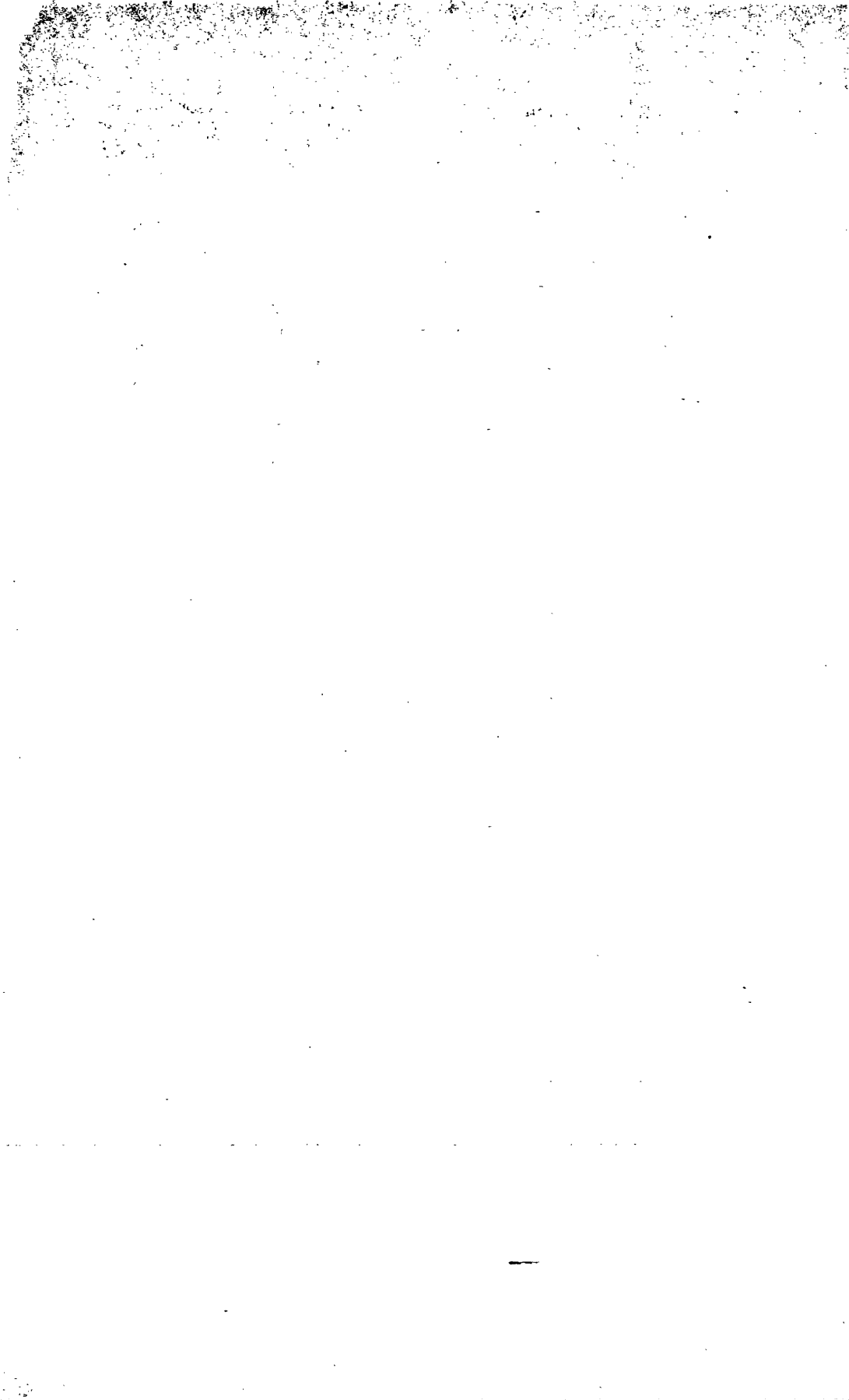
For all the attention given to Japan's trade barriers, Japan's market looks open in comparison to China's. For all the hoopla about the size of the Chinese market, the United States sold more last year to Belgium, Singapore, and the Netherlands. And for all the talk about the jobs supported by U.S. exports to China, nine out of the top ten export surplus categories last year were raw materials and intermediate goods: fertilizers, cotton, cereals, wood pulp, rawhides, etc. (See Table 1.)

China's policy of extorting technology transfers and investment from American companies interested in selling in China is costing the United States good jobs in the aircraft and automotive sectors today. More serious, transferring technology—much of which has been subsidized by American taxpayers—will impose much greater costs ten and twenty years from now, as American companies give away their technological advantage for short-term market access. Already, U.S. aircraft exports to China have fallen from their peak in 1993.

In other words, the dream of a massive consumer market in China remains just that. Revoking MFN now would impose greater costs on China than on the United States. That is one of the only advantages of having a trade relationship where imports exceed exports by more than four to one. Yes, it would also impose some short-term costs on American businesses, consumers, and workers. But in the long run, encouraging China to develop down a democratic, egalitarian, and sustainable path will be infinitely more in the interest of both countries than our present set of policies, which have utterly failed to bring about necessary and long-overdue change.

The AFL-CIO supports trade expansion, international engagement, and equitable development. But the Chinese government is not engaging in free trade, and we help neither the Chinese people in their aspirations nor our own workforce by ignoring this basic fact.

Mr. Chairman, members of the Committee, thank you for your time and attention.



CHINA DYNAMICS

by

Edvard Torjesen, Ph.D.

With responses by:

**Yin-Kann Wen, Ph.D.
Dr. Donald Dale, M.B., B.S.
Jonathan Chao, Ph.D.**

Prepared for presentation at the

**First Annual Conference
EVERGREEN FAMILY FRIENDSHIP SERVICE
Colorado Springs, Colorado
July 8 - 11, 1993**

**Copyright 1993 by Edvard Paul Torjesen
All rights reserved**

Outline

	Page
China Dynamics:	
Introductory Overview_____	1
1. How the Chinese State Came into Being_____	3
2. Dynamics of the Confucian Civil Order_____	4
3. The Military <i>Nu</i> -Complex and the Civil <i>Men</i> -Complex_____	5
4. Special Dynamics that Shaped China's Farmer Masses	5
5. Chinese Religious Dynamics_____	7
6. Special Dynamics Cued by People Groups on Two of China's Flanks	
<i>a. The Inner Asian Peoples</i> _____	9
<i>b. Maritime China and the Overseas Chinese</i> _____	11
7. New Pressures and the Quest for New Dynamics_____	13
8. The Quest for New Dynamics in War Ravaged China_____	16
9. China's Ongoing Quest Today_____	18
A Personal Word_____	21
Response I - by Dr. Yin-Kann Men_____	22
Response II - by Dr. Donald Dale_____	26
Response III - by Dr. Jonathan Chao_____	27
Author's Concluding Comments_____	33

CHINA DYNAMICS

by Edvard Torjesen, Ph.D.

Introductory Overview

China's development from antiquity to the present reflects an accumulative cultural dynamic of unique proportions. It began on the Central Plain (in the bronze age--before 2000 BC), continued on in the Central Kingdom, and is still going on in today's Republic of China and the People's Republic of China.

China is now facing the 21st Century. The People's Republic of China has drawn in new dynamics for modernization--in agriculture, industry, science and technology, and defence. It has declared an "opening" for the West, and the West is responding--with capital investment and joint ventures, as well as with technical specialists and professional experts.

What about the old saying here in the West, "West is west and East is east and the twain shall never meet"? Today the East has opened up to the West. Do we in the West understand the context of this opening? Do we understand the cultural dynamics inherent in this opening? Will the West now indeed meet the East? Certainly, with grace and understanding we can.

Such grace and understanding is, of course, more than mere static knowledge. It is life. It grows. I pray that this study may help to stimulate in us such growing grace and understanding, not only towards China and its people, but toward every people whose culture may not be the same as our own.

China and its people have been conditioned by factors significantly impinging them from antiquity to the present. Many of these factors became particularly forceful during the imperial dynasties from 771 BC to AD 1912. Historians have identified fourteen successive dynasties during this 2,683-year imperial period. This period was then followed by the period of the republics, which produced first in 1912 the Republic of China, and in 1949 the People's Republic of China--both co-existing today.

Despite the diversity and span of this development, and even with China's state now split into two, the Chinese people have preserved the essential integrity and unity of their culture. The Chinese people are still responding to, and they continue yet today to refine and develop these dynamics that have so distinctively molded their culture ever since antiquity. Their society possesses a "unified yet self-regulating character." (F:428)⁴

When we compare the impact of China's culture with the impact of other cultures on their societies, we discover some interesting differences. For instance, no other culture known has ever motivated and unified as large a population from as many different people groups, over as wide an area, and for as long a period as has the Chinese culture. In a comparison with Europe for the five hundred-year period from 1000 to 1500 China came out "above par" in such areas as "agricultural productivity, industrial skill, commercial complexity, urban wealth, or standard of living." (F:2)

Chinese shipbuilding, nautical technology, and the maritime trade to Japan and South East Asia were already sophisticated during the 12th and 13th centuries. "The shipyards near Nanjing from 1403 to 1419 alone built 2,000 vessels, including almost a hundred big 'treasure ships' 370 to 440 feet in length and 150 to 180 feet abeam.... With four to nine masts up to 90 feet high, a dozen water-tight compartments, and stern-post rudders, they could have as many as 50 cabins and carry 450 to 500 men." (F:137,138) Chinese diplomatic missions and trade were carried on these ships all along the coasts of South East Asia, South Asia, and even across to East Africa.

However, in 1433 these voyages suddenly ceased. After that they were never followed up. For a variety of internal reasons, "anticommercialism and xenophobia won out, and China retired from the world scene." (F:139)

Chinese culture did, of course, continue to maintain its cohesiveness and strength within the country. However, when the Industrial Revolution from about 1750 began to accelerate the product produced per person in the nations of Europe--and soon this impact also began to change their cultural dynamics--China in isolation lost its long-held competitive edge.

The cultural dynamics of China are probably more complex than those of most other societies. However, we need only look at the survival, intactness, and future-focusedness of the Chinese people today to realize that theirs has been a culture of unusual strength. Against odds which were constantly increasing, from the land as well as from the society, and although many individuals never did make it, the Chinese today are a people with a dream in their hearts, a dream not only about personal survival--but, even more, a dream about how to achieve the good life.

What have been the cultural dynamics that have exerted this impact on China's people? How did an age-long struggle for survival get changed into a dream? And how did that dream get changed into a still larger dream--the dream about the good life?

In the sections that follow, the highlight will be on those dynamics which in my judgment seem to have had the greater impact on the Chinese culture and the development of this dream in the hearts of the Chinese people.

1. How the Chinese State Came into Being

The first ruling dynasties in China, the Xia and the Shang, emerged at about 2000 BC, which was at beginning of the bronze age. As you read Fairbank's description below of the dynamics that conditioned those early societies in China, you will likely recognize the continuing impact of some of these early dynamics in China's society even today. Here is Fairbank's description:

We know that in both Xia and Shang the ruling family made use of elaborate and dramatic rituals to confirm their power to govern, especially the rituals of shamanism by which a priest (or shaman), often the ruler himself, would communicate with the spirits of the ancestors to secure their help and guidance.... By practising a religious cult of the ancestors, local rulers legitimized their authority. Some became lords over groups of towns, and group vied with group as well as region with region, until a single dynasty could emerge in a distinct area.

... Men from each cluster of families in a lineage seem to have formed a military unit.... The king claimed that his primacy rested on his personal merit, but there is no doubt that military power helped him.

In addition to warfare, the Xia and the Shang expanded their domain by building new towns. Towns were not unplanned growths caused by trade or migration of individual families but were planned and created by local rulers. (F:37,38)

China emerged as a state under the Western Zhou dynasty.
Again quoting Fairbank:

In its origins, the small Zhou tribe interacted with nomads on the north and with proto-Tibetan Qiang people on the west. They early learned how to tolerate and work with peoples of different cultures. After they finally settled in the Wei River valley, the Zhou rulers became vassals of the Shang until they were strong enough to conquer Shang in warfare about 1040 BC.... The victorious Zhou built a new capital at Xi'an (Chang'an). They transported many Shang elite families to manage the work of building and made use of Shang skills in ritual and government. Other Shang families were transported to populate and develop the west.... After conquering the eastern plain the Zhou's power expanded by defeating nomads on the northwest and by campaigns southward into the Han and Yangzi River areas and southeast along the Hwai River....

While the Zhou thus continued, like the Shang, to use kinship as a main element of political organization, they created a new basis of legitimacy by espousing the theory of Heaven's mandate. Where Shang rulers had venerated and sought the guidance of their own ancestors, the Zhou claimed their sanction to rule came from a broader, impersonal deity, Heaven (*tian*), whose mandate (*tiansheng*) might be conferred on any family that was morally worthy of the responsibility. This doctrine asserted the ruler's accountability to a supreme moral force that guides the human community.... The

Chinese theory of Heaven's mandate set up moral criteria for holding power.

Expansion of Zhou central power involved a degree of acculturation of those who submitted.... The mainstream culture was that of the Central Plain (*zhongyuan*), the core region of Shang-Zhou predominance. In the peripheral areas were many non-Chinese whose different cultural status was marked by the fact that their names were not Chinese but were recorded in transliteration. They included both seminomads of the north, northeast, and northwest and tribal peoples of South China. By degrees: intermarriage, acculturation, and a beginning of bureaucratic government created the successor states that followed the Shang-Zhou dominance. (F:39,40)

From the above description we see how the Chinese society has been distinctively conditioned by both the durability of its culture and the unifying dynamic it generated. The Chinese people has exhibited a distinctive capacity to attract and draw in many of its neighboring peoples. Chinese culture has shown an amazing capacity to reboot and recharge itself.

2. Dynamics of the Confucian Civil Order

As we have seen, the rulers of early China based the legitimacy of their claim to Heaven's mandate on their personal moral character and worthiness. Consequently they had a personal interest in having both military rulers and scholar-teachers who were concerned with the performance of ritual and ceremonies in order "to keep the society in proper accord with the cosmic order of which it was a part." (F:49) No scholar-teacher influenced Chinese society more in this respect than did Confucius (551-479 BC). His teaching, however, was not fully embraced until a century later.

Confucianism begins with a hierarchy of superior-inferior relationships in the cosmic order. On this basis it codified the basic human relationships in terms of "the three bonds"--bonds of: 1) loyalty on the part of subject to ruler; 2) filial obedience on the part of son to father; and 3) chastity on the part of wives but not of husbands (reflecting the *yin/yang* concept).

Each person therefore had a role to perform, "a conventionally fixed set of expectations to which individual behavior should conform."... If everyone performed his role, the social order would be sustained. Being thus known to others by their observable conduct, the elite were dependent upon the opinion and moral judgment of the collectivity around them. To be disesteemed by the group meant a disastrous loss of face and self-esteem, for which one remedy was suicide.

... The Confucian gentleman ("the superior man," "the noble man") was guided by *li*, the precepts of which were written in the ancient records that became the classics. Although this code did not originally apply to the common people, whose conduct was to be regulated by rewards and punishments ... rather than by moral principles, it was absolutely essential for government among the

elite. This was the rationale of Confucius' emphasis on the right conduct on the part of the ruler.... The main point of this theory of government by good example was the idea of virtue [*de*] that was attached to right conduct. To conduct oneself according to the rules of *li* in itself gave one moral status or prestige.... Right conduct gave the ruler power. (F:51,52)

This thorough-going emphasis on the civil order produced in the Confucian scholar-gentleman a disdain for the military, a disdain that classed the military "even lower than merchants". "So deep-laid was this dislike that the military were excluded from the standard Confucian list of the four occupational groups or classes--scholar (*shi*), farmer (*nong*), artisan (*gong*), and merchant (*shang*).... For twenty-one centuries ... the four classes have been standard fare in the lore about China." (F:108)

3. The Military *wu*-Complex and the Civil *wen*-Complex

The following is Fairbank's sorting out of the inter-relationships between the military *wu*-complex and the civil *wen*-complex in China's dynastic history:

... Dynasties were militarist in origin, but once established, their bureaucracies were civilian. The ideology of each was suited to its needs. The men of violence who founded dynasties believed in the Mandate of Heaven, which was confirmed as theirs when resistance ceased. The scholar-administrators who staffed their bureaucracies looked down upon men of violence, who by their recourse to force (*wu*) showed themselves lacking in cultivation (*wen*). The central myth of the Confucian state was that the ruler's exemplary and benevolent conduct [*li*] manifesting his virtue (*de*) drew the people to him and gave him the Mandate. This could be said as long as rebels could be suppressed, preferably by decapitation.

The great weakness in this Confucian myth of the state was that the ruler, if he wanted to keep on ruling, could never dispense with his militaristic prerogative of decapitating whom he pleased *pour raison d'etat*, to preserve the dynasty. Thus, government under imperial Confucianism was conducted by bureaucrats who served under an autocrat, and they depended upon one another. In practice, a balance was often reached between *wen* and *wu* when Confucian-trained territorial administrators were allowed to command troops to destroy rebels. Many scholars specialized in military matters; some became able generals. Yet all held power only at the whim of the emperor. (F:111)

4. Social Dynamics that Shaped China's Farmer Masses

Chinese civilization began on the Central Plain through which the Yellow River empties out into the sea. Kaifeng is at the center of this region and Beijing in the north. Chinese civilization extended itself then to the Northwest, the up-country region from the southern bend of the Yellow River with Xi'an (Chang'an) as its focal point. Through various stages of warfare and/or benevolent rule the

regions along the Yangzi River were gradually assimilated: the Middle Yangzi around today's Wuhan and the surrounding lake districts, the Lower Yangzi around Nanjing and Hangzhou, and the Upper Yangzi around Chengdu and Chongqing. During Han Wudi's reign (140-87 BC) three southern regions were incorporated: the South East coastal area with Fuzhou as main port, the Far South with Guangzhou (Canton) as main port, and finally the Southwest around Guiyang and Kunming.



China's Macroregions (F:13)

All these diverse regions with their diverse people groups and very diverse soil and climate conditions were now under one central government system. The people in all these regions would from now on be conditioned by their interaction with this one same set of three factors: (1) the land; (2) the bond between ruler and people--Confucianism; and (3) the system of government imposed--autocracy. Although these three factors did have a compelling unifying impact on all these different people groups, regional differences also conditioned them--for instance, differences in the impinging geography, as well as

the people's surviving cultural traits from their past. The differences in regional culture that resulted are clearly observable in China's people today.

One particular trait or cultural dynamic came to have an especially drastic impact on the people's interaction with the land. From antiquity, the sons in a family in China had inherited in equal portions the family land from their father. The result was that on each generational level the inherited plots of land and portions of land-rights became smaller and smaller, creating an ever-increasing land hunger. This did create a pressure for some family members to go into business outside of farming. However, that door was essentially closed, because not only did merchandising rank the lowest in the Confucian hierarchy of occupations, but because of the bureaucratic controls and taxation imposed. The consequence was that as the population grew, more and more land was put under intensive farming; and as the population still kept growing, farming became more and more labor intensive. The result was that total production was increased; however, the yield per farmer decreased. "The farm economy was tied to involution, that is, growth of product without any increase of productivity per hour of labor." (F:179) The farmer became poorer and poorer, his lot in life harder and harder.

5. Chinese Religious Dynamics

Jesus once reinforced a lesson, which Moses had already introduced fifteen centuries earlier, that one of the purposes of God's action in human history was "to teach you that man does not live by bread alone but on every word that comes from the mouth of the Lord." (Deut.8:3) Jesus rephrased it this way, "It is written: 'Man does not live by bread alone, but on every word that comes from the mouth of God.'" (Matt.4:4) Man has a side to him that is not nurtured by natural means; it is nurtured rather by drawing on God's communication with him through the Scriptures. Human society wants all of its members to function according to its cues; however, every person must also be alert and responsive to the cues by which God speaks to his soul.

We have already seen the prominence that religious practice held in the development of the early Chinese culture. The ruler particularly played a prominent part in these religious practices, often taking the lead himself as the officiating priest, and eventually claiming Heaven's mandate as the sanction for his rule. The power and durability of the autocracy that emerged thus rested essentially on a dual impact: the ruler's claim to Heaven's mandate together with the complementary thrust of the Confucian philosophy promoted by the ruler, each reinforcing the other. However, the joint impact of this combination came to drastically affect the exercise by the Chinese people of their own innate religious dynamic.

We pick up the story from the "Religion and Philosophy" chapter in the *China Yearbook 1958-59*:

Theologically, the idea of a Supreme Ruler presiding over the entirety of time and space was dominant already at the dawn of

Chinese civilization. The *Book of Ancient Records (Shu Ching)* mentions *Shang-ti* (God) as well as *T'ien* (Heaven). A more abstract concept *T'ien Tao* (Heaven's Ways) developed into that of the eternal, absolute *Tao*....

While both Lao-tze (604-531 BC) and Confucius (550-479 BC) must be regarded as the main influences that have largely depersonalized the Supreme Ruler, and in one way or another equated him with *Tao*, their approach and theses are markedly different. Lao-tze's contributions, if one may oversimplify the matter, are in the realm of the science of the *Tao* while those of Confucius in the arts, especially man's art of living. Lao-tze in modern terminology would have us look at the universe (and man in it) with the coolness and detachment of science. There is a *way* to Utopia, to immortality, or to living hell. It is all the same to science whatever the destination may be. In short, the Lao-tzian *Tao* is amoral. Confucius, on the other hand, would have us feel with the universe, beginning with our fellows, with the sympathy and enthusiasm of a poet. The Confucian *Tao* is essentially moral.... (CY:53)

We see then that while the people of China originally did have some concept of a personal supreme ruler, neither the autocratic state nor the Confucian philosophy were hospitable to this concept. As a result, through the joint impact of the autocratic state and the Confucian philosophy, each reinforcing the other, the original Chinese concept of a personal supreme deity was changed into some undefined impersonal divine force. Lao-tze's philosophy (Daoism) also was directed toward this same goal, though from a different premise.

This depersonalization of the Supreme Ruler produced two significant consequences in Chinese society. On the one hand, Confucianism and Daoism both had to begin functioning as outlets (ill-fitting though they were) for the Chinese innate religious dynamic which needed expression. On the other hand, in AD 63-71 Buddhism was imported from India.

The *China Yearbook 1958-59* gives us the following perspective in its "History" chapter:

Many Chinese today are idol worshippers. However, ancient classics such as the *Book of Odes* and the *Book of Ancient Records* did mention a supreme deity *Ti*. Aside from ancestors, the deities worshipped by the Confucianists were extremely simple. But the fact remains that the Chinese did not worship idols in the early days. Even today most Confucian temples are devoid of idols. The Chinese learned idol-making from images of Buddha made by the Ganchara, a tribe in northwest India.... As for Taoism, its origin was not religious. It was evolved by ancient alchemists who mixed witchcraft with Buddhist rituals in evolving something which has very little in common with China's primitive religions. (CY:18)

How has this new pantheon of religions in China then functioned? Confucianism and Daoism both continued their distinctive

philosophical emphases; however, each now also emerged with its own religious flank which kept growing larger and larger in the people's consciousness. Buddhism became the main religious force. But how then did this religious pantheon fare in the autocratic state? The answer is mixed, but on balance they all managed quite well. Confucianism already had its ancestral halls and the family lineage associations that functioned around them. As for Daoism, "a temple was erected to Lao-tze in AD 166 and the old philosopher became a god.... In 1016 Chang Tien Shih [the Daoist pope] was granted a large domain in Kiangsi. The White Deer Broto on Dragon Tiger Mountain, where Chang Tao-ling is said to have discovered the elixir of life and ascended to heaven after living to 123 years of age, still serves as the Taoist papal seat." (CY:58)

Buddhism gradually built its monasteries throughout the country. It functioned as an autonomous system. Fairbank says,

Buddhism did not diminish the power of the state as the sole source of political and social order. High culture was still dominated by the secular elite of the literati. This meant that the Buddhist community of believers was kept strictly within limits. Not until the sixth century did the *sangha* become ... a "secondary elite." Monks were recruited from families of high official status. This was anomalous because the members of the *sangha* as a corporate entity had severed ties with the outside society. Toward the government it claimed to be autonomous, free of government control and taxes, and it even included women. Sooner or later this autonomy would make Buddhism a threat to the state. (F:79)

Western humanists may still interpret the depersonalization of China's original supreme deity as to the credit of the Confucian philosophy. However, the following observations by the *China Yearbook 1958-59* probably come closer to the reality:

The weakness of Confucianism is its meager provision to ease the pangs of spiritual hunger. This need was first partially met by Buddhism, which in time stimulated the birth and development of the Sung and the Ming Dynasty schools of Neo-Confucianism (as well as certain Daoist innovations).... The spiritual hunger further opened the soul to Jesus Christ and Mohammed. (CY:55,56)

Yes, there is a side within man that cannot be nurtured by natural means alone. China's long religious-philosophical striving may probably more realistically be seen as a search for "the food" that would "ease the pangs of spiritual hunger" in the lives of its people-- food which Jesus said is to be found in the Scriptures.

6. Special Dynamics Cued by People Groups on Two of China's Flanks

a. The Inner Asian Peoples

We have already noted the early cross-cultural interaction between the Shang and Zhou tribes with nomadic and seminomadic neighbors to the north and northwest and also with tribes and peoples to the west,

south and northeast, providing the distinctive people base on which the Chinese state was developing.

During the time of the Martial Emperor (Han Wudi, reg. 140-87 BC) "Chinese armies penetrated into southern Manchuria and Korea to the northeast and into south and southwest China and northern Vietnam. In these areas commanderies could be established over the farming peoples. Only on the north and northwest was there an unstable frontier," due largely to the Xiongnu--a far-flung tribal confederation of Turkish nomads "whose mounted archers habitually raided North China for loot and supplies."(F:61)

To provide stable relations with these Inner Asian border peoples the Han emperors developed a special foreign policy.

During times when the Han were strong, they developed their own horse pastures and mounted archers, while usually enlisting the aid of nomad allies or mercenaries as well. One device was to subsidize the Southern Xiongnu as a client state to help fend off the warlike Northern Xiongnu. The alternative--punitive expeditions into the steppe--was costly and perilous; within a few weeks, lack of food supplies would oblige retreat, leaving the Xiongnu horde still intact and at large. When militarily weak, which was such of the time, Han emperors used a policy of "peace and kinship" (*heqin*)--entertaining the nomad chieftain, giving him Han princesses in marriage, and making lavish gifts, especially of silks. Nomad warriors learned that if they performed a ritual at Chang'an in which they accepted Han suzerainty, they could profit substantially while having a good time.... This appeasement policy was a forerunner of the unequal treaties of Song and late Qing times.(F:61)

This Han foreign policy was applied in a variety of ways:

Han rulers also learned how to use diplomacy to enlist some barbarians in fighting others. In the search for allies against the Xiongnu, the Han sent envoys across the Silk Road through the oases of Central Asia on the southern flank of the steppe nomads. Other tribal peoples like the Qiang (proto-Tibetans) menaced the trade route to the west; and in periods of strength, as under Wudi, the Han set up a Protectorate General of the Western Regions. At their high point, Chinese armies crossed the Pamirs into the center of Asia, where Alexander's Greek forces had penetrated more than two centuries earlier.(F:61)

But fortunes do change. Yes, "the Zhou and Qin dynasties in Northwest China had derived some of their military vigor from contacts with the northern tribes and intermarriage, as had the Sui and Tang in their turn." However, "it was only a further step for northern invaders to take over part of China directly and rule it with Chinese help but through a non-Chinese dynastic house."(F:112)

That further step was actually taken and led to a pattern of "dual Sino-nomadic government" which we see in four of the last five

dynasties of imperial China. In the Northern Song dynasty (AD 910-1125) such a dual Sino-nomadic government was established through the Qidan, a seminomadic Mongolian people, and to some extent also the Western Xia, a Tangut people. In the Southern Song (1127-1279) a strong dual pattern of government was established through the Tungusic Ruzhen tribes from northern Manchuria. So also in the Yuan dynasty (1279-1368) through the Mongols of Genghis Khan's lineage. In the Qing dynasty (1644-1912), China's last and final imperial dynasty, the pattern was continued by the Manchus. (F:24)

The assimilation of Chinese culture on the part of each of these Inner Asian people groups was of course great, and the impact on China's history and society was both profound and drastic. Fairbank sums up the process in a chapter labeled, "The Paradox of Song China and Inner Asia." However, that paradox seems to have grown as he labels the Song dynasty chapter, "China's Greatest Age: Northern and Southern Song." And the paradox must have still continued unabated as he labels the chapter on China's last and final dynasty, "The Qing Success Story."

China's dynamics do indeed stagger the imagination.

b. Maritime China and the Overseas Chinese

Historically, "Chinese life from the start had had a maritime wing more or less equal and opposite to the Inner Asian wing," but "it had been given little importance in Chinese history." Sea transport must have been well developed long before it could facilitate the absorption of Guangzhou and North Vietnam as part of China's first unified empire. (F:191) In the 13th century, the Mongol warriors had "used the captured Song fleet with its experienced captains and crews to send expeditions overseas," but they "did little to get China's sea trade into the early maritime world system that was beginning to take shape on the sea routes around Asia." (F:123,124) "In the great age of sail that was just dawning around the globe, Ming China was potentially far in the lead but refused to go on.... The Ming forced a costly Chinese withdrawal from the seacoast." (F:138-139) Fairbank summarizes nevertheless: "By 1400, the countries in sea trade with Ming China had been known for hundreds of years, while Chinese merchant shipping had been exporting silk, porcelain, and copper coins." (F:137)

Then, as we come into a later perspective, "despite Beijing's ban on overseas trade, during Ming and early Qing about a hundred big Chinese junks traded every year with Southeast Asia. These traders were ready to expand into international commerce as opportunity allowed. Their principal entrepot on the China coast was Xiamen (Amoy), a port in Fujian that, unlike nearby Quanzhou and Fuzhou, had not been the site of an official superintendency of merchant shipping." (F:194-195) In other words, Chinese sea trade had been continuing right along despite the imperial ban. And in the process, this sea trade was producing a new people group on China's coastal flank--the Maritime Chinese. Here is an extract from Fairbank:

... Beginning even before the Tang, references in the dynastic histories to Chinese trade with Southeast Asia grow more and more

numerous.... A score or more of petty states recorded in 1589 as sending tribute to the Ming were mainly the ports of call on the two trade routes that went respectively down the coast of Malaysia to the straits of Malacca and through the Philippines and the island kingdom of Sulu to the East Indies. Chinese traders naturally established their agents or other connections at these ports of trade, where Overseas Chinese communities of sojourners began to grow up. By 1818 ports of call on the Malay peninsula ... were listed in Chinese government records more realistically as "non-tributary trading countries," that is, places frequented by Chinese merchants that paid no tribute to Beijing.

... Chinese sojourners' communities were not under Chinese official control. Growth of the Overseas Chinese settlement was not fostered nor even countenanced by the imperial government. In China, while the gentry-elite let no merchant subculture grow up comparable to that in Japan and Europe in the sixteenth century, the Chinese abroad in Southeast Asia were under quite different local, official, and social restraints. They were often able to accumulate capital and became risk-taking entrepreneurs with their own style of life. Their family enterprises in the British, Dutch, and French colonial areas (in Burma, Malaysia, the East Indies, and Indo-China) usually benefited from the rule of European law. In Bangkok and Manila they advanced through marriage ties with local patricians. Philanthropy and conspicuous consumption were less useful overseas than in China, while economic development was more appreciated by the rulers.

In a way curiously reminiscent of the local gentry in China, the Overseas Chinese in Southeast Asia found their social level and functions sandwiched between the European rulers and the local villages. Chinese became brokers who helped in tax collections and in maintaining local services like ferries, bridges, and bazaars. They were generally a stabilizing element in colonial communities, too few to seize power, interested in profiting from services rendered as well as from local trade....

As time went on, these Chinese trading communities overseas became the active outer fringe of a Maritime China that conquered the land-based and agrarian-centered style of the Ming and the Qing empires. (F:193-194)

With all this richness of background development, how could Maritime China have become "a neglected wing of the Chinese people?" Fairbank has answered: "Chinese seafarers did not write memoirs. Because the sea, unlike the steppe, did not harbor rivals for power, it had been given little importance in Chinese history." (F:191) In the 19th century, however, this situation would suddenly change.

The 19th century China may be seen as "a long story of dynastic decline." (F:187) However sometimes it may have appeared more as a tumble and jumble of events, causes, and effects. One such, for instance, was the sudden acknowledgement by the imperial regime that Maritime China really was there--and, in fact, useful to the regime.

As the 19th century opened, the regime had been dealing with the White Lotus Rebellion in West China. When that rebellion was

settled in 1804, it had cost the imperial regime the equivalent of five years' revenue. "Worse still, it had destroyed the Manchu banner forces' reputation for invincibility. It was found that the militia troops when properly trained became professional soldiers, warlike and dangerous." (F:191) In 1813 the Eight Trigrams uprising in North China broke out. That, too, was suppressed; however, in the process an estimated 70,000 persons were killed. But then still another matter came on the docket:

"An equally dire situation was developing in China's maritime relations. Here again the bearers of bad news were Chinese, not foreigners, Chinese who had gone abroad in defiance of Ming and early Qing prohibitions. In short, a neglected wing of the Chinese people, which we call Maritime China, was about to become a major force in Chinese history." (F:191)

And so another of the amazing tumbles of events in 19th century China began--through which Maritime China came to occupy center-stage in one of the most difficult-to-understand periods of China's history. This period has been known mostly for its down-sides, but the period also had up-sides, up-sides that significantly facilitated and stimulated the preparations for China's transition from empire to republic.

7. New Pressures and the Quest for New Dynamics

Throughout China's imperial history, "both the monarch and the literati were committed to a two-class society based on agriculture." (F:67)

As long as the population doubled itself not more than once every 300 years, the agricultural economy and the civil order it sustained seemed to be adequate. However, when the population in the 18th century doubled itself in 100 years, and then redoubled itself by early 19th century, a crisis in the food supply set in. The agricultural economy could then no longer sustain the people. The imperial regime came face to face with a new situation for which both its civil *wei*-complex and its military *wa*-complex were ill prepared. "The official system broke down." (F:187) Fairbank elaborates the underlying factors as follows:

Growth of population and foreign trade were both impelling China toward greater contact with the outside world. This trend precipitated rebellions on both domestic and foreign frontiers. Meanwhile the one thing essential for industrialization of late-comers like Japan and Russia was government leadership. Unfortunately, in nineteenth-century China, government grew weaker and more myopic just when strength and foresight were needed. (F:187)

At this time trade disputes were developing in two frontier regions: (1) the trade between Kashgar (Kashi) in western Xinjiang and Kokand in today's Uzbekistan; and (2) the Canton trade between Maritime China and Britain, India, Japan and certain Latin American countries.

To settle the Kashgar - Kokand dispute, a relief expedition of 22,000 men was sent to reconquer Kashgar in 1827. Negotiations followed, which resulted in an 1835 agreement between Beijing and Kokand covering this Kashgar trade. It made provisions for Kokandian trading places and rights in Kashgar itself and in five other cities inside China.

The Canton trade involved some complicated barter deals in opium, tea, copper coins and silver. British and Indian traders licensed by the East India Company were concerned mostly about the opium and tea. Beijing was concerned mostly about the copper coins and silver. Beijing now moved towards some of the same points it had developed in the Kashgar agreement. However, the setting was quite different. Kashgar was far away in a low-populated border area at the far side of the Inner Asian desert. Canton was a major port city on the China coast. The social and international ramifications of the Canton dispute also were far more difficult to solve.

The negotiations started in 1834, but they made slow progress. In 1839 British gunboats started the "Opium War", thereby securing the Treaty of Nanjing in 1842, which included provisions for five trading places--the so-called treaty ports. Thus began the so-called "Treaty Century" in China's history. Through later negotiations (initiated variously by France, Britain, Russia, and Germany, and sometimes aided by military actions) a total of over eighty treaty ports were eventually opened--along the coast, as well as inland along the navigable rivers.

Unequal though the treaties may have been, the treaty ports brought the world of the Industrial Revolution into the orbit of the Chinese world. The Maritime Chinese--now de facto sanctioned by the regime--became the first day-to-day contact between the two worlds. Some of the Maritime Chinese quickly became efficient compradores, entrepreneurs, merchandisers, or investors. New dynamics were coming into play. "The treaty ports quickly became Sino-foreign cities where the foreigner played an increasing role in China's urbanization."(F:203) "In the foreign-tinged treaty ports new professions began to be followed--not only those of industrialist, teacher, journalist, engineer, medical doctor, and other scientists but also those of independent writer, artist, and even revolutionary agitator, like Sun Yatsen."(F:243)

But "during the decade from 1901 to 1911 the pace of change in the treaty ports on China's coast and riverine littoral steadily widened the gap between modern-urban China and the countless villages of the interior."(F:235)

This widening gap had begun with the treaty system, which gave reform-minded Chinese their chance to organize and publicize political opinions--something that the Qing regime did not permit. Even so, the early protagonist of rebellion, Sun Yatsen, in 1905 became the head of the Revolutionary League at a meeting of Chinese students in Tokyo only with the help of Japanese expansionists. Chinese nationalism was growing but still dormant. (F:235)

In other words, many were being touched by the new dynamic. Some had already begun to dream. Many like Dr. Sun Yatsen were dreaming about a civil society--a society based on Chinese Nationalism, Democracy, and the People's Livelihood. However, their dream was premature. The Chinese society at large still had to survive as best it could with its only recourse: the waning dynamic of the traditional agrarian economy and whatever was left of the official system.

The quest, however, did continue. Already during the 1850s a traditional element of Chinese society, the gentry-elite, had arisen, sanctioned by the regime, in order to support the regime against the fast-spreading Taiping rebellion (from the south), and they had defeated the rebels. "This was done by setting up militia bureaus throughout the countryside, selecting soldiers on the basis of personal loyalty, and financing it all with gentry contributions and the new *likin* tax on trade." (F:233) After this, during the post-rebellion reconstruction, "the regional armies became regular provincial forces, and new military academies began to train officers who had the new prestige of being scholar-soldiers." Moreover, "the gentry managers who had militarized the countryside had their successors in an urban gentry class ... gentry-merchant activists who managed elite education and social welfare" and other activities of value to the community. (F:238,240) Provincial identity and achievement were beginning to counterbalance the increasing inefficiency of the Manchu central regime.

After 1900, many of these "provincial modernizers" began to send Chinese students to Tokyo for further training. Some of these students became a significant factor in the Qing regime's reform effort, which was focused on "rights recovery, constitutionalism, and self-government." (F:244) In August 1908 the *Empress Dowager* actually proclaimed a set of constitutional principles. In 1909 provincial consultative assemblies were convened. However, systemic problems still persisted.

The issue of the Manchu central power's dominating the provinces in the new age of industrial growth and Chinese nationalism came to a head in 1911.... On October 10 ("double ten"), 1911, a revolt at Wuchang (opposite Hankou) touched off the defection of most provinces, which declared their independence of the Qing regime. The professional agitators of the Revolutionary League, who had made Sun Yatsen their leader in Tokyo in 1905, set up the Chinese Republic on January 1, 1912, at Nanjing with Sun as provisional president.

There was general agreement that China must have a parliament to represent the provinces, that unity was necessary to forestall foreign intervention, and that the reform-minded Yuan Shikai ... chief trainer of China's New Army, was the one man with the capacity to head a government. Through a noteworthy series of compromises, China avoided both prolonged civil war and peasant risings as well as foreign intervention. The Qing emperor abdicated, Dr. Sun resigned, and in March 1912 Yuan became president." (F:250)

The imperial dynasties--of which four of the last five were foreign--had come to an end in 1911. In 1912 China had entered upon its republican period. But hold it ...

Yuan Shikai, like a dynastic founder, was a military man, later to be called "the father of warlords." As a Qing official, Yuan was well versed in the inherited repertoire.... Authority must have a single source, and so Yuan concluded that his only hope of governing China lay in a reassertion of autocracy. He began by eliminating the new revolutionary leader, Song Jiaoren, who had combined the Revolutionary League members with smaller groups to form the Nationalist Party. It had won election in 1913 from some 40 million qualified voters, making Song the leader of the parliament. In March 1913 Yuan had him assassinated, and then went on to intimidate and abolish the parliament. (F:251)

Three years later, in 1916, Yuan Shikai himself died.

B. The Quest for New Dynamics in War Ravaged China

China now faced a double crisis: how to gain a new legitimate government, as well as how to gain the needed livelihood for its farmer masses. Two other factors also were inherent: (1) the warlord era, which continued until 1927; and (2) the impinging foreign presence from the treaty ports, which continued until 1943. To get the setting we draw first on Fairbank's summary of the developments in the beginning of the period:

Among the great powers, Britain and the United States--the chief sources of Protestant missions--in the Anglo-Saxon fashion preferred reform as more constructive than revolution. Their aid to reform came largely through private nonofficial channels but was both little and late. The USSR, in contrast, supported violent social revolution through aid to both Nationalists and Communists. (F:255)

But what was happening to Sun Yatsen's dream for China during this period--the dream about Chinese Nationalism, Democracy, and People's Livelihood? Here is the story: "On his part, Sun Yatsen by 1922, after 30 years of agitation, had reached a low point in his fortunes. He had been proclaimed president of the Chinese Republic in 1912 only to see his country disintegrate into warlordism. His efforts to unify China through warlord means had led him into dealings with opportunist militarists at Guangzhou. In June 1922 Sun was outmaneuvered and fled to Shanghai. Just at this moment, when Sun had demonstrated his preeminence as China's Nationalist leader but his incompetence to complete the revolution, he joined forces with the Comintern. In September 1922 he began the reorganization of the Guomindang on Soviet lines." (F:281)

We continue now with Fairbank's summary of the period:

Meanwhile, Japan's cultural and economic influence on China early in the century gave way to a military aggression that

sidetracked China's history from 1931 to 1945. Japan's aggression, merging into World War II, added immeasurably to the Chinese people's desperation.

Partly because the warlord era from 1916 to 1927 was a low point of state power, it was paradoxically a time of considerable achievement along cultural, social, and economic lines. The relative freedom of this growth would contrast with the bureaucratic control that would be reimposed upon China after 1927. The contrast would highlight two themes that continued during China's era of party dictatorships. One theme was authoritarian statism, the primacy of state building, beginning with loyalty to autocratic central power and putting political unity above all. The other theme was cultural creativity and social improvement as part of a process of civil growth. This theme was evident in autonomous developments not under direct control of officialdom in China's adaptation to the modern world. (F:255-256)

As the above summary indicates, both the USSR and Japan exerted drastic influences on the developments in China during this period: the USSR, through its impact on both the Nationalist and Communist parties; and Japan, first through its aggressions in Manchuria and North China, and secondly through its bombing of Pearl Harbor which occasioned the outbreak of World War II. In the face of Japan's aggression in China, the Nationalist and Communist parties once again invoked the United Front. "The terms of the united-front agreement remained on paper unchallenged, but in fact developments undid it. .. Both the Nationalist Government at Chongqing and the CCP at Yan'an fought a two-front war, against Japan and against each other." (F:316)

We highlight one development from this period which energized the rise of a significant new dynamic in China's society:

The secret of Mao's success at Yan'an was his flexibility at combining short-term and long-term goals. In the short term he espoused in 1940 the New Democracy as a united-front doctrine that would embrace all the Chinese people who would subscribe to CCP leadership. For the long term, he steadily developed the party organization, including its control over intellectuals....

Meantime, the real sinews of power grew up in the CCP mobilization of the peasantry in North China.... In the governments of the Border Regions and Liberated Areas that the CCP developed in different parts of China, the first principle was party control based on indoctrination of cadres and enforcement of discipline....

The second principle was to find out what the peasants wanted, and give it to them: first of all, local peace and order; second, an army of friendly troops who helped in peasant life, harvesting crops when necessary and fraternizing with the villagers; third, a recruitment of local activists who might very well be found at the upper level of the poor peasantry, people of ability who felt frustrated by circumstance; fourth, a program of betterment partly through improved crops but mainly through agricultural cooperation

in the form of actual aid, organized transport, and production of consumer goods in cooperatives.

As these efforts went forward, they became the basis for a third principle: class struggle ... to be approached in a gingerly fashion.... In the early years, the GMD (Nationalists) also had its forces in parts of North China and so provided an alternative focus of allegiance. The CCP dealt with this by setting up the rather persuasive three thirds system: The Communists would control only one third of the small congresses that sanctioned local government, leaving the other two thirds to the GMD and independents. On this basis, of course, the CCP's superior discipline and dedication let them become leaders on their merits. As their good reputes became justified in public esteem, they could begin to prepare for land reform in addition to economic production programs. (F:317-318)

We do not need to go into all the other factors that went into the Communist-Nationalist struggle during these years. Two factors, however, do need to be recognized: "By the war's end, peasant rebellions were incipient in several provinces of Free China." (F:316) And, "By 1949 nobody could deny that the Communist Party under Mao Zedong had conquered China fair and square." (F:337)

9. China's Ongoing Quest Today

The changes in China since 1949 have, of course, been tremendous. Rural communities and urban centers all have changed, and still are changing. There are many signs also of improvement in the people's livelihood since the war years.

Nevertheless, despite Beijing's central control and its many frenetic campaigns in both agriculture and industry, the command economy did not produce as projected. In industry, for instance, the many new industrial projects (basically heavy industry patterned on the Soviet model--often in remote areas) were "plagued by shortages in industrial production and unconcern for consumer demand that characterize a command economy." (F:414) Even in agriculture this command economy did not deliver as promised: "Agriculture actually saw a decline in productivity per man-hour even though the labor invested and the product secured both increased.... The dead end of involution--growth of product without the development of greater productivity per person--that had held the Chinese farmer back for centuries still held his back in 1950-1978." (F:410)

To reshape the country for the 21st century, Zhou Enlai in 1975 called for the adoption of four modernizations--in agriculture, industry, science and technology, and defence. In 1976 Mao Zedong died. Two years later Deng Xiaoping emerged as China's "paramount leader". "Class struggle gave way to economic reform and development. The Maoist slogans 'Politics in command' and 'Red over expert' were supplanted by the ancient statecraft slogan 'Seek truth from facts.' Ideology was downplayed." (F:406-407)

In the reforms of the early 1980s the CCP tried to recuperate from the low-point of Mao's last years.... First was the problem of leadership. Renewal of the CCP's claim to legitimacy required group leadership in the Central Committee, for the Great Helmsman had run China on the rocks....

The new day was heralded in foreign relations when the People's Republic turned outward again, welcoming foreign contacts. Normalization of Sino-American relations, begun in 1972, was completed in January 1979.... Deng's policy of "opening" acknowledged that the Chinese economy could progress only with a greater infusion of technology and capital, both obtained abroad. (F:406,407)

To set the pattern for foreign trade and investment, "in Guangdong, the area longest active in foreign trade ... exemplary measures were taken to give the province 'more independence to respond to its own needs.'... The province was given a revenue quota or fixed sum to be paid the central government annually. These changes stimulated trade and set an example for other areas.... By 1984 fourteen east coast ports were opened to foreign investment." (F:416,417)

The Four Modernizations program could perhaps be a first step by the People's Republic towards developing a Capital Intensive Economy. However, China's "opening" to the West and the Four Modernizations program include no promise of political reform. "To preempt the subject of political reform and put it off limits in the usual Chinese bargaining style, Deng issued in March 1979 the Four Cardinal Principles: China must follow (1) the socialist path, (2) the dictatorship of the proletariat, (3) the leadership of the Party, and (4) Marxism-Leninism-Mao Zedong Thought. This promised that the selected CCP dictatorship, like any dynasty, would continue its monopoly of power."(F:407)

It may well be, as Fairbank has suggested, that

... the inheritors of China's autocracy have faced a particular frustration in the fact that China's modern intellectuals have claimed not only the autonomy of expertise but also the pluralism felt to be so fundamental in intellectual circles abroad. Chinese thought, always homegrown and sinicized heretofore, has got out of the Chinese government's control: too many Chinese scholars today are capable of participating in world scholarship.(F:431)

The People's Republic of China is, nevertheless, moving towards the 21st century, and this under the government's Four Modernizations program. Within the government itself there is a drive towards a civil society, reinforced by this Four Modernizations program. China's dream about a civil society goes back at least as far as the closing decade of the Manchu dynasty. However, the dream now has resurged in modern China. What has brought this about? According to Fairbank,

It originated in the inevitable growth of specialization and the resulting autonomy of the expert within his sphere of expertise. Within professions like engineering or aeronautics, chemistry or modern medicine, there could be no master-riding of technology from the political center.... The new scientific technology implied a polity with pockets of autonomy scattered throughout it. Orthodoxy thus having its limits, diversity might result. (F:430-431)

The Chinese society is and has always been a strong autocracy. Yet, this autocracy has traditionally distinguished itself by certain significant "pockets of autonomy" on its flanks, which--whether they were openly acknowledged or not--have always given China a certain distinctive diversity. These pockets of autonomy have included the Inner Asian people groups, the Maritime Chinese, and the several religious communities in the buildup during the Imperial Period; and later, the treaty port communities, the Overseas Chinese, and also the various independent thinkers associated with either of these two communities. All these groups have served as bridge communities through which new dynamics have been discretely absorbed into the Chinese society. The Four Modernizations program is also a vehicle for such an opportunity today.

Through the Four Modernizations program the People's Republic of China has opened itself up to the West. Do we in the West understand the dynamic of this opening? Will East and West now meet? With grace and understanding we certainly can. I trust that this compressed study will have given a fair representation of the major dynamics involved, and that it may be of help to both those of the East and those of the West as we meet and interact and work together in the "more open" China of today.

Bibliography/Endnotes:

1. Fairbank, John King. *China: A new history*. Cambridge: The Belknap Press of Harvard University Press, 1992

NOTE: All quotations from this work have been used with the publisher's permission. They are indicated by the author's initial and the page number in brackets following each quotation--thus: (F:###).

2. China Yearbook Editorial Board. *China Yearbook 1958-1959*. Taipei: China Publishing Co., 1958

NOTE: All quotations from this work are indicated by the book initials and the page number in brackets following each quotation--thus: (CY:###).

A Personal Word

I first became aware of world politics in 1933, when as a boy of 9 in Norway, I heard about the League of Nations' debate, resulting in its condemnation of Japan for its aggression in Manchuria, but then leaving this aggression unreversed. My interest was undoubtedly aroused because only a short time before this I myself had come from China, where I was born at Hequ, a small town on a bend of the Yellow River in northwestern Shanxi province, where I had already lived for eight years--and where my parents still were serving as missionaries.

In 1937, on my way back again to China with my parents, Japan began its unprovoked attack on North China. I have vivid memories of waiting to cross the Yangzi River at night, and seeing with my own eyes the devastation already caused by this Japanese aggression in thousands of Chinese lives, soldiers as well as civilians. At Hankou (Wuhan) I witnessed the first Japanese bombing attack on that city.

During the next several months (while we lived in Hunan province, where many of the wounded soldiers were being evacuated) my father carefully negotiated his way step by step back up to Hequ. As he secured safe-passage permits from both Nationalist military commanders and the CCP Eighth Route Army, I became aware of the delicate situation in the United Front as both Nationalist forces and Communist forces sought to independently repel the Japanese, while at the same time also fighting each other.

In some of my father's letters to us, he told how hundreds of people--once over 1,000--had sought refuge at his station during, or in expectation of military activities. We were all happy when in the Summer of 1939 he was able to visit us (at the Chefoo Schools in Shandong), and then bring Mother with him back up to Hequ so the two of them could work together with the people there. That is where he gave his life. We received a telegram a few days before Christmas, telling us that on December 14, 1939 Father had been killed in a Japanese bombing attack on the small town of Hequ, but that Mother was safe.

In August 1941 when I left China, Father's dream was very much alive in my heart. In October 1948 I came back to China with my wife and our son. Five months later our second son was born at Lanzhou. He was strong and healthy, but at three months, he suddenly took sick and within a day the Lord had taken him home. In August 1949, on the advice of our Chinese friends, we left China. Since then, however, except for a 9-year period in Europe, most of our assignments have had some interesting China connection--both with Overseas Chinese, and in Hong Kong and Taiwan.

In 1988, unknown to most of us--but in the grace of God--a casual meeting with a visiting delegate from the Province of Shanxi resulted in some members of our family being invited to visit Shanxi, including Hequ. Then in the summer of 1990, our family was given the honor of sharing in the dedication of a Monument raised at Hequ to honor the memory of our forefather, Missionary Peter Torjesen. The birth of Evergreen Family Friendship Service is one of the fruits of that event.

I wish here to acknowledge a particular debt to John King Fairbank and his recently published China: A New History. My knowledge of China and its people has been based on a homegrown personal feel. Dr. Fairbank developed his scholarly knowledge of China and its people over almost exactly the same time span; however, he was my senior--probably by about 20 years. I know of no other one-volume study of China that even comes near accounting for as much pertinent data on China as does this work by Dr. Fairbank. I wholeheartedly recommend his book to anyone who needs to know how and why China works.

Also I wish to thank Dr. Yin-Kann Men, Dr. Donald Dale, and Dr. Jonathan Chao for their gracious consent to serve as respondents for this paper. Their personal insight and experience will greatly enhance whatever comment, correction or highlighting they may care to give, as well as enhance the total value of the paper. I alone am responsible, however, for deficiencies in data selection and the conclusions drawn. My heartiest thanks to each one of you respondents.

E.T.

Response I
Yin-Kann Wen, Ph.D.

COMMENTS ON 'CHINA DYNAMICS'

YIN-KANN WEN¹

1. In Dr. Torjesen's "China Dynamics", he summarizes his views on China's dynamic changes over the past four thousands years. I found the paper very interesting and stimulating. I am an economist, though not an expert on Chinese history; my comments are therefore very limited, and mainly based on a "home-grown personal feel," as Dr. Torjesen writes in his "A Personal Word," at the end of the paper. My comments are divided into two parts: overall and specific comments.

Overall Comments

2. Overall, this paper describes very well in a compressed form the evolution of social, economic, and cultural changes over China's long history. It gives a fascinating retrospection of the changes of which we Chinese are unaware, or have taken for granted. For example, the sections on "The Military Wu-Complex and the Civil Wen-Complex" (Section 3) and "Special Dynamics Cued by People Groups on Two of China's Flanks" (Section 6) are particularly interesting and thought-provoking.

3. I would like to emphasize that the impact of the traditional concept of "mandate from heaven" is very strong, even in the present. The article points out quite correctly that in early history, during the Shang and West Chou dynasties (about 2000 B.C. - 771 B.C., corresponding to the period from Abraham to the period of King Uzziiah in the Kingdom of Judah), the Chinese worshipped a supreme god (Shang ti, or Tian (Heaven)). The Shang imperial house claimed descent from gods, and "their power was established by the commission of Ti, the supreme god."² The Western Chou also claimed that their power came from heaven because heaven deserted "the wicked Shang ruler, and transferred its blessing and mandate to the leader of the Chou."³ The tradition went on to become a political tool for new rulers. Whenever a new dynasty took over the old one, it claimed a new mandate from heaven, or the supreme god. Therefore the Chinese emperor was always called "the son of the heaven [Tian-Tze]."

¹Senior Economist, World Bank, Washington, D.C. The views are of the author's and bear no relations with the organization where the author is affiliated.

² Cho-Yun Hsu, "Ancient China in Transition, An Analysis of Social Mobility, 722-222B.C.," Stanford University Press, 1965, p.15.

³ Hsu, op. cit., p. 16.

Furthermore, "relying on his divine ancestry, ... his forefathers dwelling at the side of Ti..."⁴ As a result, the Chou dynasty started worshipping ancestors. It was stated in an ancient writing during the Eastern Chou that the Chinese "considered two things to be of the paramount importance in a state: military affairs and sacrifice."⁵ Sacrifice, meaning worshipping heaven and ancestors had long become one of paramount important functions of the government. It is interesting to note that the tradition continued when the Republic of China was founded.⁶ It seems to me that because of this tradition, ROC (represented by Kuomintang), until recently, continued to claim that its rule was based on an orthodox tradition or mandate beginning from Yellow Emperor (2500 B.C.) to Qing dynasty (1661-1911). Despite that the ROC Government effectively controls only the Taiwan area; from ROC's view, ROC is the orthodox regime for the entire country of China and PRC is therefore a rebellious regime.

4. More interestingly, PRC has also claimed its sovereignty over Taiwan. It is easy for us to understand the reason, as Torjesen's paper describes, the concept of the mandate from heaven, that the Communist Chinese have unknowingly inherited the tradition.

5. On the other hand, however, communism has long been identified as a nontheistic faith and holds the atheist view.⁷ Although the Constitution of PRC proclaims that all citizens have the freedom of religious belief, in practice the regime is anti-religion, especially against the Christian faith. To understand the dynamics of China and to spread the Gospel, it might be desirable for the paper to address the current religious policy in China. In my view, although there are restrictions in China concerning the practicing of religion, Chinese people are in the stage of "spiritual hunger," particularly during the past four years. The recent surge of the family Christian churches and many traditional religions such as Buddhism, is a manifestation that Chinese tradition is difficult to be suppressed. We hope that in the near future, the basic philosophy of communism will change, just like China is now turning to Western style of economic management and reform, so that people have freedom to accept the Gospel.

⁴ Hsu, *op. cit.*, p.17. See also C. K. Yang, *Religion in Chinese Society*, University of California Press, 1967, Chapter VI, "Operation of the Mandate of Heaven."

⁵ See Hsu, *op. cit.*, p.19. Note that in the original writing, the sacrifice comes first, followed by the warfare, or military affairs.

⁶ In 1915, the ROC Government set up ceremonial procedures for "Worship the Heaven."

⁷ C. K. Yang, *op. cit.*, Chapter XIV, "Communism as a New Faith."

SPECIFIC COMMENTS

6. The article mainly covers Mainland China (PRC) rather than Taiwan (ROC), especially when it mentions the current situation and the "four-modernization drive" and its economic reform. A footnote would be desirable in pointing out this fact (e.g., second paragraph on p. 1, mentioning China, "...It has drawn in new dynamics for modernization..." clearly referring to the current PRC-stated policy, not ROC's).
7. It seems incorrect to state that "the first Chinese state emerged in 771 B.C." (p.2). The imperial period of China started about 1122 B.C. when the Western Chou was established (p.1). The year 771 B.C. was the beginning of the Eastern Chou which signified the decline of the imperial impact. The duration of the Chou (or Zhou, according to PRC's spelling (ping-yin) system) dynasty was the longest of all dynasties in Chinese history, lasting from 1122 B.C. to 256 B.C. when the last emperor of Chou died. The Chou dynasty was divided into two periods: the Western Chou (1122-771 B.C.), with Xian (Sian) as its capital, and the Eastern Chou dynasty (771-256 B.C.), started when Emperor Chou Ping moved the capital to Loyang. Under the rule of the Eastern Chou, the imperial impact had declined markedly and political power was vested in the hands of a few feudal kings. The Eastern Chou was divided into two periods: Spring and Autumn (Chun Chiu) period (771-480) and the Warring States period (480-221 B.C.)⁸ "Strictly speaking, there is no distinct line of demarcation. The only difference is that while there were scores of dukedoms and principalities in the Spring and Autumn period, only seven strong powers remained in the Warring States period."⁹
8. p.7 "Confucius (550-479 B.C.)" should be read, "Confucius (551-479 B.C.)". (typo?)
9. p.18 Regarding PRC's Capital Intensive Economy. I am not sure its connotation used here.¹⁰

⁸ The period 256-221 B.C. was part of the Warring States period without the Chou emperor.

⁹ Republic of China 1988, A Reference Book, Hilit Publishing Company, Taipei, p. 79.

¹⁰ According to economic textbook, capital intensive is a technique of a more capital-using process of production; i.e., one using a higher proportion of capital relative to other factors of production such as labor or land per unit of output. The labor intensive, therefore means the use of more labor in the process of the production. See, for example, Michael Todaro, Economic Development in the Third World, Third Edition, Longman, New York, 1985, pp. 576, 593.

In my view, China is now in the stage of developing a Labor Intensive Economy, parting with the heavy industry-oriented economy that dominated the Chinese economy for the first 30 years since the founding of PRC (1949-1978). During this period, China's economy modelled the Soviet Union in emphasizing heavy industry under a central planning system. From 1952 to 1978, China's national income increased by 6.3% per annum; of which, the capital formation grew by 8.5% p.a., while consumption grew by 5.4% only.¹¹ In other measures, compared with 1952, industrial fixed assets increased 27 times in 1980, while the average consumption level of the people in cities and country side only doubled.¹² The Government of China recognized past mistakes by stating that had been "...one sidedly going after a tempo of production and construction that was too high, blindly expanding the magnitude of capital construction, neglecting the development of science, technology and education ..."¹³ Since 1979, China has launched an unprecedented economic reform, with the strategy of first increasing agricultural output and consumer goods industry. The economic reform has been very successful in terms of improving the standard of living and making progress in industrialization. The economic strategy is, in fact, to develop a Labor Intensive Economy to utilize its abundant labor force to produce both consumer and industrial goods. It is true that, unlike the past, China is mobilizing both domestic as well as foreign capital and its ultimate goal is modernization, but the strategy is not of Capital Intensive Economy.

¹¹ China Statistical Yearbook, 1991, p. 40, using the methodology of "material production," which was used typically for socialist countries.

¹² Economic Readjustment & Reform, Beijing Review, Beijing, 1982, p. 12.

¹³ The Sixth Five-Year Plan of the People's Republic of China for Economic and Social Development (1981-85), Foreign Language Press, Beijing, 1984, pp. 12-13.

Response II
Dr. Donald Dale, M.D., D.S.

Hong Kong

May 20th. 1993

Ed Torjesen,
2701 E. Mesquite Ave, WJJ-175
Palm Springs, CA 92264

Dear Ed,

Thanks for the completed thesis which arrived in San Jose whilst I was in Vancouver, B.C. I was able to read it through carefully whilst on the plane coming out to Hong Kong, and it really is quite excellent, and needs very little, if any, alteration.

My main comment would be that I believe that there needs to be a little more detail concerning the present spiritual hunger of the Chinese people for the freedoms of the human spirit in the present extremely materialistic and totalitarian system in the section on Chinese Religious Dynamics. This would show the present struggle between a dying 'communism' and a rapidly emerging 'materialism', neither of which has been able to satisfy the innate longings of the human heart.

Since I am off tomorrow to Beijing, I am going to get this into the mail today, and trust that it may be of some little use to you. Sorry it is not more detailed, but there just has not been time to do more in my present very busy schedule.

Warmest greetings to you both and also to all those who will be attending the Conference in Colorado Springs. Sorry we cannot be with you in person at that time.

In His love and service,



Donald Dale.

Response III
Jonathan Chao, Ph.D.

A RESPONSE TO DR. EDWARD TORJESEN'S PAPER, "CHINA DYNAMICS"

By Jonathan Chao, Ph.D., President,
China Ministries International
P. O. Box 312, Shatin, N. T., Hong Kong

In this paper Dr. Torjesen sought to bring out the salient features of Chinese culture which he considers to be dynamic factors that give impetus to the onward movement of the Chinese people and state. By gathering insights from John King Fairbank's last, but interpretive book, CHINA; A NEW HISTORY (Cambridge, 1992) and the 1958 edition of the CHINA YEARBOOK, Dr. Torjesen sought to provide a historical context for interpreting China's current opening to the outside world, and hence to the West as well. For this opening has made it possible for Evergreen Family Friendship Service to become involved in China's modernization, and hence a way for Christian participation in China's nation building at a critical juncture of her national development.

WHAT DYNAMICS DRIVE THE CHINESE PEOPLE AND CULTURE?

It is good that Dr. Torjesen is taking a broader look at China's current open door to the outside world from the perspective of her own cultural history. It is also necessary that those who wish to help China do so with at least a functional understanding of the inner dynamics of her own history, be aware of the complexities of such dynamics, and be sensitive to her aspirations and goals, especially during the modern era since her humiliation at the Opium War (1839-42).

Dr. Torjesen expressed two underlying assumptions in his "introductory overview," namely, that "the Chinese people have preserved the essential integrity and unity of their culture," and that the Chinese people today are pursuing "a dream about how to achieve the good life." So he set out to identify "those dynamics which seem to have had the greater impact on the Chinese culture and the development of this dream in the heart of the Chinese people." This is a monumental task in itself; for it implies an interpretation of cultural dynamics of Chinese history and of China's future course.

What is that essential integrity and unity of Chinese culture that served as the dynamic of the Chinese people over the ages? Dr. Torjesen gave nine dynamics. I will comment on these nine "dynamics" critically in light of whether they were factors of integrity/unity or disillusion/disunity.

STATE AND RELIGION IN TRADITIONAL CHINA

Dr. Torjesen identified the first and the fifth dynamics as the Chinese state and religions, respectively. Put together, let us examine the issue of state and religion in China. While the author noted a significant shift from the Shang tribal state to the Chou quasi-imperial state because of their shift in the religious basis

of their rule--namely, from their ancestral deities to a concept of the mandate of heaven--he failed to trace further the introduction of the rule by law as advanced by the Legalist School of thought, resulting in the creation of the first unifying empire, the Chin Dynasty. While the concept of the mandate of heaven continued to be used by dynastic founders, the Chinese state has been governed not so much by a moral ruler of Confucian prescription, but by autocratic state power that suppressed every challenge from below. The Chinese state since Chin has been essentially an areligious state with power centered in the emperor or whoever acts in his place. This has been so since Chin Shih-huang to Mao Zedong and even to Deng Xiaoping. In this sense the Chinese state power has been essentially anthropocentric in nature, with man as the ultimate authority. Even though there was the altar of heaven where the emperor was to offer sacrifices to heaven on behalf of the people, in actual practice the word of the emperor was final. Furthermore, without special revelation, there were no divinely given laws by which he might rule in accordance with the will of heaven.

Were things better before Chin Shin-huang? Were the rulers more conscious of heaven? The answer is yes, as the 1958 China Yearbook noted in the Book of Records, though a better source would be the Book of Odes, as the Book of Records is considered as spurious by many Sinologists. Why did the concept of Tien develop into a mere abstract concept, and likewise, why did the tao of Taoism also evolve into a depersonalized tao? Even Confucius' tao became a depersonalized "moral tao." Henri Maspero, a French Sinologist, gave a convincing answer in his TAOISM AND CHINESE RELIGIONS. According to Maspero, a rationalization process took place B.C. 600 and 400, the period in which Lao-tze and Confucius and other philosophers lived. During this period there was a breakdown of ancient Chinese society, and along with it, their religious beliefs, resulting in a change in worldviews. What emerged was a rational approach to life and the cosmos, and this rational approach found its way into Chinese politics as well as philosophy. Consequently, the personal concept of Shangdi or Tien as the supreme ruler was replaced by impersonal principles of Taoism, Confucianism, or Legalism. All this means that the Chinese people were deprived of their religious expression towards a supreme deity who punishes evil and rewards good. Locked within the confines of rationalism, the Chinese people became spiritually dry. Buddhism from India met this need at the spiritual level, but could not quench the thirst of Chinese souls. Instead, they found themselves locked up in idolatry and deeper spiritual confusion. The Confucianists did not accept Buddhism as a religion, and so kept them out of the reach of politics and education. Today, Marxism as a ruling orthodoxy is also a form of rationalism, but in a form worse than Confucianism. That is why, perhaps, there was such an easy transition from Confucian rationalism, to the Western liberal humanism of the post-enlightenment era, and from there to Marxism. The anti-Christian movement that followed the introduction of Marxism into China in the early 1920s can thus be easily understood.

Hence, in our enthusiasm over China's opening to the outside world for economic development we must not mistake it for her concomitant openness to the spiritual heritage of the West: Christianity. Chinese Communist religious policy has not changed since its restoration in 1979, consolidation in 1982, and further implementation after 1992. If there is any appearance of welcome to Christian participation in Chinese economic development, it is not on religious grounds, but for economic reasons and with mere toleration, rather than genuine respect, for the faith held by Christians. But precisely because Marxism has left a greater spiritual vacuum and hunger in the Chinese people, Christians should do everything they can to meet that spiritual need, whether directly by working with the house churches, or indirectly through social and economic development projects.

THE CONFUCIAN SOCIAL ORDER: stability and stagnancy

In sections 2,3, 4, and 6, Dr. Torjesen deals with the dynamics of Confucian civil order, the military and the arts, the farmers, and the two flanks of the inner land and the maritime ventures. In the interest of brevity, I would like to comment on them together and refer to them cumulatively as the conservative character of Chinese culture which inhibited China from developing herself into a modern society.

First of all, it is true that the Confucian social order was based on personal moral worthiness, and that personal integrity was to conform to the ways of heaven. And from that came the concept of political rule based on the following reasoning: personal cultivation is the basis for governing one's family, which is the basis for ruling the country, which is the basis for pacifying the world. While this makes good poetry, it does not follow that a morally virtuous person is capable of ruling the state, as proven by many inept emperors. Hence, the Chinese civil service system utilized an examination based on knowledge of the Confucian classics rather than on proven administrative ability.

Secondly, while the Confucian concept of the five normalities, namely, ruler/subject, father/son, elder brother/younger brother, husband/wife, and friend/friend helped to maintain social order, it also produced a conservative mentality of obedience on the basis of one's status, which inhibited the creativity necessary for scientific and technological development, as well as aspects of cultural growth.

Thirdly, Confucian distaste for the military should have given them a distaste for violence and injustice. Yet in reality Confucian statecraft often resorted to intrigues in the court, and was marked by corruption in civil administration. Confucian virtues were often simply an ideal to be held, which few really practiced. The use of state power to pursue personal gain has been a mark of Chinese officialdom even to this day.

Fourthly, Chinese peasants worked hard all their lives with

little gain for themselves. Throughout the ages the Confucian official-gentry taxed them and exploited them until the revolution came in 1949, only to find themselves surfs to the state landlord. Held back by their own backwardness and ignorance, the peasants were confined to the land. They became symbols of Chinese patience and endurance. There was no release from their agony until recently when freed by the Gospel of Jesus Christ.

Fifthly, Chinese policy towards the minorities and other Inner Asian peoples was essentially one of suzerainty in relation to vassals. This relationship reflects Chinese Confucian cultural pride as well as certain amount of tolerance toward people of different cultures. They were left alone so long as Han sovereignty was recognized. Failure to do so would result in suppression from the imperial court.

Sixthly, the Confucian conservative mentality prevented China from becoming a seapower after a brief period of seafaring exploration in early Ming. Had China delved further her maritime experience, she would have developed herself into a modern state through economic growth much earlier than she did. Yet her sense of cultural self-sufficiency became her own self-imposed confinement in economic development.

CHINESE QUEST FOR MODERNIZATION

In factors 7, 8, and 9, Dr. Torjesen deals with Chinese response to the impact of the West in the 19th century, nation-building in the early 20th century, and her contemporary quest for modernization under socialism. Dr. Torjesen has summarized the major events in modern Chinese history. However, what has been the drive, or the inner dynamics, of history in modern China? The central question is: What has been the quest of the Chinese people and state during the last 150 years since the Opium War (1839-42)? Dr. Torjesen sees this quest as one "to achieve the good life" (p. 2). From outward appearance it might seem that way, but I think the Chinese quest for a modern China is deeper than that.

In 1978 I met a Chinese scientist who had just come back from Beijing after contributing twenty years of the prime of his life in China, more than half of which were spent in humiliation (1966-78). He said that China is laden with three heavy burdens: poverty, backwardness, and a large population. I think to a large extent that is true, and China is currently seeking to lighten these loads. However, I think in modern China since 1842, the Chinese people--especially the intellectuals and those in the government--have been seeking to solve three major problems. These are:

1. How to overthrow foreign oppression and regain national integrity and independence; that his, how to become strong politically and militarily.
2. How to overcome the problem of poverty and become strong economically.

3. How to overcome the problem of backwardness and move forward into modernity; that is, how to become strong in science, technology, and other dimensions of human culture.

To solve these problems, Chinese official literati serving in the Qing court sought to modernize China through a series of "Self-strengthening movements" that lasted from 1860 to 1895. It involved modernization of military hardware through the utilization of Western military and navigational technology. This was followed by economic developments in mining and railways; and the learning of Western technical know-how by sending students abroad. But they soon found out that mere borrowing of Western technology and development of some aspects of the economy was not enough. What was needed was political structural reform, which the Reformers attempted during 1898, but which was cut short by the Empress Dowager and her conservative, self-interested Confucian advisors. Having failed through reform, radicals like Sun Yat-sen and his friends took up revolution as a way to modernize China. After Sun failed to retain power and was spurned and rejected by Western nations, he turned to Soviet Russia for help, which the Communist International was only glad to provide. The primary drive for the period 1842 to 1949 was to get rid of foreign (i.e.: Western, and later Japanese) aggression, and to build a strong modern Chinese state. In the process, the leaders (Sun and Chiang) adopted the Russian Soviet party organizational structure. Chiang rejected Communism, but retained the Leninists revolutionary party machinery. Chiang's effort at nation building was short-lived because of Communist subversion and Japanese aggression. While Chiang failed in economics, Mao succeeded in military conflict. The Communists were able to expel foreign influence out of China. This Mao did in 1949, when he declared on October 1st, "We have stood up!"

While the Communist movement was successful in getting rid of "capitalist imperialism," and "capitalist running dogs" by way of revolution, it has not been able to succeed in nation-building, in terms of developing a strong economy. The history of the People's Republic since 1949 has been a history of this failure, and this was in large part due to Mao's idea of building up China through ideological transformation, against the advice of the economic developers such as Liao Shaoqi, Zhou Enlai, Deng Xiaoping, etc.

Thus, as soon as Deng was able to consolidate his grip on power after Mao's death, he launched his reform package at the Third Plenum of the 11th Party Congress (Dec. 1978). He proposed the idea of the Four Modernizations within the framework of "Chinese indigenous socialism," and has adopted an open door policy. The Four Modernizations was already proposed by Zhou Enlai in 1975, and so Deng was simply following his Paris mentor. Deng's effort for modernization is essentially a continuation of the self-strengthening movement left undone during the latter half of the 19th century. It is an unfinished agenda that is required of every major nation who faces the challenges of modernity as posed by the advanced "Christian countries" of the West.

Now, while the program of modernization has made some visible progress during the last 15 years, it has not been a smooth ride, as evidenced by numerous political detours to the left. Yet since the 14th CCP Congress, Deng has been determined to press forward in the direction of reform and openness. China will, in due time, develop into a capitalist economy, and the standard of living will improve, and some will get to enjoy "the good life." But what kind of good life? It is essentially the secular materialistic good life of the West, while the majority of the people will continue to remain in semi-poverty and bitter struggle, especially in the countryside and among salary workers.

Economic frustration and political conservatism will continue because of Chinese traditional backwardness derived from the Confucian concept of interpersonal relations, and hence a relativism in relation to truth. There is very little regard for law, because laws are made by man and executed by man. Hence, a personal relation with people who make the laws and who execute the laws can circumvent the law, as people are doing today. This Chinese characteristic will not change until a good majority of the people have come to know Christ and develop a concept of the law that is rooted in God as the supreme law-giver, and hence yield obedience to the law, out of a fear of the Lord.

Hence, while the Chinese quest for national integrity and freedom from foreign suppression has succeeded through revolution, their quest for overcoming poverty and backwardness is still far from completion. Leaving Confucian rationality, they jumped into atheistic Marxist dialectical materialism, and now, in an effort to get out of that hole, they are jumping into Western atheistic materialism. In the process, the Chinese people have been further deprived of the spiritual thirst of their souls. It is because of the intensity of this spiritual hunger of some 3000 years duration that the Chinese people are now more than ever open to the Gospel, and through these recent decades of suffering Christians in China have experienced the power of the resurrection because of their identification with the sufferings of Jesus. Through their sharing and preaching thousands and millions (75) are coming to Christ.

In the next ten years, China will become the largest harvest field ever in the history of mankind. The next ten years will also be years when the Chinese people will remain open to the Gospel. When money and material things begin to take the place of this hunger, their hearts will likely begin to close to the Gospel. Hence, while social services will secure a friendly reception for the messengers of the good news, let us not neglect to give the hungry people the bread of life. For ultimately, the Chinese three-fold problem of national integrity, poverty, and backwardness will not be solved until the majority of the Chinese people have been evangelized, gathered into strong churches, and Chinese culture and society Christianized.

Author's Concluding Comments

I am thankful to each of the three respondents for the way they have interacted with my paper. I regret that Dr. Donald Dale (despite my two mailings) did not get his copy of the paper until he was about to board the plane. However, both he and Dr. Yin-Kann Wen pointed to factors referred to in my paper which they felt should have been more fully treated. Also, both Dr. Jonathan Chao (in a separate communication) and Dr. Wen pointed out certain inaccuracies in my paper which would need correction. I hope that most of these have been adequately corrected in this final copy.

I want to especially thank Dr. Chao for the way he examined and expanded on each of the nine dynamics highlighted in my paper. In that process he actually provided the further elaboration which the other two respondents had called for. Thank you! Beyond that, however, Dr. Chao's informed and critical re-examination of these dynamics provides significant insights for all of us who hope one day to interact and work together beneficially and usefully with the Chinese people.

Dr. Chao reviewed these dynamics under three headings: 1) State and Religion in traditional China; 2) the Confucian social order; stability and stagnation; and 3) the Chinese quest for modernization. Whether we are to be in service or training programs, or we may be so-called professional experts or technical specialists, or investors, or partners in joint ventures, or whatever our job descriptions in China might be, what Dr. Chao here has written can help all of us greatly to understand and relate to what it is that drives the Chinese people and the Chinese culture today. As he wrote at the beginning of his response:

It is also necessary that those who wish to help China do so with at least a functional understanding of the inner dynamics of her own history, be aware of the complexities of such dynamics, and be sensitive to her aspirations and goals.

I pray that this kind of grace and understanding may characterize each one of us, whatever our contribution is to be, and in whatever program we may be invited to share among the people of China today.

The one who calls you is faithful and he will do it.

--I Thessalonians 5:24

DR. EDVARD TORJESEN'S TESTIMONY

US SENATE COMMITTEE ON FINANCE

JUNE 10, 1997

I. MY CHINA BACKGROUND (*For Committee Information*)

I was born and raised in China, in the north central province of Shanxi, where my parents served as missionaries during the 1920s and 30s. In 1937, when I was 13, and as our family were en route back to China after a home assignment, the news came of the Japanese army's unprovoked attack and aggression into North China. We got off the ship in Hong Kong and got inland as far as Hankou in Central China. Gradually my father was able to relocate our family in a safe area in South Central China. However, during those transfers I saw with my own eyes unforgettable scenes of the devastation caused even in that Central Yangtze valley as a result of Japan's invasion and air attacks. In time my father was able through patient negotiation to get safe conduct passes from both Nationalist commanders and the Eighth Route Army, enabling him to get back up to Hequ, his station in northwestern Shanxi. Here he soon found himself busy helping to provide better security for the local people in the insecurity they were facing as a result of the many military actions in the area.

Two years later my mother was able to join him; however, by then the Japanese aggression had escalated to air attacks against these remote small towns, and in one of those air attacks my father's life also was taken.

In this changed situation God began calling me back to China—particularly to the Mongols of Inner Mongolia, who long had weighed heavily on my father's heart. Consequently, in 1948 I was able to return—with my wife and our first son. Three years had then already passed since VE day and VJ day, and now the Chinese peasant revolution under Mao Zedong was nearing its climax. Consequently, on the advice of our Chinese friends we did leave Mainland China for a while. However, that was a step with deep personal pain; for our second son, born in Lanzhou, Gansu, had suddenly gotten sick and then died within one day at only 3 months of age. We left China therefore with a double grief in our hearts: for our son, as well as for my father—both buried in China's soil.

But I am glad I can now take you to a new step in our personal involvement with China. Through a remarkable set of circumstances in 1988 the doors were opened for my sister and brother to visit our "home town" of Hequ. They learned during those two visits that our father's name ("Ye Yongqing", meaning Leaf Eternally Green) was on the county's list of "*martyrs for the people*". His grave had long since been leveled; however, the town leaders now assured them, "You come back, and we will set up a memorial for your father." Then in 1990 during a

formal meeting in the governor's reception hall we were invited to come back to Shanxi, live there on a long term basis, and help with the province's needed social and economic

development. On the basis of that invitation the Evergreen Family Friendship Service was incorporated in California in 1992 as a non-profit public benefit organization. In 1993 our "registered office" was opened in Taiyuan, Shanxi's capital; and in 1996 we were granted incorporation in this province as a wholly owned foreign enterprise under the name "*Shanxi Evergreen Service*". Stranger than fiction? Yes, maybe; but these developments happened under God's grace—and in accordance with the laws of both *Shanxi and California!*

II. CHINA CHANGING, YET UNCHANGED (*Oral Testimony*)

China has gone through some staggering changes over the last fifty years. I think, for instance, of the Agricultural revolution which Mao Zedong engineered. His ship of state did get stuck on the rocks; however, the *peasants* of yesterday's China got transformed into the *farmers* of today's China. I think also of the Four Modernizations set forth by Zhou Enlai—now in full bloom through Deng Xiaoping's recent paramount leadership.

Yes, China has changed. It is still changing — every day! And yet, China also is unchanged—building on cultural dynamics rooted in its 6,000 years of history!

Here are two paragraphs quoted from my 1993 "China Dynamics" paper (attached hereto):

China and its people have been conditioned by factors significantly impinging them from antiquity to the present. . . . Despite the diversity and span of this development . . . the Chinese people are still responding to, and they continue yet today to refine and develop these dynamics that have so distinctively molded their culture since antiquity. Their society possesses a "unified yet self-regulating character." (Fairbank) —p. 1

The Chinese society is and has always been a strong autocracy. Yet, this autocracy has traditionally distinguished itself by certain significant "pockets of autonomy" on its flanks, which—whether they were openly acknowledged or not—have always given China a certain distinctive diversity. These pockets of autonomy have included the Inner Asian people groups, the Maritime Chinese, and the several religious communities in the buildup during the Imperial Period; and later, the treaty port communities, the Overseas Chinese, and also the various independent thinkers associated with either of these two communities. All these groups have served as bridge communities through which new dynamics have been discreetly absorbed into the Chinese society. The Four Modernizations program is also a vehicle for such an opportunity today. —p.20

Finn Torjesen (my son) who for the last four years has been Evergreen's China Administrator, recently made the following points concerning what he called *the Chinese factor*: "That a country of this size and history has changed so drastically in the last 20 years is phenomenal. Many factors in the Chinese culture account for this phenomenon. Any understanding of China today must include this Chinese factor. Key elements in the Chinese factor are: unity, face and creativity." He also points out:

The leadership and society consider conformity to be fundamental to unity. . . . If there is a public fight or disgruntled people begin to stop traffic or business or large masses of people begin to gather around a speaker this would get quick attention from the security bureau. The name security bureau in Chinese is actually translated "Public Peace Bureau". They definitely deal with criminal activity but their focus is to stop anything that would disrupt the unity of the nation.

In public China stands as one. Where China has conflicts, it deals with them privately until it can present a public unity. . . . All this negotiating is done behind the scenes until the strongest one stands up and is supported by all.

III. CONCERNING TODAY'S SENATE FINANCE COMMITTEE AGENDA

You have asked me to *focus my testimony on the religious issues involved*. This would require both a balanced consideration of the main religious groups within the United States and China, and also an evaluation of their relationships to the total society in both countries. Your motion for today's meeting focuses positively on renewing the normal trade relations with China, which should be our first consideration. *However, should this motion fail, does the Committee have an adequate picture of the impact such a failure would be on our two countries?*

I am aware that some Christians here in America are calling for the revocation of China's Most Favored Nation status. However, that position cannot be described as *the* Christian position. These friends seem not to have accepted that MFN is not a "favor" which the United States capriciously grants to its trading partners—that it is the backbone of the US-China relationship, a relationship which has also been beneficial for the church in China. Moreover, if the US were to revoke the MFN status from China, the result likely would be the opposite of what these friends are hoping for. The church could be blamed for undermining the government's program of economic reform. Christians in China could be subject to the wrath of their political leaders as well as of the populace in general should these see their hope for a better future dashed. Our own work in the country could also suffer, getting curtailed rather than expanding as now.

It is in the interest also of the church in China that normal trade relations between China and the United States be retained. I know of no Chinese Christian who favors revoking MFN. On the contrary, my fellow believers in China recognize that it is by keeping the door open that we can work together to create a more open China, where Christians can gradually get a greater and greater role in shaping the future of that great country.

Today I encourage you to take that same long-term view, realizing that the seeds of commitment to the Chinese people and nation which you sow now will bear lasting fruits in terms of peace and prosperity, not only in China but also for the world at large.

COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS (AAEI)

I. AAEI is a national organization comprised of approximately 1,000 U.S. member companies who export, import, distribute and manufacture a broad range of products. We are here today because a large portion of AAEI's membership engages in U.S.-China trade, the Association strongly supports renewal of China's MFN status for the coming year. Renewal would ensure American companies access for another year to the enormous economic opportunities being created as China opens its market to U.S. and other foreign goods. Failure to renew China's MFN status would cause a reduction in the supply, or an increase in the cost, of basic consumer items purchased by Americans with limited incomes who rely on basic-necessity consumer goods from China. Additionally, many component parts that are incorporated in U.S. manufactured industrial and durable goods (telecommunications, electronics, appliances, fasteners, automotive) are sourced from China. These component parts play a vital role in keeping U.S. goods competitive in the world market and in limiting inflation in the U.S. Finally, many joint ventures now in discussion are contingent upon the free flow of goods in and out of China.

II. AAEI strongly supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As AAEI testified in the past, the Association believes that the threat of terminating China's MFN status is neither an appropriate tool for addressing human rights concerns nor an effective one. We urge the members of the Committee on Finance to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, which is the same stance taken by our trading partners/competitors.

III. As stated, AAEI supports the President's efforts to focus attention on human rights concerns in China. However, we do not believe that terminating China's MFN status will contribute to this worthy objective. Specific trade disputes may be resolved by utilizing more appropriate narrower remedies. AAEI supports initiatives by some in Congress to grant China MFN status on a permanent basis.

IV. Terminating or threatening to terminate China's MFN status would seriously hinder significant U.S. interests—economic, political and religious. For various reasons, Chinese leaders are likely to retaliate, particularly against U.S. exports and investments. More importantly, revocation of China's MFN status would weaken those in China most sympathetic to our political objectives and put at risk the economic and political development occurring in China. Experience in Taiwan, South Korea and elsewhere suggests that this development will pave the way, over time, for the political and economic liberalization we seek.

V. In purely economic terms, elimination of MFN would have the following deleterious effects on the U.S.:

A. The jobs of thousands of U.S. workers producing goods and providing services for export to China would be threatened. U.S. exports last year approximated \$14.4 billion, supporting over 200,000 U.S. jobs.

B. American businesses relying on Chinese imports for their livelihood would be harmed. Tariffs, which currently average 4%-5% of product value, would skyrocket to as high as 110% in some cases. This would impose billions of dollars in additional costs on U.S. consumers, cause severe dislocations for U.S. importers and retailers, and cost countless American large-, medium- and small-business workers their jobs.

C. Over the longer term, U.S. business opportunities in China, which are at a critical juncture in China's development, could be significantly reduced, with serious implications for U.S. competitiveness in China. Current U.S. investments in China are well into the billions with an additional \$26 billion planned. The World Bank has calculated that China will require nearly \$750 billion in new infrastructure over the next decade, including aircraft, power generation, tele-

communications, computers, and other high-skill, high-wage technologies that must be supplied overseas.

VI. China's accession to the World Trade Organization (WTO) under commercially acceptable terms will open markets for U.S. goods and services, assure market-oriented economic reforms, and subject China to the rules and disciplines of the global trading system. This is the United States' strongest opportunity to get China to commit to central WTO principles, including national treatment, non-discrimination, reciprocal market access, transparency, protection of intellectual property rights (IPR), binding dispute settlement, trading rights, judicial review, uniform application of laws, and adherence to state-trading subsidy programs. Once a member of the WTO, China will be subject to the force and scrutiny of the global trade community as opposed to the U.S. acting alone. Acceptance of the reforms needed for China's WTO membership will ultimately have liberalizing effects on the entire Chinese society.

VII. In sum, AAEI strongly supports renewal of China's MFN status after July of 1997. Terminating China's MFN status is neither good trade policy nor good foreign policy. MFN status for China is the best prescription for achieving both our political and economic objectives. In keeping with these objectives, AAEI urges the Committee on Finance to seriously explore a long-term or permanent renewal of China's MFN status which recognizes a de-linkage of human rights concerns from MFN. A more stable, dependable trade relationship will encourage China to further open its markets to U.S. goods and services, with associated benefits to the U.S. economy and our international competitiveness. At the same time, China's consequent economic development will help foster political and economic reform.

INTRODUCTION AND BACKGROUND

The American Association of Exporters and Importers (AAEI) is a national organization, comprised of approximately 1,000 U.S. company-members who export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, automobiles/parts, household consumer goods, footwear, food, toys, specialty items, textiles and apparel. Members also include firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers. Many of AAEI's member firms and companies have or are considering investment in China. U.S. businesses in these areas of international trade will benefit, either directly or indirectly, from a decision to extend Most-Favored-Nation (MFN) status for China beyond July of 1997. A substantial number of AAEI exporters and importers are currently engaged in direct trade with China, with many AAEI retailer members sourcing as much as 30%-40% of imports from China. Overall, more than one-half of AAEI's membership is involved in trade with China in some capacity. Considering the importance of continued China MFN for U.S. industry, including AAEI's members, we urge the Administration and Congress to revamp U.S. policy in an effort to avoid the annual MFN debate. To this end, AAEI supports President Clinton's 1994 decision to de-link human rights concerns from MFN consideration and urges serious exploration of long-term or permanent renewal of China's MFN status.

U.S.-China trade and investment has grown tremendously in volume and complexity since the U.S. first accorded China MFN status. Total trade has more than tripled since 1981 and nearly doubled since 1990. Total cumulative U.S. investment in China is rapidly increasing, and China is one of our fastest growing export markets, purchasing an estimated \$14.4 billion in U.S. goods and services last year.

MFN status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China negotiated in 1979. The term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing. The U.S., like most other countries, maintains two complete tariff schedules—one set of standard rates for MFN countries, and a second set of often prohibitive rates for non-MFN countries. The tariff differential between these rate schedules generally ranges from 10% to 50%, and can be as high as 100% or more for some products, so that the loss of MFN status can effectively price a country's exports to the U.S. out of the market. The additional cost associated with denying MFN status would be paid for by U.S. companies and consumers.

AAEI SUPPORTS UNCONDITIONAL MFN RENEWAL

AAEI strongly supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As we testified in previous

years, we believe that the threat of terminating China's MFN status is neither an appropriate nor effective tool for addressing human rights concerns. We urge the members of the Finance Committee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as all of our other trading partners/competitors do.

The Chinese market is already the world's third largest, according to an International Monetary Fund (IMF) study, and has continued to grow at an annual rate of more than 10%. This market is simply too important to our future international competitiveness and to the battle against inflation in the U.S. to ignore or to jeopardize through an unstable trading relationship. As President Clinton has recognized, MFN is the essential cornerstone for a long-term, stable bilateral relationship with China in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long run plans, and saddles U.S./China trade and investment with a risk factor cost not faced by our international competitors.

AAEI members agree that human rights issues warrant our attention and further bilateral negotiations between the U.S. and China. However, the Association does not believe that the threat of terminating MFN is an appropriate or constructive tool for pursuing this important U.S. foreign policy objective. History suggests that despite China's strong interest in trade with the U.S., efforts to impose our will on the Chinese government through a series of public demands will prove to be counterproductive. MFN is the foundation on which the U.S. bilateral relationship with China rests.

Terminating MFN for China would not simply result in higher tariff rates for some imported goods; it would sever the basic economic—and, consequently, geopolitical—relationship between the two countries. It would also strengthen those in China who desire to see the People's Republic turn inward again, away from ideologically threatening capitalist influences, and would weaken those liberalizing forces that we seek to encourage. This would be particularly unfortunate while the leadership situation in China remains unsettled.

CHINA'S POST-JUNE MFN STATUS SHOULD BE RENEWED

AAEI supports the President's human rights objectives. For reasons noted above, we do not believe that the unilateral threat to eliminate MFN—and the uncertainty associated with annual MFN debates—further either U.S. foreign policy or trade objectives. As an association of companies engaged in trade with China, the balance of our comments will focus on the trade and economic aspects of the debate. This, however, should not in any way be construed to suggest any lesser interest in the successful resolution of U.S. human rights concerns in China.

China has made some good faith efforts to respond to U.S. market-opening initiatives. Among important developments, China has agreed to remove high tariffs on hundreds of U.S. imports, increase transparency with regard to its trade operations and move towards currency convertibility.

There are a number of other reasons for supporting the continuation of MFN treatment for China. Trade with China must be kept open to maintain benefits to U.S. industry of a bilateral economic relationship with China. Failure to renew MFN would threaten the jobs of thousands of U.S. workers producing goods for export to China and would harm American businesses relying on Chinese imports for their livelihood. Tariffs, which are at an average 4%–5%, would skyrocket to as high as 110% in some cases, increasing costs to American consumers by billions of dollars. In many cases, this increased cost would be inflationary and fall most heavily on those Americans least able to bear the burden.

AN MFN CUT-OFF WOULD HARM U.S. IMPORTERS

The loss of China's MFN status would also have both immediate and long-term consequences for AAEI members and the entire importing community. In the short-term, they would incur significant losses on merchandise already contracted for sale at a specific price, but not yet delivered. Payment for these orders are often guaranteed by irrevocable letters of credit. If duty rates increased from Column 1 to Column 2 levels before Customs clearance, these companies would be required to absorb the increases or pass them on to American consumers. American companies and American consumers, not Chinese, are harmed by increasing duty rates for merchandise which was previously ordered.

Over the longer term, the cost of delays, lost time, and unavailability of alternative supply could be even more damaging to businesses than duty increases. Many consumer products imported from China are not available in the U.S., and alternative sources of supply overseas would likely be much more costly than Chi-

nese goods, of lesser quality, or unavailable altogether. The difficulties and uncertainties of trade with China have already pushed U.S. importers to search for alternative sources of supply. With the long lead times necessary for orders in many industries, some companies could easily lose a whole season, or even a whole year. This could cause major economic hardship. Companies would be forced to raise prices on goods, with consumers bearing the ultimate burden. In most cases, U.S. producers would not benefit from a cut in supply of Chinese products. Yet, a reduction in supply of these basic consumer items would cause considerable hardship to Americans with limited or fixed incomes who purchase basic-necessity consumer goods imported into the U.S. from China. With the growing threat of a higher inflation rate, this a poor time to increase the U.S. cost of living.

MFN withdrawal from China would produce devastating inflationary repercussions, potentially crippling the U.S. retailing industry. There is no country on earth that could easily replace the vast quantities of low price consumer and industrial products, currently sourced from China. Sudden inflation, caused by MFN withdrawal, would lead to skyrocketing interest rates and consequently undermine economic assumptions made in the Budget Reconciliation Bill before Congress. U.S. economic growth would, in turn, come to a standstill and the stock market would react with loss in equity values.

Termination of China's MFN status could also make it difficult for U.S. companies to obtain products which are not easily accessible from other countries. In the case of textiles and apparel, U.S. quotas limit the amount of merchandise which can be imported from foreign countries. Thus, even countries which might have the ability to provide a somewhat competitive supply of a particular product may be unable to do so because they have filled their "quota" for the year. Furthermore, when quota is in short supply, as it most certainly would be if China MFN status were terminated, U.S. importers would pay a premium for quota itself, and provoke quota calls based on surges from countries not under quota.

AN MFN CUT-OFF WOULD ALSO HARM U.S. EXPORTERS

Failure to renew China's MFN status would harm U.S. exporters as well as importers. China represents a significant, and very promising, market for U.S. exports, with approximately \$14.4 billion worth of American goods purchased by the Chinese last year. The Department of Commerce estimates the value of U.S.-China trade and investments will be \$600 billion in the next five to seven years. Historically, China has been quick to retaliate against foreign countries perceived as interfering with domestic issues. It would not be surprising for China to withdraw MFN for American goods and services and to limit U.S. investment and government procurement opportunities in response to elimination of MFN for Chinese goods. In fact, in 1987 during negotiation of a bilateral textile agreement with the U.S., China threatened to find another supplier for the nearly \$500 million worth of annual U.S. agricultural exports to China. More recently, U.S. aircraft exports have been threatened.

Unilateral U.S. action against China would cause a severe blow to U.S. exports to China. In addition to a possible loss of \$14.4 billion in U.S. exports, loss of the Chinese market would have a significant impact on some of our most competitive industries—agriculture, aircraft, heavy equipment, machinery, telecommunications and chemicals. And, with our Western allies keeping the door open for many of their goods to China, the hard-won U.S. market share could disappear overnight, resulting in lost jobs in the export sector of the U.S. economy and an increase in the trade deficit. It would be truly ironic if the net result of the last few year's hard-won Chinese market opening commitments expanded business for European and Japanese competitors because U.S. companies are effectively excluded from the market by a U.S.-China breakdown.

Beyond the immediate loss of business in China and Hong Kong, an MFN cut-off would significantly jeopardize long-term U.S. commercial interests in the region. A Sino-American trade war would deprive U.S. companies of important business relationships and opportunities at a critical time in the growth of the Chinese economy.

China's economy has grown rapidly in recent years, at an average annual rate approaching 10%, and is poised for major expansion over the next decade. According to an IMF study, China's economy is now the world's third largest. Some predict it will be the largest economy in the world by the year 2010, or the year 2020 at the latest. U.S. companies have established a major presence in China, providing an ideal foundation for future expansion. A trade breach would threaten this foundation. It would also provide U.S. competitors in Asia and Europe with a major advantage.

MFN TRADE SANCTIONS WOULD BE COUNTERPRODUCTIVE

Unilateral trade sanctions imposed for foreign policy purposes have a very poor history of effectiveness. They serve mainly as symbolic gestures, often at great expense to U.S. economic interests, U.S. exports and foreign market share, and consumer prices.

Elimination of China MFN, and the resulting withdrawal of U.S. business from China, would decrease Chinese exposure to Western values and free market ideas which have clearly played a part in China's move toward trade liberalization and a market economy. Liberalized, market-oriented sectors, such as those in South China, would be the first to be injured or even shut down if MFN were withdrawn, and Chinese authorities would direct business back to state-owned enterprises. Terminating MFN would merely enable Chinese authorities to blame the U.S. government for its current domestic economic problems, further strengthening hard-line, anti-Western elements in the government.

Furthermore, sanctions run counter to other U.S. foreign policy interests, including the stability of the Hong Kong economy and the future of the Hong Kong people. Hong Kong accounts for two-thirds of all foreign investment in China and one-third of China's foreign exchange, and is the port of entry and exit for much of the world's trade with China, especially that of the United States. Because of the unique combination of communications, financial and technical support, established and reliable legal system, and common language available in Hong Kong, more than 900 American companies have established a significant presence there, and of these, approximately 200 have chosen Hong Kong as their base for business operations throughout the region.

The damage to Hong Kong resulting from an MFN cut-off would seriously jeopardize Hong Kong's continued ability to serve this important role for American companies as entrepot and investment "gateway" for China and the region. According to Hong Kong Government estimates, if the U.S. denied MFN for China, Hong Kong could suffer a reduction by 32% to 45% (or \$9.4 billion to \$13.3 billion) worth of re-exports from China to the U.S. Together with other related trade flows, there might be a reduction of 6% to 8% (or \$22.5 billion to \$31.8 billion) worth of Hong Kong's overall trade, a loss of approximately \$3.1 billion to \$4.3 billion in income and approximately 61,000 to 86,000 jobs as a direct impact. Damage to Hong Kong would also have counterproductive effects on political and economic reform in China. Hong Kong is South China's most important source of external investment, with Hong Kong companies providing employment to three million people in Guangdong Province alone. The impact of MFN removal would be felt disproportionately there, weakening the very forces of liberalization key to future economic and political progress in China, and Hong Kong's security and well-being. The people of Hong Kong would be put at risk should Hong Kong, as it now functions, become less valuable to China.

Finally, the U.S. should not unilaterally act without the support of our major trading partners. Unless multilaterally imposed, sanctions are certain to be unsuccessful and the U.S. could run the risk of alienating its allies.

THE U.S. SHOULD SUPPORT CHINA'S ADMISSION TO THE WTO

China's accession to the World Trade Organization (WTO) under commercially acceptable terms will open markets for U.S. goods and services, assure market-oriented economic reforms, and subject China to the rules and disciplines of the global trading system. This is the United States' strongest opportunity to get China to commit to central WTO principles, including national treatment, non-discrimination, reciprocal market access, transparency, protection of intellectual property rights (IPR), binding dispute settlement, trading rights, judicial review, uniform application of laws, and adherence to state-trading subsidy programs. Once a member of the WTO, China will be subject to the force and scrutiny of the global trade community as opposed to the U.S. acting alone.

In order to effectively secure the full benefits of China's market-opening commitments, the U.S. must extend "permanent MFN." The WTO's "unconditional MFN" clause, set forth in GATT Article I, requires all members to provide unconditional MFN to every other member. If the U.S. continues to "condition" China's MFN status on annual reviews, China would have the legal right, under WTO, to withhold the full benefits of the agreement.

We support the role of Congress in consulting on the terms on any WTO accession protocol. However, we oppose new legislation that would require Congress to formally ratify China's accession and add new statutory pre-conditions. This invites camouflaged protectionist measures.

For over two decades, U.S.-China commercial relations have been defined by the Jackson-Vanik Amendment to the Trade Act of 1974, which is an outdated provision, implemented during Cold War conditions. By law, Jackson-Vanik relegates the U.S. to a second-class commercial relationship with China. The U.S. stands alone in this policy. All other major exporting nations grant China permanent, unconditional MFN. The U.S. restrictive policy only serves to isolate U.S. companies, workers and farmers in the Chinese marketplace. Jackson-Vanik is a constant cloud of uncertainty over the entire U.S.-China relationship, driving Chinese purchasers to source from their more reliable European, Japanese, Canadian or Australian counterparts.

CONCLUSION

AAEI strongly supports renewal of MFN for China for another year. As stated, AAEI supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. Although we recognize the importance of focusing attention on human rights concerns in China, we do not believe that terminating China's MFN status will contribute to this worthy objective. We urge members of the Committee to take a strong stand to ensure that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

AAEI supports initiatives by the Administration and Congress to grant China MFN status on a permanent basis and urges serious consideration of a revision of the Jackson-Vanik Amendment toward this aim. A revision of Jackson-Vanik does not require a revision of U.S. human rights objectives in China. AAEI supports those human rights objectives. AAEI believes that President Clinton correctly determined that those objectives should not be limited to trade issues between the United States and China. The U.S. human rights objectives can, and should, be attained without terminating China's MFN status. Terminating China's MFN status could only harm U.S. trade and foreign policy interests, and ultimately, the progressive forces in China on which future progress will depend.

The American Association of Exporters and Importers wishes to thank the Committee on Finance for this opportunity to present the views of our membership on this important issue.

STATEMENT OF THE BUSINESS ROUNDTABLE ON CHINA

INTRODUCTION

The Business Roundtable is an association of more than 200 chief executive officers of leading U.S. corporations, employing over 10 million people. The CEOs examine public policy issues that affect the economy and develop positions which seek to reflect sound economic and social principles. The Roundtable includes companies representing virtually every sector of the economy, including automotive, telecommunications, computers, semiconductors, transportation, consumer products, financial services, and many others. The Business Roundtable appreciates this opportunity to submit this statement about U.S. trade policy toward China.

The primary point The Business Roundtable wants is that, in light of China's vast importance as an emerging world power, it is critical that the United States builds a stable and constructive bilateral relationship to help ensure that China becomes a force for stability and prosperity, both regionally and globally. To build such a relationship, the United States must retain normal trade treatment for China.

CHINA IS CRITICAL TO A WIDE RANGE OF U.S. INTERESTS.

Economically, the importance of China—the world's biggest potential market—is clear. In order to ensure a prosperous future for this and future generations of American workers, we must compete and win in the global economy. China is a large and growing part of that economy.

There are now 1.2 billion Chinese, and this population is growing at a rate of about 1 percent a year. While not all of China's people can yet afford U.S. goods and services, an increasing number of Chinese, especially entrepreneurs and the growing middle class in Southern China, can.

China is rapidly growing and industrializing. For the past decade, its economy has grown at a rate of nearly 10 percent a year, and its per capita GDP has tripled since 1980. According to the International Monetary Fund (IMF), China is already the world's third-largest economy and, within two decades, may be the world's largest economy. As part of this rapid growth, the World Bank estimates that China will

have \$750 billion in infrastructure needs over the next decade, requiring it to import goods and services in such areas as aircraft, power generation, telecommunications, computers, and construction. The United States is highly competitive in these high-wage, high-skill sectors. We simply cannot write off this incredible market.

But we don't need to look to the future to see the China's importance to U.S. companies and their workers. China has been the fastest-growing market for U.S. exports this decade. In the past ten years, U.S. exports of goods and services to China have grown from \$3.5 billion to over \$14 billion in 1996. U.S. exports to China already support over 170,000 high-wage, high-skill U.S. jobs, as well as tens of thousands of U.S. jobs at U.S. consumer goods companies, retail establishments, ports, and transportation and shipping companies. China is now the world's sixth-largest export market for American agriculture. It will be the most important growth market for American farmers in the future—China is projected to account for 37% of future growth in our farm exports.

We must also consider the wider Asia-Pacific region to fully appreciate China's importance. U.S. trade with this region is vital to U.S. export growth and job creation. Asian economies are booming, becoming major players in the global economy and major markets for U.S. goods and services. This growth results in rising incomes, growth of the middle class, and strong demand for sophisticated technology, infrastructure, food, and capital and consumer goods. U.S. trade with Asia already is 50 percent higher than our trade with Europe and is growing faster than our trade with either Europe or Latin America. This trade supports over 3.1 million U.S. jobs. China is a huge engine for growth in this region and a key player in the regional economy. Our policy towards China must reflect this reality.

China is not only important to our nation's economic interests; it is also a key factor for a wide range of U.S. foreign policy and national security interests. China is a nuclear and military power, a permanent member of the United Nations Security Council, and a key power in the Asia-Pacific region. China's cooperation is necessary on a broad range of vital issues, including stemming proliferation of weapons of mass destruction, enhancing regional security and stability, fighting drug trafficking, managing the North Korean situation, and protecting the international environment. Consequently, U.S. policy should be grounded on assuring that China is a force for stability, not disruption, in the region and the world.

A POLICY OF ENGAGEMENT IS THE ONLY WAY TO BUILD CONSTRUCTIVE BILATERAL RELATIONS AND MEET U.S. POLICY GOALS RELATED TO CHINA.

Since President Nixon normalized relations with China in 1973, every U.S. President—Republican and Democrat alike—has followed a policy of engagement with China, recognizing that a constructive bilateral relationship fostered by engagement is the only way to make progress on a broad range of issues. While China still has far to go, the U.S. policy of engagement with China—on both the economic and political fronts—has been a key element in the progress China has already made in the past two decades.

Most significantly, as part of its opening to the outside world, encouraged by policies of engagement by the United States and other countries, China has made sweeping market-oriented reforms to its economy. In 1978, Deng Xiaoping ended central control over most sectors of the Chinese economy. Since then, China has undergone a historic transformation, with explosive economic growth, rising personal prosperity, reduced poverty, and increased access to the outside world. These changes have fundamentally changed the lives of the Chinese people as well as their relationship to their employers, the Communist Party, and the government. Most significantly, economic reform has fostered the development of a middle class and a civil society that, in the future, will be able to press for changes in China.

With respect to human rights, recent reforms, promoted by engagement with the outside world, have made noticeable differences for the Chinese people, including:

- Increased village-level democracy. Over 200 million Chinese peasants have participated in village-level elections, and in some provinces, 40 percent of winning candidates do not belong to the Communist Party.
- Enhanced rule of law. The Chinese Government has been introducing legal reforms, including restricting arbitrary detention without trial and guaranteeing access to counsel in criminal proceedings. Nearly 30,000 administrative lawsuits are filed annually challenging abuses of state power; about one-fifth result in the government's decision being struck down or modified. These changes are in response to intense pressure to address corruption and to provide a stable institutional foundation for economic reform.
- Better access to outside information. Millions of ordinary Chinese have access to Hong Kong television programs, foreign magazines and newspapers, satellite

dishes, the internet, and fax machines. This provides people with exposure to Western culture, ideas, and perspectives.

- Expanded civil society. Chinese are losing faith in Communism and turning to other organizations that function outside the government and party. For example, about 70 million Chinese now belong to underground churches.

We should also recognize that isolation, rather than engagement, fosters human rights abuses. The human rights situation in China was the worst in the 1950s and 1960s, when China was cut off from the world. Tens of millions died of famine during the "Great Leap Forward." The Cultural Revolution was characterized by state-sanctioned human rights abuses, show trials, purges, and summary executions. While it has a long way to go, China has changed profoundly for the better because of exposure to the outside world.

Engagement has also encouraged progress on a range of U.S. security and foreign policy concerns. China has joined the Nuclear Non-Proliferation Treaty, agreed to apply the Missile Technology Control Regime, joined a permanent nuclear testing ban, and cooperated with the United States in dealing with Iraq and North Korea. In the 1980s, China helped contain Soviet expansionism in Afghanistan and helped bring about a peace accord in Cambodia. Engagement with China is also the foundation for bilateral cooperation in ensuring regional stability, protecting the global environment, controlling illegal drug flows, and fighting transborder crime.

ECONOMIC ENGAGEMENT WITH CHINA PROMOTES HUMAN RIGHTS AND FREE MARKET REFORMS IN CHINA.

Trade and investment between the United States and China help support free market reforms in China, which are making significant changes in Chinese society by raising living standards, expanding economic freedom and access to information, and reducing state control over the lives of individual Chinese.

U.S. companies operating in China contribute to increased economic freedom and expanded economic choices for the Chinese people. They provide an important employment alternative to jobs in state-owned and controlled businesses. They enjoy a good reputation for promoting local managers, treating their employees with respect, paying higher wages, and providing better working conditions. They increase contacts between people and exchanges of ideas. They also reinforce the trend toward the rule of law by demanding greater transparency of laws and regulations and improved legal and judicial methods of enforcement.

Chinese entrepreneurs and the Chinese employees of U.S. companies are among the most promising sources of economic, political, and social reform in China. These are the people who benefit the most from our economic engagement, and would be hurt the most if our engagement ended.

The world abounds with examples of countries where open trade, market-oriented economic reforms, and vibrant economic growth led, over time, to democracy. Prime examples are Taiwan, South Korea, Chile, the Philippines, the Czech Republic, Hungary, and Poland. A policy of engagement is the best way to help China along the same road. On the other hand, cutting off U.S. economic engagement with China would deal a devastating blow to progress in China toward freedom, democracy, and respect for human rights.

MAINTAINING A NORMAL TRADE RELATIONSHIP WITH CHINA—BY EXTENDING MFN WITHOUT CONDITIONS FOR A FULL YEAR—IS A CRITICAL PART OF MAINTAINING A POLICY OF ENGAGEMENT.

Some still have a misconception about the meaning of MFN, or deliberately misrepresent it as preferential treatment. In fact, it is the opposite. MFN is the normal trading relationship, not a special privilege or favor. The United States denies MFN as a matter of policy to only five countries—Vietnam, Cuba, North Korea, Laos, Serbia, and Afghanistan. In fact, MFN status does not confer the lowest tariffs the United States has to offer. We impose zero tariffs to countries under reciprocal free trade agreements, as well as to certain products from some developing countries. Thus, maintaining MFN for China merely treats it the same as, or even less favorably than, nearly all other countries in the world.

Revoking MFN would snap U.S. tariffs on Chinese goods back to Smoot-Hawley levels—the extremely high, prohibitive, protectionist tariffs that are blamed as a major cause of the Great Depression of the 1930s. These tariffs average over 50 percent; normal U.S. tariffs average under 5 percent. Revoking MFN would thus basically cut off Chinese exports to the United States. We would certainly expect the Chinese Government to respond in kind, cutting off our exports and taking action against U.S. companies that are operating in China, trying to gain some market share there. Revoking MFN would thus essentially sever our bilateral economic re-

relationship and end economic engagement. But the damage would irrevocably spill over into other areas, ending political engagement as well, perhaps irrevocably. The United States should be using carefully focused and targeted tools in dealing with such an important bilateral relationship. MFN revocation is the polar opposite—it is about as blunt a tool as you can imagine, one that will wreak a huge swath of damage in our bilateral relations as a whole.

Revoking MFN, and the consequent loss of engagement, would cause the United States to lose its influence over China. In an attempt to isolate China, the United States would in reality be isolating itself by reducing its ability to build mutual understanding and nurture progress in China, eliminating a major force for change in China. We must recognize that the United States is the only country whose government and private sector are committed to being a force for change in China. Other countries are focused almost entirely on economic benefits in their relations with China and are poised to fill U.S. exporters' place in the Chinese market every time U.S. policy provides an opening.

In addition, attempting to isolate China would also play into the hand of the Chinese leadership, especially the hard-liners. There is strong public support in China for the leadership's resistance to being "pushed around" by the United States.

Given the recent anti-MFN position taken by some religious organizations in this country, it's important to note that China's religious community, recognizing the importance of engagement, supports MFN. The Christian Voice, which represents conservative evangelicals and does outreach in China, has stated that: "[O]ne will find strong pro-MFN sentiment among China's religious community, notwithstanding their persecution by the Chinese authorities. They recognize that hav[ing] an open trade door to the West—along with its concomitant transmission of political, religious, economic, and social values—provides the best hope of transforming China over the long haul." The China Service Coordinating Office, which leads U.S. evangelical work in China, states: "[a] public Christian stance against MFN status for China is not in the interest of the church in China, and will serious[ly] hamper the efforts of Christians from outside China who have spent years seeking to establish an effective Christian witness among the Chinese people."

ENGAGEMENT WITH CHINA IS THE ONLY EFFECTIVE WAY TO ADDRESS THE U.S. TRADE DEFICIT.

Concern has been expressed over the U.S. trade deficit with China. China must take decisive actions to liberalize its trade and investment rules, privatize or close uncompetitive state-owned enterprises, build on its market-oriented reforms, and respect the rule of law. These actions are in our interest as well as China's. U.S. engagement, on a bilateral and multilateral basis, will enable us to encourage China to take the steps needed to allow U.S. companies and their workers to compete fairly in the Chinese market. Of course, WTO membership for China on commercially acceptable terms is part of this strategy.

On the other hand, if the United States revokes China's MFN status, China would almost certainly retaliate against U.S. companies and exports, threatening billions of dollars of U.S. exports as well as investments made by U.S. companies to help them compete in the Chinese market. U.S. companies and their workers would be closed off from one of our fastest-growing markets, jeopardizing the more than 170,000 U.S. jobs that already depend on trade with China, as well as the future U.S. jobs that would be created by expanding trade with China. MFN revocation would also strongly threaten the progress we've made in bilateral agreements on textiles, agriculture, and intellectual property.

Eliminating unilateral U.S. sanctions on China will also help increase our exports and decrease the trade deficit. Currently, our trade promotion agencies are forbidden from facilitating U.S. sales to China. This puts U.S. companies and their workers at a severe disadvantage in competing against companies from other countries, whose governments do not impose such restrictions. We also hurt our exporters, especially in high-technology sectors, by imposing more stringent export control on China than our competitors do. Unilateral sanctions and the threat of new sanctions also cause the Chinese to view U.S. companies as potentially unreliable suppliers.

CONTINUED U.S. ENGAGEMENT WITH CHINA IS THE BEST WAY TO ENSURE THE FUTURE OF HONG KONG AND TAIWAN.

Breaking our engagement with China by revoking or conditioning China's MFN status would hurt, not help, Hong Kong and Taiwan. Revoking MFN would destroy business confidence in Hong Kong, whose prosperity is built on trade with China and its role as an Asian commercial and financial center. The result would be devastating for Hong Kong's economy. Hong Kong handles somewhere between 50 and

70 percent of trade between the United States and China, so it is very vulnerable to disruption of our economic relationship with China. Hong Kong's current government estimates that MFN revocation would have the following effects on Hong Kong:

- reduce re-exports from China to the United States by 35 to 45% (\$9.4 to 13.3 billion);
- slash overall trade by 6 to 8%;
- cut income by \$3.1 to 4.4 billion;
- eliminate 61,000 to 86,000 jobs; and
- cut the GDP growth rate by 2.0 to 2.8 percentage points.

Those in Hong Kong who are most identified with the causes of freedom and human rights and who have been in open conflict with the Chinese Government over these issues advocate that we continue China's MFN status for Hong Kong's sake. Martin Lee, head of Hong Kong's Democratic Party, recently stated that if MFN were revoked, "Hong Kong would be hurt first and badly so." Governor Patten, who has championed Hong Kong's civil liberties, recently stated in a letter to Speaker Gingrich:

[I]mposing conditions or time-limits on the renewal of China's MFN trading status, particularly conditions which were either directly or implicitly linked to developments in Hong Kong, would jeopardize rather than reinforce Hong Kong's way of life.

For the people of Hong Kong there is no comfort in the proposition that if China reduces their freedoms the United States will take away their jobs. This is one issue on which there is complete unanimity in Hong Kong, across the community. . . I therefore urge you . . . not to allow Hong Kong to become a hostage in this debate. Unconditional renewal of MFN is the most valuable gift that American has within its power to deliver to Hong Kong at this critical moment in its history.

Hong Kong's transition to Chinese sovereignty will be a long-term process, which will have its ups and downs. As Governor Patten emphasized last year, the best thing the United States can do is "stay interested," speak out on Hong Kong's behalf, and continue to treat Hong Kong on its merits—not impose new conditions on MFN. Moreover, China will hopefully recognize that it has a strong interest in continuing to respect Hong Kong's system. Hong Kong's experience and vibrant economy are crucial to China's modernization drive. Moreover, there is already a huge amount of investment between Hong Kong and China. Hong Kong companies account for over half of all outside investment in China; Chinese concerns have invested over \$60 billion in Hong Kong.

Similarly, Taiwan's economy and security would be damaged by U.S.-China conflict. Taiwanese companies have invested over \$25 billion in China. Conflict could destabilize the Taiwan Straits and threaten regional security. As Jeffrey Koo, Chair of Taiwan's Chinese National Association of Industry and Commerce, and a prominent advisor to the Taiwanese Government, stated last year:

No country has a larger interest than Taiwan in seeing prosperity take hold on the mainland. For prosperity will help push mainland China into becoming a responsible member of the international community . . . MFN is a useful tool in steering the PRC on the path to prosperity and eventually, democracy.

For these reasons, Congress should not adopt legislation that would disrupt U.S.-China relations, such as Hong Kong or Taiwan related conditions or MFN renewal for less than a full year. Such action, despite the motivation of helping Hong Kong or Taiwan, would be entirely counterproductive.

CONCLUSION

Our nation's interests—on the economic, political, and security fronts—are best served by an open, prosperous, secure, and stable China. Our policies toward China—whether we engage China or attempt to isolate it—will play a key role in determining whether China is integrated as a responsible member of the international community, observing international norms and standards, or whether it becomes isolated and unpredictable.

Of course, engagement is not an end unto itself. It is the avenue for cooperation with China on matters of mutual concern, and for discussion and hopefully resolution of issues on which we disagree. To the extent that the current form of engagement has not been working, it should be re-evaluated and adjusted as necessary. For example, more high-level contacts between U.S. and Chinese officials would help promote avenues of communication. Similarly, increased people-to-people contacts should be promoted, not only through business, but also through military, cultural, academic, and tourist channels.

I hope that this Congress and Administration can work together in a bipartisan fashion to maintain the longstanding U.S. policy of engagement with China. In the years ahead, this vital bilateral relationship will face many challenges and present many opportunities. It is only through engagement that we will be able to face those challenges and seize those opportunities.

STATEMENT OF THE NATIONAL BUSINESS ASSOCIATION

[SUBMITTED BY BRYAN MCCANLESS, PRESIDENT]

The membership of the National Business Association strongly opposes Most Favored Nation trade status for China because of the economic and social consequences to the United States of America and other countries around the world.

INTRODUCTION

Chinese military and industrial capabilities are currently expanding at significant rates. This expansion is being aided by trade and investment between China and the United States. Since the end of the Cold War, the United States has moved from a geopolitical approach in foreign affairs to a commercial strategy. But even with expanded foreign trade and the prosperity it has provided, this shift in policy has left us vulnerable to those who would ignore the genuine national security of America's citizens and families for financial gain.

One of the surest ways to obliterate peace is with foreign policy that values profit above all else. Such a foreign policy is being conducted now between the United States and the People's Republic of China. We are told that China is moving towards democracy. As China's aging dictators pass away, they will theoretically leave in their place democratic capitalists like ourselves. But a closer look begs the question, "Who is really changing whom?" From the beginning, America has been a bright, shining light, a beacon of hope to the downtrodden because of the ideals our founding fathers held sacred. No country has done more for human rights than has America. But now, with the almighty dollar being the only thing held sacred by some, it appears America has changed, adopting trade policies that show no regard for moral concerns just to appease Big Business and multi-national corporations.

The reality that America has traded her soul in the name of free trade should shame every American who enjoys the liberties of this free country—sacrificial liberties that were paid for with the blood of brave Americans who gave no thought to their own welfare, but willingly laid down their lives so that we could be free. But can any one of us honestly say that the America we know today is worthy of the heroes who died for her? And who among us here today could honestly look one of these American patriot's in the eye, were they living today, and defend our actions with the Chinese government? Not one of us could, if we are honest.

LESSONS FROM HISTORY

History shows us that as far back as the Seven Years War, there has always been a period of time following every major conflict when people have believed the incessant threat of war is passing away, yielding a new, enlightened era. In an article for Strategic Review (Fall 1997), William R. Hawkins writes that this school of thought stems back to Voltaire and Immanuel Kant, and blossomed in the liberalism of the early 19th century. Central to this view was the hope that as imperatives of geopolitical diplomacy receded, opportunities for free foreign trade would open and join the world in the peaceful pursuit of mutual economic gain. Richard Cobden, who led the British Free Trade Movement, claimed trade was "the grand panacea" and under its influence, "the motive for large and mighty empires, for gigantic armies and great fleets would die away."

The conventional mercantilist paradigm empowered governments to control trade and direct investments with the goal of building up manufacturing and financial capabilities of their territories relative to the capacities of other countries. Liberals, however, didn't consider this an appropriate economic policy for an enlightened era. In 1821, only six years after Napoleon's defeat at Waterloo ended a quarter-century of civil wars and foreign invasions, British economist James Mill wrote the following in his Elements of Political Economy:

There is, in the present advanced state of the civilized world, in any country having a good government and a considerable population, so little chance of civil war or foreign invasion, that, in contriving the means of national felicity, but little allowance can be rationally required of it.

Another statement of government's need to redirect its attention to the promotion of free trade was made by 19th century French economist Jean-Baptiste Say, who advocated ending diplomatic corps, saying ambassadors were no longer necessary and should be replaced by consuls whose purpose would be the promotion of trade. Say influenced Thomas Jefferson, who reduced America's foreign service and also laid off most of the U.S. Navy. A century and a half later which saw two world wars, the Cold War and numerous civil and foreign disputes, this liberal philosophy has reemerged, not on the fringe of American politics but dead center in both the Democratic and Republican parties, thus proving the British economist and his "enlightened" friends wrong about free trade.

MOST FAVORED NATION: FACT & FICTION

As we consider MFN status for Communist China, the powerbrokers tell Americans, "Don't Worry, Be Happy." . . . there's no military or economic threat from China—even though Americans continue to lose jobs because of our free trade policy with China.

The fact of the matter is that MFN allows China to export goods to the U.S. at the lowest tariff rates available—virtually duty free in most cases—but does not mean that U.S. exports have reciprocal access to the Chinese market. For this reason, MFN is considered a concession by the U.S. Beijing, on the other hand, operates one of the most protected markets in the world, exporting four times the amount of goods it imports from the U.S.

The Clinton Administration has relied heavily on big and emerging foreign markets to sustain the U.S. economy. But China's market has always been an illusion. Its role in the U.S. economy today is little more than it was at the turn of this century—about four percent of U.S. commerce. Even within Asia, U.S. exports to China were only \$11.8 billion in 1996. According to the U.S. Trade Representative, China took less than seven percent of American exports to Asia. The numbers have not gone up, either. U.S. exports to Japan and the Pacific Rim went up by \$55 billion between 1993 and 1996 but only by \$3 billion to China during the same period. The fact that the U.S. exports more to Singapore and Taiwan than to China, and more than twice as much to South Korea, dispels the myth that China is central to our economic position in Asia. America's real allies are the democratic-capitalist states on the Pacific Rim, not the Beijing dictatorship.

FOLLOW THE EXPORTS

To realize the gravity of our current situation, we must first know and understand why the Chinese government only allows oil and food in the category of consumption imports. Beijing wants investment and technology to build its industrial base, ultimately reshaping the balance of power in Asia, and is using U.S. trade policies to help build China's military might. A 1994 Government Accounting Office report stated: "In the People's Republic of China, sophisticated manufacturing technologies acquired through cooperative programs with the West are being adapted for Chinese military use."

In the 1996 MFN debate, Rep. Bill Archer (R-TX), Chairman of Ways and Means, stressed the commercial gains that could be made from supporting China's infrastructure programs in "high technology, aerospace, petrochemicals and telecommunications." American firms have been encouraged through various programs to transfer capital and specific skills to China's industry. For example, Xian Aircraft builds components for Boeing airliners and fighter-bombers for the Chinese military. Pratt & Whitney's Canadian unit and China National South Aeroengine & Machinery Company produce gas-turbine and jet engines together. Although these engines are said to be for civilian use only, we know they're also adaptable to cruise missiles. A proposed facility to produce these engines in the Hainan province of Zhuzhou already produces the WP-11 engine used in China's existing cruise missiles. Beijing has been buying advanced machine tools from a number of U.S. sources that are used to manufacture advanced weapons systems. Much of this equipment, said to be for civilian use only, has ended up at military-owned factories. The cold reality is that the hard currency (U.S. Dollars) China receives from the sale of Chinese products in America is the engine running China's military build-up, which threatens America's security.

Most alarming is that high-tech deals have been facilitated by the relaxation of U.S. export controls over sensitive and dual-use technology. The Clinton Administration sees the struggle in Asia as one of American firms and their rivals competing for business in China, rather than a future geopolitical challenge to the U.S. from a China armed with advanced weapons.

We really shouldn't be surprised to see commercial technology ending up with the military since all aerospace manufacturers in China are owned by the state. Aviation Industries of China oversees both domestic and foreign interests. The company's president, Zhu Yuli, has said that China will seek an "equal partnership" with foreign firms "to narrow the gap between its aviation industry and the more advanced countries."

Shun Zhenhuan, Senior Researcher at China's State Planning Commission, has pointed to China's rise in the aerospace industry and its connection to foreign partners:

In the last decade, aviation industry factories have manufactured the most modern aircraft in history. Of the more than 20 types of aircraft on our assembly lines, 75 percent are new types put into production this decade. A new lot of fighters, attack planes, bombers, helicopters and unmanned planes have been furnished to the army . . . We manufactured aircraft parts and engine parts for a dozen foreign factories or companies, thus earning foreign exchange.

The U.S. Office of Naval Intelligence notes in a report that China is developing at least a half-dozen tactical combat aircraft, "at a time when many nations are finding it difficult to finance a single program." Shun emphasizes this point about finances when he advises managers to "Focus on exports, combine production with trade, technology with commerce . . . Have both exports and imports to keep the foreign exchange balance and to win more foreign exchange . . . Boldly attract the investment of foreign capital, raise funds in every way, and actively use them . . . Develop substitutes for import products or analyze foreign technology and master imported products as much as possible for reproduction and imitation."

This view is typical in a regime that has learned to play on the naivete and short-term focus of foreign capitalists to build its own national power.

Another Chinese mercantilist, General Ding Henggao, has written, "At a time of peace and development, world competition is essentially about comprehensive national power, and the key is the competition in science and technology . . . One of the reasons we are not looked down upon in the world is that we have built a relatively complete defense industry, and we have been able to research and manufacture various types of conventional and strategic nuclear weapons."

Henggao views military production, domestic economy and international trade as interrelated. "To satisfy domestic needs, the defense industry should try to develop products for export and expand exports. This will then open a source of income and accumulate funds to be used for imports . . . We should seize every favorable opportunity to import advanced technology from abroad, especially new and high technology. We should expand our technology cooperation and exchange with foreign countries." General Ding, chairman of the Commission on Science, Technology and National Defense Industry, directs "the socialist modernization" of China's entire military-industrial complex. General Ding is also a member of the "Local War" faction which sees a very real near-term chance for conflict in East Asia. The focus is on modernizing the military over the next ten years.

A QUESTION OF SEMANTICS

Throughout the MFN debate, proponents have argued that Beijing should be treated as a "normal" trading partner. Now there's an effort in place to change the language of "most-favored-nation" to "normal trading status" so as to remove any implication that doing business with a regime is to favor its policies. What's interesting in this semantics shuffle is that China may be more "normal" as an emerging Great Power than some realize. Beijing's international economic policies are really traditional, much like those of Jean Baptiste Colbert, the mercantilist Finance Minister for Louis XIV in 17th Century France. Colbert controlled imports but encouraged foreign craftsmen to come to France. He built roads, ports and shipyards to stimulate commerce. He also enacted reforms to create a large domestic market and the ability to take care of it. In Colbert's words, "Trade is the basis of finance and finance is the sinew of war."

China's trade surplus with the U.S. provides Beijing with the foreign exchange it needs to buy foreign weapons and technology. This hard currency surplus gave China \$39.6 billion in 1996 and \$33.4 billion in 1995. Compare this to the fiscal 1997 U.S. Defense budget of \$43.8 billion for the entire American military.

Further strengthening China's military position is the fact that The People's Liberation Army completely owns and operates over 50 corporations engaged in foreign trade. China Poly Group, the largest of these corporations, is headed by General He Ping, son-in-law of China's late strongman Deng Xiaoping. Commerce with these military enterprises and other state-owned companies further enriches and strengthens the current autocratic Chinese regime.

THE RUSSIAN FACTOR

Russia has been China's main source for arms, thus far. As Princeton's Kent Calder has observed, with Russia holding the greatest military yard sale in history, "the Chinese, flush with hard currency from their soaring, multibillion-dollar trans-pacific trade surpluses, stocked up."

Of particular concern is the aid Russia is providing Beijing in developing its new Type 093 nuclear attack and Type 094 ballistic missile submarines. These will far exceed the abilities of China's current fleet of noisy, unreliable vessels.

When Boris Yeltsin visited China in April of 1996, agreements were touted by both sides as part of a "strategic partnership." A communique issued at the end of the summit declared opposition to U.S. hegemony as the basis of Russian-Chinese cooperation. According to Stephen J. Blank with the Douglas MacArthur Professor of Research at the Army War College, "Russia needs China's markets. It also needs arms sales, peace along the borders with Central Asia . . . and China's help to enter into the Asian economic-political order." In return, Moscow has given diplomatic support to Beijing's agenda in the Far East.

This partnership became more important to Russia when China agreed to make all future arms purchases in cash rather than bartering trade goods. However, China's ability to follow through on this promise depends on the continued flow of U.S. trade dollars to Beijing. Once in Russia, this money can be used to support their military-industrial complex. As Radio Moscow has commented, "With money earned from the sale of Russian military equipment to China, Russia will be able to fund the development for itself of the most up-to-date types of armaments."

FROM RUSSIA TO THE REST OF THE WORLD

China has not limited weapon purchases to Russia. Instead, the Chinese have moved on to buy missiles from France and Italy. Even Israel has upgraded China's Russian designed tanks and is reportedly working on aircraft projects. Geopolitically, Europeans have little to fear from China to offset the lure of its money. The United States is the country facing the tiger.

China's concentration on air and naval power indicates their intention to project power into the Pacific. Beijing wants to do more than protect its coastal provinces. It wants to make good on its offshore claims to the Diaoyutais, Paracels and Spratley Islands, which are presumed to hold the key to vast undersea oil reserves and to the renegade province of Taiwan. For this reason, the Chinese Navy has adopted an Offshore Active Defense which emphasizes decisive offensive tactics. By the year 2000, the Chinese navy plans to control the seas out to the first island chain defined by a line running from Japan to Taiwan, the Philippines and Borneo, down to Sumatra. All of Beijing's disputed island claims fall within this vast ocean territory. Yet, beyond this is the "second island chain" to which Chinese naval forces expect to reach by the early 21st Century—a line that reaches out past the Marianas, Guam and Palau, and incorporates the entire Pacific Rim economy in much the same way that Japan once envisioned a Greater East Asia Co-Prosperity Sphere under its military supremacy.

REAL PEOPLE, REAL LIVES, REAL PAIN

The extent of China's human-rights violations is staggering. Consider these documented facts:

- China's one-child-per-couple mandate has led to widespread sex selection abortion. Least desired are baby girls and many who are born alive are abandoned by their parents, often left to starve in state-run orphanages.
- Chinese women are forced to have abortions, and some are involuntarily sterilized. Women in their eighth and ninth months of pregnancy have literally been dragged from their homes by family planning officials, tied down with their feet in stirrups, and their babies forcibly aborted.
- In 1995, Hong Kong newspapers reported that aborted human fetuses were being cannibalized in China and sold as health food.
- Christians and other people of faith are systematically tortured in China. Amnesty International reports cases of Christian women hung by their thumbs from wires, beaten with heavy rods, denied food and water, and shocked with electric probes.
- Bishop Su was imprisoned for fifteen years and told of being beaten so severely with an instrument that it splintered. Undeterred, the police tore down a wooden door frame and continued beating Bishop Su until it, too, splintered. The bishop was then hung by his wrists from a ceiling and beaten around the head.

- In another episode, he was placed in a cell that contained water at varying levels from ankle to hip deep, and was left there for days, unable to sit or sleep.
- Forever seared in the minds of all who watched via satellite in 1989 is the image of courageous Chinese students who marched to their deaths in Tiananmen Square, bravely quoting America's Declaration of Independence against the backdrop of a papier-mache model of our Statue of Liberty. How ironic that those brave students understood this priceless gift of liberty more intimately than America's political leaders who take freedom for granted and systematically trade our liberties away, one congressional act at a time.

WE MUST DENY CHINA MOST FAVORED NATION STATUS

We've been told the best way to bring China around to our way of thinking is to grant them special privileges and, in time, they'll come to know the error of their ways. Only a fool buys into that kind of logic. If a child misbehaves and you want to correct his behavior, do you take away privileges or grant them? You take them away, of course! Only by feeling the negative consequences of his actions is a child likely to change his bad behavior. If, on the other hand, there are no negative consequences, but instead, only positive reinforcement, the child will continue to behave any way he chooses. What incentive have we given the Chinese government to stop the torture of its people? None. Instead, we have coddled them—at a time when they were less of a threat to our nation—and now continue to empower them—at our own peril—through Big Business' need for greed.

Denying most favored nation status to China will cut back an important source of revenue that is fueling the Chinese arms build-up. Although human rights abuses in China cannot be ignored, the more pressing issue right now for America is how best to deal with the emerging power of China. Our current policy is called "constructive engagement" but those are just new words for "appeasement." Unless we have the courage to acknowledge our mistakes with China and move in a direction that is beneficial to the United States, we have no assurance that our liberties won't be trampled by the Chinese government as were those of the small army of students in Tiananmen Square.

The Beijing regime's shift from Marxism to nationalism is designed to retain the loyalty of the rising business class, as well as to win back the allegiance of those who fled the turmoil of China's years of civil war. These expatriates built commercial networks that now control substantial investment capital. With assets estimated at \$2 trillion, these family based empires still hold dear their Chinese cultural roots. Their wealth also gives them great political influence throughout the Pacific Rim and Southeast Asia. The U.S. has seen evidence of this through the campaign financing scandal which involved the Indonesian-based Lippo Group. The Riady family, who own Lippo, fled the same southern coastal area of China which the "commercial" school sees as the breeding ground of reformers.

Beijing's appointment of shipping magnate Tung Chee-hwa as chief executive in Hong Kong demonstrates the autocratic regime's ability to find business and professional people to carry out its rule.

The Chinese have an ancient proverb that says, "A rich country makes for a strong army." This same wisdom has empowered major civilizations throughout history. The National Business Association believes that any portrayal of economic growth and military strength as rival concerns, or even as separate concerns, is dangerous. In our current situation, it can lead to policies that undermine U.S. capabilities at the same time it enhances the power of rival states. Such is the lesson we are learning about China being granted MFN status.

CHALLENGE TO CONGRESS

NBA, as a major representative of small businesses in America, believes that our current situation with China is detrimental to our country's long term goals for peace and prosperity.

The NBA urges Congress to be statesmen and stateswomen instead of politicians and vote NO on Most Favored Nation Status for China.

We are grateful for this opportunity to speak on behalf of the many men and women from small businesses and middle class families who are looking to you, our elected leaders, to make America a beacon of hope once again, and a country built on strength of high moral character rather than a country sold to the highest bidder, one parcel at a time.

