

**U.S. CONSIDERATION OF PERMANENT NORMAL
TRADE RELATIONS WITH CHINA**

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

ON THE

**U.S.-CHINA BILATERAL MARKET ACCESS AGREEMENT,
HUMAN RIGHTS, AND U.S. NATIONAL SECURITY CONCERNS**

FEBRUARY 23, MARCH 23, AND APRIL 6, 2000



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U.S.-CHINA BILATERAL TRADE AGREEMENT ON CHINA'S ACCESSION TO THE WTO

WEDNESDAY, FEBRUARY 23, 2000

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

The hearing was convened, pursuant to notice, at 9:38 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Grassley, Hatch, Murkowski, Thompson, Moynihan, Rockefeller, Breaux, Conrad, Graham, Bryan, and Robb.

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

The CHAIRMAN. The committee will please be in order.

It is again my pleasure to welcome the Ambassador here today. As you know, today's hearing will focus on the bilateral agreement reached this past November between the United States and China on the terms of China's accession to the World Trade Organization.

From what I have seen of the package thus far, the pact would afford U.S. exports unparalleled access to the Chinese market and create significant new commercial opportunities for American firms, farmers, and workers. I am looking forward to learning more about the bilateral deal and about the views of industry and labor on its terms.

That said, I think it is imperative, in light of the events of the past week, to make two points. One, is for our Chinese friends who I know are following the proceedings here closely. The second, is for the administration.

With respect to China, I feel obliged to say that WTO accession and the passage of permanent normal trade relations in the Senate is not a foregone conclusion as some may think.

The reckless threat to use force against Taiwan over negotiations on the future across-strait relations and the recurring human rights violations will necessarily affect the Senate's consideration of this agreement.

My strong preference would be to debate the agreement on its own merits. I am confident that, if the package is debated on its own terms, the Congress will recognize the benefits of the deal will extend to U.S. firms, farmers, and workers, and pass permanent normal trade relations legislation.

My point is that we may not reach that debate if the broader relationship between our countries is in question. The actions of certain Chinese officials in recent days were bound to raise precisely those questions, whether or not that was their intent.

As for the administration, 2 weeks ago I made the point that the President's ambivalence on trade had hampered our ability to make progress on trade for the benefit of our farmers and workers.

On China, by contrast, the President has been the strongest possible advocate for a WTO deal. Now we hear that the Vice President has promised the AFL-CIO that if a deal is not reached this year, he will rewrite the bilateral agreement in ways that would impose obligations on China that no other WTO member bears, and probably make it wholly unacceptable in their eyes.

Those statements raise serious questions about the administration's commitment to getting this deal done and the legislation passed, questions that the President himself had labored strenuously to put to rest in his State of the Union address and in his statements since that time on China.

Our relationship with China and the economic opportunities that the market access package would yield for our farmers, for our workers, are too important to be caught up in raw partisan campaign politics.

Legislation normalizing our trade relations with China will only pass with the unwavering commitment by the administration and a strong bipartisan effort here in Congress.

The Vice President's comments have at once called the administration's support into question and make the process of building bipartisan support significantly more difficult. He has offered wavering members a rationale for delaying a vote until next year. That raises the legitimate question of whether the administration remains committed to moving the legislation this year.

So we look forward, very much, Ambassador, to your testimony.

At this stage, I want to turn to my good friend and colleague, Senator Moynihan, for any opening remarks he may care to make.

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

Senator MOYNIHAN. Mr. Chairman, this is a worrisome moment. It's a moment of peril. We had reason to believe that normal trade relations with China would be agreed to in this Congress.

Certainly, the Committee on Finance was going to report out a bill, nearly unanimously, and now two things have happened, and they have happened within the space of 7 days, or thereabouts.

First, as the Chairman properly said, the wholly unwelcome statements by Chinese officials about a free election taking place in Taiwan. There seems to be some backing off from that, but not enough, and not that we know. This committee, Ambassador, has to be informed.

Then, as the Chairman said, there were the chilling statements and inferences by the Vice President that supporters of his may be assured that this measure would not pass in this Congress and would await his presidency, at which point he would rewrite the agreement in such terms that it would never be agreed to.

So, just on the verge of bringing this last great trading nation into the world trading system we will opt out, for internal politics on both sides, and it will be shameless.

I have reason to think that many in the administration agree, and I would hope you could assure us that we are with you and that the administration understands that the Vice President is campaigning, and things are said in campaigns. We understand that; we all campaign.

But we need to know that the administration distinctly disavows any such suggestion, that they want the bill now, they will fight for it now, and they will help us get it for them now. If you could give us those assurances we would be most grateful, because we want to help you, and not everyone seems to do.

Thank you, Mr. Chairman.

The CHAIRMAN. Might I just add one word to what you said, Senator Moynihan. That is that action in this matter will speak louder than words. It is important that all efforts on the part of the administration be put fully behind the effort to gain the kind of recognition you are here to address.

It is always a pleasure to welcome the Ambassador, who, frankly, is a very tough and able negotiator. We just wish she had the support that I think is essential for this critical task.

Ambassador Barshefsky, we look forward to your comments.

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

Ambassador BARSHEFSKY. Thank you, Mr. Chairman.

I am here with the full support of the administration, and in that regard it is a pleasure to be here before you. I thank you so much, again, for the opportunity to appear, in this instance, to discuss China's accession to the WTO.

Mr. Chairman, my testimony lays out in some detail the agreement, and I ask that it be included in the record of these proceedings.

The CHAIRMAN. So moved.

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

Ambassador BARSHEFSKY. Thank you. If I might just summarize its main points.

In China, we deal with the world's largest nation, the world's fastest-growing major economy over the past decade, and a country whose future course is central to our interest in a peaceful, stable, and prosperous Pacific region. As we address these issues, we also deal with a government which is often repressive at home and with which we have significant policy disagreements.

This is, therefore, not a simple relationship and in it we must take up a vast array of issues, from broad strategic interests, to regional security, to human rights, religious freedom, environmental protection, weapons proliferation, international crime, narcotics trafficking, so on, and so forth.

When we disagree in these areas we must be firm in the defense of America's interests and values. That is true in security, human rights, and elsewhere. But at the same time, we must also be

aware of the profound importance of our relationship with China to peace and stability across much of the rest of the world.

Thus, we also have a profound responsibility to find and act upon areas of mutual interest and benefit, to support reform in China, advance our own national interests, and build a stable peace in the years to come.

China's WTO accession is a case in point. Most directly, it will affect our full range of trade concerns. It will do so through a series of one-way concessions in which China opens its markets across the broad spectrum of goods, services, and agricultural products in a way unprecedented since the 1940's, strengthen our guarantees of fair trade, and subject its decisions to impartial dispute resolution. In doing so, it will help to rectify a fundamentally imbalanced trade relationship.

As China does this, we simply maintain our current market access policies by making normal trade relations that we have granted China in every year for the past 20 permanent.

WTO accession, however, complements and supports long-standing American humanitarian and strategic goals as well. It is in America's strategic interest. WTO access will integrate China more firmly in the Pacific and the global economy.

It will give China a stronger stake in the region's stability and prosperity, helping ensure that, throughout the region, China plays the constructive role it has in the Korean peninsula and during the Asian financial crisis.

This, together with our military presence and our alliances with Asia-Pacific democracies, China's accession will be a factor in favor of a more stable regional peace in the years to come.

It is in the interests of reform and liberalization within China. China's commitments in the WTO will open economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by state power and control. They go well beyond China's economic reforms to date, and to the reform of policies dating to the earliest years of the Communist era.

As it joins the WTO for the first time since the 1940's, China will, for example, permit foreigners and Chinese firms to import freely into China; reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services; enable foreign businesses to participate in information industries such as telecommunications and the Internet, and subject its decisions in all areas covered by WTO to enforcement, including through formal dispute settlement where necessary.

Of course, this agreement is not, by itself, a human rights policy. Change in China will only come through a combination of internal pressure and external validation of those who struggle for a political voice.

That is why we, once again, are sponsoring a resolution in the U.N. Human Rights Commission condemning China's human rights record, and why we have sanctioned China as a country of particular concern under the International Religious Freedom Act.

But the WTO agreement does represent a victory for economic reformers in China and for our own efforts to give China's people more control over their own destiny, more ability to meet and exchange ideas with the outside world.

Thus, a number of leading Chinese in Hong Kong, Advocates for Democracy, endorse WTO membership, not only for its economic value, but as a foundation for broader future reform.

Let me take a moment to turn to the specifics of the agreement. To begin with, the agreement is comprehensive. It covers a full range of industrial goods, services, farm products, and unfair trade practices and it addresses the barriers that block American exports.

For example, China will cut industrial tariffs from an average of 25.5 percent to 9.4 percent by 2005. China will eliminate all quotas and discriminatory taxes. It will cut tariffs on information technologies like computers and semiconductors to zero.

It will participate in APEC sectoral tariff elimination initiatives. It cuts tariffs on autos from current rates of 80 to 100 percent to 25 percent, and, of course, massive tariff cuts across the spectrum of other industries.

Of equal importance, it will address other barriers which prevent us from exporting to China, notably, restrictions on trading rights and distribution. With respect to trading rights, China will grant American companies, over a 3-year phase-in period, rights to import and export most products without Chinese middlemen.

The right to engage in trade is now strictly limited; only companies with specific authorization or which import goods to be used in production in China have such rights. This has severely limited our export capability.

As in the case of trading rights, the right to distribute products is critical to our ability to export to China. At present, China generally prohibits companies from distributing imported products or providing related services such as repair and maintenance.

After accession, China will allow American firms to market, wholesale, retail, repair, and transport their products whether produced in China or imported. China will permit enterprises to engage in the full range of distribution services over a 3-year phase-in period for almost all products.

In agriculture, U.S. priority products such as beef, citrus, specialty agricultural commodities, dairy, and so on, tariffs will drop from an average of 31 percent to 14 percent. To cite a few examples, China will cut tariffs on beef from 45 to 12 percent; almonds, cherries, peaches, from 30 to 12; wine, from 65 to 20.

China will also expand access for bulk agricultural products such as wheat, corn, cotton, rice, soybean oil, and others through tariff rate quotas that offer dramatic opportunities to producers of these commodities and permit, for the first time, private trade—private trade—in these products.

China will also agree to end import bans, cap and reduce trade distorting domestic supports, eliminate export subsidies, which is vitally important to cotton, and abide by the WTO's agreement on sanitary and phytosanitary standards requiring sound science as the basis for such decisions.

In services, China will open markets for distribution, telecom, financial services including insurance, professional services, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries.

In fields such as distribution, telecom, and several others, this represents the first opening to direct foreign participation since the 1950's. The agreement strengthens protection of American workers and businesses against unfair trade practices, against import surges from China, and investment practices intended to draw jobs in technology to China.

It addresses state enterprise policies, forced technology transfer, local content offsets and export performance requirements. It provides for a 12-year special product-specific safeguard to address market-disrupting import surges from China which applies to all industries.

It allows us to continue using our special antidumping non-market economy methodology for 15 years after China's accession in order to strengthen our antidumping laws. In short, the agreement is comprehensive.

Second, the results of this agreement will be rapid. Immediately on accession, China will begin opening its market in virtually every sector. The phase-in of further concessions will be limited to 5 years in almost all cases, and in many cases between one and three years.

Finally, the agreement is enforceable. Let me expand on this for one moment. All trade commitments require full implementation and enforcement to be meaningful in practice.

Our previous experience in improving intellectual property rights and enforcing textile commitments in China demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China and our trading partners in general, as the committee well knows.

With China's WTO membership, we will gain a number of advantages in enforcement that we do not have today. First, is the WTO dispute settlement mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment, and ultimately imposition of sanctions, if necessary.

Second, of course, we maintain our continued right to use the full range of U.S. trade laws without exception and without alteration.

Third, we gain substantial new leverage by creating the anti-import surge protections and guaranteeing our right to use the non-market economy antidumping methodology. These features will significantly strengthen our ability to ensure fair trading practices.

Fourth, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor China's implementation closely.

As these commitments come into effect, China will also be subject to enforcement by all 135 WTO members, significantly diminishing China's ability to play its trading partners one against the other.

In previous disputes over China's compliance, notably over intellectual property rights, the U.S. had to act alone. With China in the WTO, we will be able to work with the other 134 members, many of whom will be concerned about the same issues we raised and all of whom have an interest in seeing a more open China market. This is unprecedented.

Fifth, the specificity of China's commitments in this bilateral agreement will help ensure compliance. Experience shows that agreements with China are enforced most satisfactorily when obligations are concrete, specific, and open to monitoring.

Our bilateral agreement is comprised of highly specific commitments in all areas, clear timetables for implementation by date, and firm end dates for full compliance. These allow us carefully to monitor China's compliance and present clear evidence should China fail to comply.

Sixth, of course enforcement also requires U.S. commitment. We are already preparing for the monitoring and enforcement effort this will require through President Clinton's budget request for new enforcement and compliance resources at USTR, Commerce, USDA, and other agencies.

The President is requesting resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and also Import Administration's obligations under the dumping and countervail laws.

Last, under WTO rules, the U.S. retains the right to exclude products made from prison labor, to maintain fully all of our export control laws, and to withdraw benefits from China, including permanent normal trade relations in the event of a national security emergency.

As comprehensive as this bilateral agreement is, two steps remain. One, completion by China of bilateral agreements with some of its other trading partners, most notably the EU, and further negotiation at the WTO with respect to additional rules commitments. These steps are proceeding.

By contrast to these one-way concessions, the U.S. simply agrees to continue our present trade policies toward China. As China enters the WTO, we make no changes whatever to our current market access policies. If I might repeat, we make no changes whatever to our current market access policies; not 1 percentage point change in a tariff, nothing, no change. We do not change any of our export control laws. We do not amend or change any of our trade laws.

Our one obligation is this: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including comprehensive market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of trade policy, no change. NTR is simply the tariff status we have given China in every year since normalization of diplomatic relations in 1979. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledged to give one another permanent NTR in order to enjoy the full benefits available in each other's markets.

Were Congress not to grant PNTR, our Asian, Latin American, Canadian, and European competitors will reap the benefits of the agreement we negotiated, but American farmers and businesses may well be left behind.

The choice before us, Mr. Chairman, Senator Moynihan, and members of the committee, is clear. WTO accession, ~~together with~~ permanent NTR, has the potential to create a new and fundamen-

tally reformed trade relationship with the world's fastest-growing major economy, creating a remarkable set of new opportunities for American working people, businesses, and farmers.

It can promote deeper and swifter reform in China, strengthening the rule of law, and offering new opportunities for the Chinese people. By speeding economy change, the agreement also has the potential to encourage China to evolve into a more open society.

By advancing the flow of information, the pace of privatization, the force of competition, the agreement will accelerate a process that is removing government from areas of people's lives, enabling them to farm their own land, to find their own jobs, to decide their own future, and to bring the information revolution across China.

It can also increase the chance that, in this new century, China will be on the inside of the international system playing by the rules instead of on the outside denying them.

It can offer a prospect of a relationship with the world's largest nation, which may have moments of tension, to be sure, but through which we also find common ground and strengthen hopes for peace and stability. That is the prospect before us, these are the stakes. As Congress considers permanent NTR, this is an opportunity our country simply must embrace.

I thank the committee so much for your support over this initiative and so many other initiatives that we have pursued over the course of this administration, and I thank you again for the opportunity to testify.

The CHAIRMAN. Well, Madam Ambassador, I am still concerned about the questions I raised in my opening statement. One, was what I consider the legitimate question of whether the administration remains committed to moving the legislation this year.

And let me just point out, it is hard to understand the administration's commitment in light of what the Vice President said to the AFL-CIO regarding his desire to renegotiate the agreement.

I have to say that the reports of his promises to labor leaders and the extraordinary delay in issuing a clarification of his position sends, it seems to me, a very troubling signal to us here in the Congress. I have to say, there is a serious question in many people's minds as to how serious the administration is in moving this legislation forward.

Ambassador BARSHEFSKY. Let me assure you, Mr. Chairman and members of the committee, the administration is absolutely united, first, in the view that this agreement is absolutely in the U.S. national interest, and second, in the view that permanent normal trade relations should be granted to China this year.

That is to say, this administration will move forward vigorously and without hesitation of any sort with respect to permanent NTR for China on the basis of the agreement that was negotiated and the further work that is being done.

The Vice President has also made it very, very clear that he fully supports the agreement as negotiated, and that he urges Congress, in his words, to give a green light to permanent normal trade relations this year.

The CHAIRMAN. Well, certainly that is not the signal that was given to the labor leaders.

Let me ask you this question. This legislation comes before the Congress and efforts are made to amend it, amend it along the lines of what the Vice President talked about, or for that matter, what the President talked about in Seattle.

Will the administration fight to keep the agreement the way it is without such amendments?

Ambassador BARSHEFSKY. This agreement is not renegotiable. That is the first point.

The CHAIRMAN. You can still amend the agreement.

Ambassador BARSHEFSKY. What you see is what you get. Second of all, obviously, the issue of amendments or legislative actions is up to the Congress. But this administration, on the basis of this agreement, as negotiated, will seek permanent normal trade relation status for China, period.

The CHAIRMAN. I do not think that answers my question. If there is an effort to amend it legislatively in either the Senate or House, will the administration fight to keep it clean from such amendments?

Ambassador BARSHEFSKY. The administration certainly would always prefer a clean bill when it comes to trade agreements.

Senator MOYNIHAN. Prefer?

Ambassador BARSHEFSKY. Pardon me?

Senator MOYNIHAN. The Chairman asked, would you fight against.

Ambassador BARSHEFSKY. I think we would have to see what the amendments are. I do not think I can prejudge the question whether amendments are acceptable or not depending on what the amendments are, and depending on the will of the Congress.

If Congress determines that certain provisions should be added in legislation, not that alter the agreement—the agreement is not renegotiable, and I want to make this absolutely clear. Nor does this administration intend to renegotiate the agreement.

The CHAIRMAN. We are talking about legislative amendment.

Ambassador BARSHEFSKY. But in terms of amendments, obviously, the administration, as always, will work with the Congress. The key for the administration is passage of permanent NTR by both Houses of the Congress this year.

The CHAIRMAN. Well, I have to be candid with you, Madam Ambassador, I do not think that answers the question. I think, for any chance to get this through, it is going to take, as I said, broad bipartisan support here in the Congress, plus leadership in the White House. If efforts are made to amend along the lines, say, what the Vice President was talking about, no matter how desirable, it is going to sabotage the process.

Let me ask you this question. When can we expect to see Taiwan's accession to the WTO? What is the United States' position on such timing? If China were to get in first, what confidence do you have that the PRC or one of the supporters would not try to block Taiwan's entry?

Ambassador BARSHEFSKY. Taiwan's accession is still being worked on in Geneva. We, as you know, closed out our bilateral market access agreement with Taiwan, oh, my goodness, over a year ago, perhaps a year and a half ago or longer.

Many countries have been working with Taiwan. They raised a number of issues which are in the process of being sorted through in Geneva, and that process is moving very, very quickly.

Our position on Taiwan, and all accessions, is that accession should be judged on their merits. I think the point that you made, that is, judging China's accession on the merits of the agreement, is also an important point to reemphasize.

China's position, as communicated to us with respect to Taiwan's entry, is that China will not block, and has no intention of blocking, Taiwan's entry to the WTO.

There is an informal understanding in Geneva that was arrived at many years ago, to the effect that China would enter first, Taiwan next, but this is a relatively minor matter. We do not have any indication in Geneva of any country who would oppose or try and block Taiwan's accession to the WTO once China enters.

The CHAIRMAN. Has this matter been raised recently with the Chinese?

Ambassador BARSHEFSKY. It has been raised recently, yes, and its position is unchanged. That is to say that it does not object to Taiwan's entry into the WTO and will not block it, provided China enters first.

The CHAIRMAN. Is that in writing or was that oral?

Ambassador BARSHEFSKY. Oral.

The CHAIRMAN. When and where?

Ambassador BARSHEFSKY. Well, over the course of the past year we have talked about this with the Chinese in Beijing, and the issue has also arisen here. I believe the Chinese have also indicated the same in press statements.

The CHAIRMAN. Well, as you know, there is a great deal of concern that Taiwan might be blocked once China secures such membership.

Ambassador BARSHEFSKY. Well, certainly the United States would do everything in our power to ensure that that does not happen in any respect, because Taiwan's entry is also critical.

The CHAIRMAN. The concern I have with what is taking place, is I strongly agree with your statements about what happens if we do not agree to permanent normal relations. It means that the U.S. does not get market access to this very vibrant, tremendous market, no question about it, and all of our competitors will have that market access.

But what worries me, is that this matter of market access and the value of the agreement itself is being interlaced with politics, and that if that happens, there is no possibility of getting it agreed to. I have to tell you, again, that the statements made both by the Chinese and the Vice President are most troublesome.

And it is not enough, to be candid, to say that, well, everybody is behind it. As I said earlier, the question will be action, not words. The question will be whether the administration, for example, puts its persuasive power to work to ensure that there are both Democratic and Republican votes, otherwise it will not happen.

Ambassador BARSHEFSKY. Mr. Chairman, I can only assure you of the administration's full intent and absolute action to see that China enters the WTO this year on the basis of permanent normal trade relations.

The President, as you have said yourself, is personally committed to this effort. He is already spending a very substantial amount of his own time on this effort, and that time, of course, will expand as the weeks go by.

The CHAIRMAN. Well, my time is up. But I would just like to say, or I am sorry to have to say, that since we last met a couple of weeks ago, there has been a giant step backwards rather than forwards.

Senator Moynihan?

Senator MOYNIHAN. Ambassador, you know we are for you, but we are dealing with a situation which fills us with concern. I mean, just an elemental thing. The President has to ask for legislation that will remove China from the list of countries to which the Jackson-Vanik freedom of emigration provisions apply. Will he send us such a bill?

Ambassador BARSHEFSKY. The administration will work with the Congress.

Senator MOYNIHAN. Will work with the Congress. Will he send us such a bill?

Ambassador BARSHEFSKY. I believe that the administration will put forward a bill at the appropriate time, yes.

Senator MOYNIHAN. The appropriate time is, what, August?

Ambassador BARSHEFSKY. No. The administration wants to arrive at an early vote, as it has said a number of times.

Senator MOYNIHAN. Well, why not tomorrow?

Ambassador BARSHEFSKY. Well, that is being discussed.

Senator MOYNIHAN. You are going to lose this, and it is going to go down in history as the first major loss in what has been 70 years of extraordinary advances since Cordell Hull.

Will the President send us a legislative proposal to the Congress asking for permanent normal trade relations with China? Just send us a message.

Ambassador BARSHEFSKY. Yes.

Senator MOYNIHAN. When? This afternoon? You could do one at lunch.

Ambassador BARSHEFSKY. We are looking at the situation now inasmuch as, as you know, Europe has not yet completed its discussions with China.

Senator MOYNIHAN. We know that.

Ambassador BARSHEFSKY. We believe that moving forward in as rapid a manner as is comfortable for members is absolutely in our interest. We would like as early a vote as possible on this. We believe the U.S. agreement, in and of itself, provides the Congress with ample scope to vote for PNTR on the basis that we can only gain through the accession talks with others.

Senator MOYNIHAN. Ambassador, we are trying to help you. We know what that answer is.

Ambassador BARSHEFSKY. I understand that.

Senator MOYNIHAN. That answer is written. What do the polls say?

Ambassador BARSHEFSKY. I have no idea, but that is not what is driving this issue.

Senator MOYNIHAN. That is not what is driving this issue?

Ambassador BARSHEFSKY. Not for the White House, sir.

Senator MOYNIHAN. Well, that is a new—

Ambassador BARSHEFSKY. That is to say, the President is committed to moving forward on this issue.

Senator MOYNIHAN. Will he send us a legislative proposal?

Ambassador BARSHEFSKY. The administration will send a legislative proposal—

Senator MOYNIHAN. I am not trying to harass you.

Ambassador BARSHEFSKY. No, no, no. Of course not.

Senator MOYNIHAN. I am trying to alert you, to alert them, they are going to lose this.

Ambassador BARSHEFSKY. I think the administration has no intention of losing this, and will work with you and the members of the committee to bring forth a proposal as soon as possible and as soon as is comfortable for the members of the committee and the Congress.

Senator MOYNIHAN. Mr. Chairman, are you comfortable now? [Laughter.]

The CHAIRMAN. Do I have to answer that? [Laughter.] The answer is no.

Senator MOYNIHAN. But, I mean, could we move this legislation if we had a clear understanding from the administration?

The CHAIRMAN. It is absolutely imperative that we have such a clear signal from the White House, no question about it.

Senator MOYNIHAN. Yes. We are ready.

Ambassador BARSHEFSKY. Well, if you are ready, we are ready to work with you.

Senator MOYNIHAN. I will leave it there, and wish you luck. Thank you very much.

Ambassador BARSHEFSKY. Thank you.

Senator MOYNIHAN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Moynihan.

Next on the list is Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. Thank you, Ambassador.

Ambassador BARSHEFSKY. I am having trouble seeing you.

Senator CONRAD. You are beyond that camera somewhere.

Let me come at this issue in a little different way. This was in this morning's National Journal Congress Daily. "China's Slow Response to Ag Agreement Draws Scrutiny." The upshot of this article is that China's leaders are failing to follow through on an agreement that they signed at the WTO Ministerial in Seattle, and that they are failing to take the steps that would show that they really intend to follow through on agreements that they signed.

I hope a message goes out of here very clearly today that the Chinese are on the brink of losing credibility with members who believe it is in the national interest to proceed.

I will tell you something. We can have all the agreements that are signed in the world, but if people do not follow the agreements they have signed they are not worth the paper they are written on.

Frankly, the Chinese are skating dangerously close to sending us a message that they are quick to sign agreements, but they are very slow to keep their promises.

Ambassador BARSHEFSKY. First of all, let me say that I agree with you, that if China does not follow through on the commit-

ments it makes, those commitments are worthless to us. That is the first point.

Second, we have to always be vigilant with respect to monitoring and enforcement of these commitments, the full range of these commitments, as we are with other countries.

Third, with respect to the agricultural agreement that we signed, China, as you know, has agreed to lift import bans on citrus, on meat, on Pacific Northwest wheat.

With respect to citrus, a Chinese team came to Florida and California, which were the two disputed areas of the country because of some sanitary and phytosanitary concerns. Those visits went very, very well.

With respect to meats, China has now agreed that it will accept USDA certification of the meat products and that that would be the only condition for entry into China.

As to Pacific Northwest wheat, the Chinese have a team that will be here part of this week and next week in the Pacific Northwest, examining the situation. We also understand the Chinese are interested in making purchases, and we certainly encourage them to do so.

Senator CONRAD. I think it is imperative that if they are going to have credibility, they must implement the agreement they signed in Seattle on the shipments of wheat out of the Pacific Northwest. That is supposed to have been done, and yet, we do not see any compliance.

So, frankly, the Chinese are costing themselves credibility, at least with this member, because I want to see a more open trading system. I believe it is in the United States' interests to have China reduce its barriers to U.S. goods, while we make no further changes in our already open markets. That is clearly in our long-term interests.

If they go around signing agreements and then they do not keep them, and that is the clear indication we have, the Chinese will lose support for PNTR. The Pacific Northwest is supposed to have been opened for wheat shipments, but, it is not. They are supposed to have moved with respect to making purchases, opening up with regard to their sanitary and phytosanitary standards. We do not see it occurring. So talk is cheap; we need to see results.

Ambassador BARSHEFSKY. If I might, Senator, just explain one moment about the delay in implementation. The basic delay in implementation came about for the same reason we did not have WTO discussions with China for almost 5 months, and that was the issue of the accidental bombing of their embassy, where essentially relations, shall we say, cooled.

Subsequent to that, we went back at the agreement as to which we had to finalize a Chinese translation. This was per agreement, that the agreement would become effective upon a verified Chinese translation of the agreement.

We spent a very long time—we, the U.S.—on that translation to ensure that it was translated in the meaning and spirit of the English language version. We did conclude that, and implementation has proceeded apace from that point.

Senator CONRAD. All right.

Ambassador BARSHEFSKY. So I simply wanted to make that point clear.

Senator CONRAD. I am running out of time. Let me just say that last week we learned the U.S. trade deficit has reached a record \$271 billion. Our deficit with China is \$70 billion. In your testimony, you argue this agreement will reduce the trade deficit. That makes sense to me, because we are making no new concessions to them, but they are making concessions to us.

However, the International Trade Commission's analysis indicates that the trade deficit will actually grow. Why the difference in analyses?

Ambassador BARSHEFSKY. Well, the International Trade Commission analysis, first of all, is very limited. It is basically a tariff analysis. It does not take into account non-tariff trade barrier removal, does not take into account opening of the services market in China. That is one point.

Second, the ITC does conclude that the overall U.S. trade deficit will come down. They believe China's deficit could rise slightly on the basis that our deficits with other Asian neighbors will decline as China displaces some production and sales formerly supplied by other countries.

So there is, first of all, a methodological problem with what the ITC did. That is to say, its analysis is very narrow and confined only to tariffs. Second, it does conclude that the overall U.S. trade deficit will come down.

I think it is important to note, as you said, that these are one-way concessions by China. Our market access will increase substantially, and I believe the CBO came out with an estimate that, again, on the basis of a rather narrow reading of the agreement, our exports to China, within 5 years, should almost double from their current level. That is, go up by another \$12-\$13 billion. So, that would be very, very welcome, indeed, regardless of the ultimate impact on the trade deficit.

The CHAIRMAN. Thank you, Senator Conrad.

Next, we have Senator Graham of Florida.

Senator GRAHAM. Thank you, Mr. Chairman. Thank you for holding this hearing.

Madam Ambassador, I would like to ask a variety of questions, beginning with the status of other trade legislation and how you assess those items that are likely to be affected by the current focus on China.

Last year, the House and Senate each passed a version of the Africa/CBI bill, which is currently in conference. What is the administration's commitment to finalizing that legislation, and how does it rank in priority to the issue before us on China?

Ambassador BARSHEFSKY. As the President said in his State of the Union, both the Africa and CBI bills remain absolutely a priority for the administration. Obviously, you have been so closely involved in these bills, and of course, the Chairman has been very involved and supportive of these bills as well, as has the committee as a whole.

We would like to see both of these bills move forward very, very rapidly. We are anxious that a conference be convened. Of course, the House has not yet appointed their conferees. We have urged

the House leadership to appoint conferees for the two bills. We would like to see conference move forward quickly.

We believe that a bill that emerges, or two bills that emerge from the conference will receive approval by the Congress as a whole, so we are very anxious that these move forward. I am spending quite a bit of time on both of these bills, in addition to our efforts on China, because they are such a priority.

They are so important for the Caribbean region, very important for the sub-Saharan Africa region, for all the regions we previously discussed with the committee members, and we are committed to seeing both those bills through the Congress as early as possible.

Senator GRAHAM. In sequence, would it be your sense that the Africa/CBI bill should be taken up for final passage prior to the China bill?

Ambassador BARSHEFSKY. If we can get a conference on this. As I said, if the House will appoint its conferees and a conference is convened, we believe that both of these bills would likely precede a vote on China.

Senator GRAHAM. A second issue. One of the concerns that came out of Seattle was the question of, how should labor and environmental matters be considered in the context of trade legislation. There has been some suggestion that those might be inserted as issues within the China matter before us now.

What is the position of the administration relative to labor and environment as it relates specifically to the China agreement and to any legislative action that might be necessary to grant permanent normal trade relations status with China?

Ambassador BARSHEFSKY. As the President has said, we will not impose discriminatory conditions on China's entry in relation to these issues. That is to say, the labor and environmental issues are not issues that have ever been addressed in any accession, or in the other 30 pending accessions to the WTO.

On the other hand, we do believe the WTO itself needs to take up these issues in a more fulsome way. There is already in the WTO a Committee on Trade and the Environment. It has produced, shall we say, anemic results.

We have a number of proposals, largely supported by the vast majority of WTO members, to help revitalize that committee to ensure that trade liberalization and sustainable development go hand in hand.

With respect to labor, as you know, we are under a statutory mandate to seek a working group on trade and labor issues in the WTO. We will continue to seek that and to see a role for the WTO with respect to these issues.

But these are, in our view, matters for the WTO, not matters with respect to individual entry of applicants, given that the 135-plus countries that are already in the WTO did not, on an individual basis, address these issues, nor have we requested it, as I said, of the 30 pending accessions apart from China's.

Senator GRAHAM. So if these proposals were to be suggested for injection into the China WTO accession and permanent normal trading status, the administration would oppose.

Ambassador BARSHEFSKY. As I have said, the China agreement is not renegotiable. That is, our bilateral agreement with China

has been concluded, period. With respect to whether there are amendments proposed by members of the Congress on a PNTR bill, the administration obviously will work with the Congress on any and all such amendments, but the administration's absolute goal is to see the successful passage of PNTR for China this year.

Senator GRAHAM. So the answer is, you would not necessarily oppose efforts to inject those issues into the normal trade relations with China.

Ambassador BARSHEFSKY. I do not want to speculate one way or another because I am not even sure how such issues would be raised, or in what context. If the Congress is comfortable with any amendments that are raised, then we will see successful package of a PNTR bill. That is the goal, PNTR for China this year.

Senator GRAHAM. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Graham.

Senator Breaux?

Senator BREAUX. Thank you very much, Madam Ambassador, for what I was saying to my colleague Senator Rockefeller was really an excellent statement, in the sense that it gave us the history of these negotiations and it gave us a sense of the history of how far China has come, although it is not as far as we would like them to come if you think about the progress that has been made since after World War II in opening up markets and their economy and other things to the western world.

There has, indeed, been a tremendous amount of progress. Your statement, I think, is very helpful in bringing us through this historical pattern which I think is very, very important.

I think that the thing that impressed me, one of the things, about your statement, and am I correct in understanding that we pretty much status quo, but what has to happen from the Chinese standpoint is a lot of opening up of their markets to our ability to penetrate with our products.

Can you elaborate a little bit on that?

Ambassador BARSHEFSKY. That is absolutely correct. WTO access requires, in essence, a series of one-way trade concessions from the acceding country. This is true of every country that accedes. Current members do not alter their own trade regimes one iota, except insofar as PNTR had not formerly been granted.

In the case of China, the U.S. is the only country in the world that does not provide permanent normal trade relations status. So we, of course, need to alter that condition. As I said in my statement, that is no change in trade policy.

We have given China annual normal trade relation status since 1979, when we normalized diplomatic relations. But that is the only action the U.S. needs to take, that is, to confirm the trade status we already give to China on a permanent basis.

But with respect to market access, nothing changes for the United States in terms of our policies, our practices, our current restrictions, our trade laws, nothing. Nothing changes.

Senator BREAUX. But a great deal changes on their part.

Ambassador BARSHEFSKY. There is a huge amount of change on China's part. We were sensitive to this in the negotiation because we do phase in China's obligations. We do that for every country,

because it is not reasonable to say to a country, you must change your entire trading regime before you enter. So, we always negotiate transitions. I will say that the transitions in the case of China are modest by the standards we have applied to many other countries.

That is to say, we are keeping a very aggressive posture with respect to economic reform in China. We believe that this matches, as evidenced by the fact that they agreed to this, the reform effort within China itself.

That is, concern that China's competitiveness is lagging, concern that job creation in China is lagging, and, of course, the job creation needs in a population of that size are enormous, and therefore these kinds of tight phase-in periods are supported by those who seek economic reform within China, particularly, of course, as you know, President Jiong and Premier Rongji.

Senator BREAUX. Well, I think that I was trying to figure out, what is the objection. I think you have made a real case, that it is really in our interests to have such a trading relationship on a permanent basis.

I was trying to figure out, all right, what is the biggest thing, from a negative standpoint? And I was reading Secretary-Treasurer Richard Trumka, who will be one of our witnesses later on, because I know his strong opposition—

Senator MOYNIHAN. May I tell my friend that he is ill today and we will have his statement in the record.

Senator BREAUX. Well, his statement is here, and I guess it may be delivered later on. But, in looking at the statement, I think that the biggest thing that I get from it is that they are opposed to it because of China's abysmal record on human rights.

I mean, that seems to be, why should we have a trade agreement with a country that has abysmal human rights which are contrary to the governmental standards of our country? He talks about, they continually violate existing trade, routinely violate existing trade agreements as well, and he quoted some statements from some officials over there that they do not think they are going to follow through with this anyway.

But the biggest negative from their perspective, I take it, is to have an abysmal human rights record and we should not have a trade agreement with them.

Can you address that?

Ambassador BARSHEFSKY. Yes. Let me say that, first of all, a trade agreement is not a substitute for a human rights policy. I think we all need to be quite clear on that.

The United States will continue to speak out on issues of abuse of political and religious beliefs. As you know, we pushed very hard for the release of the Dickinson College librarian, we have sanctioned China as a country of concern under the International Religious Freedom Act.

We have sponsored again, and are very actively pursuing, the resolution in the U.N. Human Rights Commission condemning China's human rights record. The point about accession, however, is that it strengthens the hands of those who seek reform in China. To be sure, initially, economic reform.

Certainly, we cannot say with any absolute sense that economic reform always leads to democratization. But I do not think anyone has yet identified any more potentially effective means of further opening Chinese society than through economic reform. It is reform to which the Chinese leadership is amenable, yet a further reason to pursue it as aggressively as we can, not to shy away from it.

Senator BREAU. I want a short yes or no. I take it that your written prepared statement has been cleared by everyone at the White House.

Ambassador BARSHEFSKY. Yes, of course.

Senator BREAU. Thank you.

Senator MURKOWSKI. Everyone?

Ambassador BARSHEFSKY. Yes.

The CHAIRMAN. Senator Rockefeller.

Ambassador BARSHEFSKY. My written statements always make good reading. [Laughter.]

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Madam Ambassador, as you know, this is a very hard decision for me. There is a great deal of me which wants to vote for this because we are dealing with 20 percent of the world population.

I agree with you, there is no particular relationship, necessary relationship, between opening up markets, trade relations, and democratization.

On the other hand, as Pat Moynihan would know, in the year 1900 there was not a single democracy in the entire world. The U.K. and U.S. thought we were, but we had not given women the right to vote. You have got to have at least two parties to pick between, and you have got to have universal suffrage, and we had zero.

Now we have 119 countries in the world that are full democracies, representing about 60 percent of the world's population. If China was added on, it would be 80 percent of the world's population, if that were to happen.

So that then sort of leads to the thought that, if you go from one generation of leaders, to the next generation of leaders, to the next generation of leaders, that things are going to get better because of the annoyance and the example of Taiwan and Hong Kong, general pressures from within their population.

But that is not necessarily always the case. It was the younger members of the PLA who were the ones who said, let us shoot those, as it turned out to be, empty missiles at Taiwan some years ago. It was not the older generals, it was the younger ones.

So there is no certainty in what happens in over 5,000 years of Chinese history. There is no sort of predictability. We cannot say that one generation will be better than the next. We hope that, with the Internet, et cetera, but then they are taking some steps against that. Freedom of speech, but then you see what happened with that sect.

Decentralization. Less power. It is already happening. Less power for the Federal Government, more power for local governments as they increasingly become unable to control their own country, which is their 5,000-year history.

So with that basically not very helpful statement, let me say this. In West Virginia, we do represent states around here. You know

the history of our steel problem. You know my dissatisfaction with the way the administration handled the import surge.

You know what it was I said publicly often about the President, and the Vice President, for that matter, on that situation. This was an industry which has absolutely no subsidization whatsoever, done everything on its own, dealing with the rest of the world where steel is always subsidized.

Would you please tell me, and you have related this in your statement in two different places, on page 5 and also to some degree on page 14, what specifically happens if there is a steel import surge?

Ambassador BARSHEFSKY. Yes.

Senator ROCKEFELLER. Or for that matter, any other, but I want to concentrate on steel.

Ambassador BARSHEFSKY. I understand.

Senator ROCKEFELLER. What happens under this thing, specifically? How is it enforceable? You emphasized the importance of enforcement, but I would say you did not enforce antidumping laws, you see, on the recent import surges.

So to say that enforceability is important, we will do it with that, but I am concerned that you did not do it with what we have already faced. How would import surges, under this agreement, be treated differently than import surges, in fact, are treated today by law?

Ambassador BARSHEFSKY. Let me say, first, that I think the administration has been responsive with respect to the steel question, both with respect to voluntary cutback of exports from certain countries, most notably Japan, as well as with Secretary Daley's expeditious handling of antidumping cases that were presented to the Commerce Department.

In addition, as you know, the administration recently provided relief, under Section 201, the escape clause, for wire rod and line pipe.

We believe that all of these measures have been, collectively, quite effective in reducing imports into the U.S. and reverting to pre-surge levels. And, as you know, domestic capacity utilization now is hovering about 89 percent, a sharp increase from where it was, perhaps, a year or year and a half ago. That having been said, I do not think we are out of the woods yet, to be sure. We have to remain on our toes on this issue.

With respect to the China agreement, there are really three potential areas of improvement. One, is the continued use of our non-market economy dumping methodology, which is quite central in a country where prices are not determined by market forces and where costs are not determined by market forces, particularly in this sector.

Second of all, is the anti-surge mechanism that we have. This is a China-specific mechanism, unlike the escape clause, unlike Section 201, where you have to go against all countries. This is China-specific.

The standard of evidence is not serious injury, it is market disruption, which is a relatively low threshold of evidence and relief could be provided, depending on the factual circumstance, between

2 and 3 years, and it is any form of relief, as under the escape clause.

But, third, in the context of this anti-surge mechanism, we have also retained with China a right we gave up in the WTO, or in the Uruguay Round, I should say, and that is our ability to negotiate bilateral agreements to limit imports if that becomes necessary. These are so-called gray area measures which, under the Uruguay Round Agreement, cannot be entered into.

We have preserved that right in the case of China. So these are three ways in which I think we will be significantly strengthened and three ways of avoiding the kind of import surge crisis that we were faced with last year.

Senator ROCKEFELLER. Thank you.

The CHAIRMAN. Next, is Senator Thompson.

Senator THOMPSON. Thank you, Mr. Chairman. Thank you, Ambassador.

Ms. Barshefsky, I buy into your major premise here. I think that free trade has certainly worked in our favor. China has opened its markets some. It has taken many, many people out of poverty. What they have done economically, in many respects, has been remarkable over the last 7 years.

Even with regard to our human rights concerns, I do agree with you that we have a better chance of affecting that by having a trade agreement with them than not having one at all.

And I believe that, even though I do not think there is much chance that China will come close to complying the way that many of our domestic companies here and many of us probably would hope or expect, I do not see how they can.

I think it would result in massive unemployment over there, and I think it would result in a lot of bureaucrats losing positions that they are not quite yet prepared to lose.

I think it is based on the assumption that they adhere more strictly to a rule of law. I have never known, or heard, or read of a situation where one nation or a group of nations could impose a rule of law upon another nation. That has to be something that evolves over a period of time and comes from within.

So I am pretty pessimistic about it working out the way we think it is going to, but even in light of all that, I think, from a trade standpoint and the fact that it keeps our markets open, which I think is more beneficial to us than even opening up their markets, that, on balance, it is a good thing.

But, having said that, and as someone who considers himself a free trader and has supported fast track and all the rest, you need to understand that there are some of us, and I would guess that there are going to be more and more of us as this thing goes along, who are very concerned about other matters and who do not believe that this thing can be considered in isolation.

We sit here today in a total vacuum, ignoring the fact that China is now threatening to invade Taiwan if they do not move along in their negotiations. I would have hoped that they would have had more respect for the United States of America than to do that at this time, but they did not.

They continue to engage in massive proliferation, and it is something that I want to spend a little time on. I have just prepared

a few notes here on that subject. If we go along with permanent, we would lose what leverage we had, although goodness knows we have done nothing with the leverage that we do have.

The administration has done everything in the world to avoid imposing sanctions which our law requires, even when they are caught red-handed, or when they do, they will sign a new agreement not to do it again, and they lift the sanctions.

But an unclassified CIA report provided to Congress in late January said that, "From January to June of last year, firms in China provided missile-related items, raw materials, and/or assistance to several countries of proliferation concern, including Iran, North Korea, and Pakistan.

North Korea obtained raw materials for its ballistic missile programs from various foreign sources, especially from firms in China. Russia and China continue to supply a considerable amount and a wide variety of ballistic missile-related goods and technology to Iran."

The National Intelligence estimate on foreign missile development and the ballistic missile threat to the United States through 2015 prepared in September of last year stated, "China continues to contribute to missile programs in some countries."

The director of the CIA reports that "PRC remains a key supplier of technology inconsistent with nonproliferation goals, particularly missile and chemical technology to Pakistan, Iran, and North Korea. Some of China's transfers have raised questions about violations of the NPT and are contradictions of the MTCR or U.S. laws, which may require sanctions."

The Rumsfeld Commission reported, in July of 1998, that "China also poses a threat to the U.S. as a significant proliferator of ballistic missiles, weapons of mass destruction, and enabling technologies. It has carried out extensive transfers to Iran's solid fuel ballistic missile program. It has supplied Pakistan with a design for a nuclear weapon and additional nuclear weapons assistance.

The behavior thus far of Russia and China makes it appear unlikely that either government will soon effectively reduce its countries sizable transfers of critical technologies experts or expertise to the emerging missile powers."

The Washington Times reported in early January that, in December of last year, China supplied materials to North Korea for that country's long-range missile program, despite promises that it would tighten exports of such technology and also in violation of its promise to abide by MTCR; case, after case, after case, where they have blatantly violated either their legal commitments or their promises. The promises mean nothing to them in this regard. I assume, though, that they will totally change stripes when it comes to trade.

I have run out of time. The list is much, much longer than that. I know this is not in your neck of the woods, but I simply want to leave with you and for those others who will be considering this, that you may have problems even that you do not realize that you have when you consider human rights, labor, environment, and some of these other things. Those things are important, but they do not affect national security. This does.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Thompson.

Next, we have Senator Bryan.

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

Madam Ambassador, you have made, I think, a persuasive case. I intend to support the legislation. But I must say, as our colleague Senator Thompson just pointed out, the timing of some of the actions of the People's Republic of China is compounding and perplexing.

I just do not understand it, these recent threats, and I will not enumerate all of the concerns that the Senator enumerated. But it does make your life more challenging.

It seems to me that historically, our country has benefitted as we have expanded trade. When one looks at the growth that is occurring in China, and in some estimates today—already it is the third-largest economy in the world—we are going to see a tripling, from 3 percent in 1992 to nearly 10 percent of its share of the world trade market by the year 2020, making China the world's second-largest trading nation, it seems to me that ultimately we would benefit.

Recently, I had occasion to travel in Africa and I was astonished. Someone there made the observation which I think many of our colleagues might find, that 75 percent of the people in the world have never even placed a telephone call. Seventy-five percent. So there is just an enormous potential in that market for us.

Now, I suspect most Americans, if you asked them what the initials PNTR or WTO stand for, it would be a Jeopardy question that many would fail to understand, whereas most Americans understand IRS, and in my part of the world they understand BLM.

To the extent that there is any understanding at all, I think the question that comes up is that there is some misperception, and I want to give you an opportunity to clarify this in terms of the context of our broad trading relationships with other countries around the world, that somehow this legislation is a reward for good conduct. If, indeed, that were the premise of its submission, I do not think even a persuasive advocate like yourself could sell this package.

So, really, my first question is, in terms of these normal trading relationships, is it not a fact that with most of the countries in the world that we have trading relationships, we do have normal trading relations even though we may have very contentious areas of disagreement on other non-trading issues? Or placed in another context, how many countries in the world that are players in the international arena do we not have these normal trade relations with?

Ambassador BARSHEFSKY. We do not have normal trade relations with six countries in the world.

Senator BRYAN. Six countries in the world.

Ambassador BARSHEFSKY. Six.

Senator BRYAN. I think that is important to understand.

Ambassador BARSHEFSKY. Libya, Yugoslavia, for example, Vietnam, although over time that will change, Laos, over time that will change, and two others. Normal trade relations is just that, which is why the committee did such a good thing in changing the name that was previously applied.

Senator BRYAN. The point is, it is the rule rather than the exception.

Ambassador BARSHEFSKY. It is the rule.

Senator BRYAN. That is something that is not widely understood. Also, I quite agree with you on changing the name. This most favored nation was very difficult to explain at town hall meetings. I mean, why are we saying that these folks are our best friends when they do many of the things that I would associate with Senator Thompson's observations? So I think that is helpful for us to keep the focus on that.

Let me get to the issue that Senator Conrad made. Talk is cheap, performance is dear. They sign these agreements, and I think there is just kind of this inherent feeling that these folks do not give a damn what they have agreed to, and in the final analysis they will do whatever their personal circumstance surround.

Now, you, in your statement, go through the elaborate options that are available to us in terms of the 301 sanctions and all of these other things. Talk to me for a moment about the WTO mechanism. I understand that that is a multilateral sanctioning body. Again, that and a dollar, six bits at a town hall meeting probably buys you a cup of coffee.

What does that mean?

Ambassador BARSHEFSKY. Well, let me make, if I could, a general comment first, which is, China agreed to what it agreed to in the bilateral deal because the economic reformers in China believe that WTO accession is consistent with their own plans for economic reform within China.

WTO accession, in that regard, is a rather self-interested move on the part of Chinese reformers. They are doing what many countries around the world now do.

If you look at the former Soviet republics, a number of which have now acceded to the WTO, every one of their presidents or prime ministers, without exception, will tell you they wanted to be in the WTO because this was the most powerful way they could achieve their own economic reform plan within their own country.

Senator BRYAN. Sure.

Ambassador BARSHEFSKY. That is to say, to have an external force pressuring the country to move in that direction.

Senator BRYAN. Madam Ambassador, my time is running out. I realize that is a Good Housekeeping seal of approval, but specifically, they failed to live up to something. Precisely what occurs after the WTO rallies and says, look, you have done wrong.

Ambassador BARSHEFSKY. Right.

Senator BRYAN. How does that actually work out when the rubber hits the road?

Ambassador BARSHEFSKY. Right. That, of course, as I said, is one of six enforcement mechanisms. But WTO, if they rule China is in violation, can then authorize the U.S. to impose retaliatory sanctions against China, and China has no right to counter-retaliate whatsoever. They cannot threaten it, they cannot do it.

That is very different from the current system, where we threaten retaliatory sanctions, as you know, in several instances and China threatened to counter retaliate against many of our major

U.S. exports. That ability to counter retaliate by China would be prohibited.

Senator BRYAN. What if they did counter retaliate? That is my last question, and I thank the Chairman for allowing me to go a second over. What happens if they do counter retaliate? I know they are not supposed to. What happens?

Ambassador BARSHEFSKY. Apart from the international condemnation, we, of course, could compensate for that by further sanctions.

Senator BRYAN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bryan.

Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

In light of China's possible accession to the WTO and also in light of the growing trade enforcement needs that we have at home and around the world, what is your view of the role played by the Customs Service in the enforcement and inspection related to our trade agreements?

Ambassador BARSHEFSKY. I think Customs plays a very important role in many aspects. On the textile side, of course, the issue of textile transshipment is critical and the Customs Service has done an increasingly, increasingly good job at detecting fraudulent shipments of textiles.

With respect to sanitary and phytosanitary issues, of course, that is, in part, an FDA responsibility rather than the Customs Service, per se. But I do think, with respect to agricultural imports as well, through efforts of Dan Glickman and the President, we have seen a very substantial increase in inspections and, therefore, increase in food safety.

Senator GRASSLEY. Could you tell us here today how much the President has asked for in his fiscal year 2001 budget to hire agents and inspectors to meet the current enforcement needs that you have described and that you think are very important?

Ambassador BARSHEFSKY. Yes. I believe the figure is \$19.1 million. I believe that is the correct number, but I will reconfirm that for you.

Senator GRASSLEY. All right. Thank you.

The second point I want to bring up is more procedural, and hopefully it is just something you can say yes or no to.

Now, as I understand it, as China negotiates with other countries including the European Union as they did with the United States, while that process is going on, the protocols are classified. In other words, they are not available for everybody to read.

Now, do we have an understanding that, at the point when the administration asks us to consider the issue of permanent normal trade relations with China, that all of these agreements will be available to us in the Senate to consider?

Ambassador BARSHEFSKY. Yes, certainly. All of these agreements should be made public at the appropriate time.

Senator GRASSLEY. And before we would consider them?

Ambassador BARSHEFSKY. Oh, yes.

Senator GRASSLEY. Yes. All right.

Ambassador BARSHEFSKY. Right now, with respect to the market access agreement, all cleared advisors, that is, all members of Con-

gress, most of their staffs, all of our private sector advisors under the statutory advisory system, about 600 folks representing business, labor, environment, consumers, so on, all have access to the actual legal text of the market access agreement.

That has not been publicly released because we do not want it to act as a bar on what other countries can get from China in their negotiations. We do not want to have our agreement act as a ceiling on what they can acquire from China, because whatever they get we will also get at the end of the day.

Senator GRASSLEY. Yes.

Ambassador BARSHEFSKY. Once those bilateral negotiations are all finished, we are happy to release publicly the market access side of the agreement and, of course, any and all other documents will be fully available to Congress.

Senator GRASSLEY. All right. Are we still waiting for China to post with the WTO copies of the laws and regulations that govern its trade regime?

Ambassador BARSHEFSKY. China will have to provide to the WTO a list of the relevant laws and statutes that will have to be changed in conformance with the agreement and/or specify that the agreement will be self-enforcing in China. That, in and of itself, will constitute the legal regime in those areas.

Senator GRASSLEY. All right. So they have not done that yet?

Ambassador BARSHEFSKY. Not yet, no.

Senator GRASSLEY. All right.

Ambassador BARSHEFSKY. That normally does not yet happen in the process.

Senator GRASSLEY. Are we confident that we know what all these laws and regulations are and should be?

Ambassador BARSHEFSKY. I think we have a good handle on it, but we are working with our other trading partners on this as well.

Senator GRASSLEY. All right. If we are still waiting, and maybe it is legitimate that we do still wait, when do we expect that we will get a complete and accurate copy of their trade laws?

Ambassador BARSHEFSKY. I cannot give you the answer to that, but let me go back to my staff and then respond to you, if I might.

Senator GRASSLEY. All right. I assume, though, that that is still something that needs to be known to members of the U.S. Senate to do our proper job of legislating, as we do in this area?

Ambassador BARSHEFSKY. Well, normally countries need only, with respect to WTO accession, list the laws that will be changed or indicate that the WTO agreement will be self-executing.

Senator GRASSLEY. In other words, similar to what we do when we pass trade laws.

Ambassador BARSHEFSKY. Yes. Yes.

Senator GRASSLEY. Does China, right now, have sufficient legal infrastructure to ensure that the terms of all obligations can be met? I am concerned about this, and I hope that we have some assurance about whether there is a functioning administrative law system within China to implement the rule of law.

Ambassador BARSHEFSKY. We will have to see and have to promote over time the evolution of their legal structures, there is no question about it. One of the reasons many obligations are phased

in is to allow us time and to allow the WTO time to provide the kind of technical assistance and expertise that is needed.

We in the U.S. have had now for a number of years a rule of law program with China. We have used that effectively in intellectual property rights, where we have created with China a legal regime on intellectual property protection, which 5 years ago did not exist at all.

This kind of effort will have to be replicated in a number of other areas, but we do have confidence that China will be able to enforce the agreements that it makes.

Senator GRASSLEY. I am sending you a letter that I want to just have you read on another subject, but it deals with Saudi Arabia getting in the WTO, and it seems to me ludicrous and antithetical to the principles of the WTO and free trade to let them have a stranglehold on the economy of the United States through the OPEC cartels. We ought to be using our leverage in these world councils to break up these cartels and not promote them.

Ambassador BARSHEFSKY. I look forward to receiving your letter. The Saudi accession has certain complications, among which is, in addition to what you have mentioned and we are happy to look at that, the continuing boycott of Israel.

The CHAIRMAN. Senator Murkowski?

Senator MURKOWSKI. I thought you were going to suggest more ethanol.

Senator GRASSLEY. I can do that, too. I do suggest more ethanol, absolutely.

Senator MURKOWSKI. Let me congratulate you, Ambassador Barshefsky. I think your team has salvaged an awful lot of what was lost in the April 1999 trade agreement. I recognize that you have had a lot of sleepless nights, probably, in the process of trying to horse trade for USTR, what you had to go through to get the deal done.

I think it is fair to say that this could have been avoided had the President had a little more foresight to recognize that he had the support of Congress at that time, but nevertheless, that is hindsight.

I am going to support PNTR. I happen to believe in the concept that, while Americans want a quick fix of these problems, they want human rights, they want labor standards, environmental concerns, and so forth, but you do that through dialogue and participation and it takes time, and these things are going to be with us for a long time.

Senator Moynihan asked you, I believe, when you were going to send the legislation up. I think that is crucial. I do not know that you gave him a definite date, but I suggest the sooner, the better. He has already covered that. Without that, that is the next step, you have got the ball. When you give it back to us, then we have got to respond to it.

I would follow up on Senator Thompson's comments. I am amazed, but I guess not surprised, at the attitude of the PRC. They seem to have a fixation with messing around in the elections in Taiwan. Remember, in 1996 when they displayed the missile testing, clearly it was to influence the process.

If it did anything, it garnered greater support for Lee Teng Hui. Now elections are coming up March 18 and they are doing the same thing. I think we should express our outrage. Their timing is terrible. I know a lot of members who are very concerned about this, to the point where it may affect their attitude on PNTR. There is so much to be gained by this, by implementing the agreement in China's legal processes.

One thing that strikes me, and I do not expect you to agree, but I am just wondering, this is a win for the people of China.

Ambassador BARSHEFSKY. Yes.

Senator MURKOWSKI. The November agreement with China is basically ready to go into effect, is that not correct?

Ambassador BARSHEFSKY. No. The bilateral agreement on their accession is not yet in effect and will not be put into effect until China accedes to the WTO. What is in effect, is a bilateral agricultural agreement.

Senator MURKOWSKI. Is it not a fact that, really, once that is done its the ultimate admission by the Chinese Communist Party that Communism is dead by bowing to the will of the market, which is contrary to the principles of Communism? Beijing is transferring control over the Chinese economy directly to the people of China. That is the way I read it. Now, they are not going to admit to that.

Ambassador BARSHEFSKY. Well, I would say it slightly differently.

Senator MURKOWSKI. I understand why.

Ambassador BARSHEFSKY. I would say that the process of economic reform in China, which we should do everything we can to support, is plainly alive and well.

Senator MURKOWSKI. Well, I think you would agree that the American people should understand that a positive vote for PNTR for China will not amount to Congressional capitulation on the concerns that we have over the Chinese government, and I am sure you will reaffirm that.

Trade is not a partnership. Well, I should say the partnership itself is an opportunity to address morality, diplomacy, security, and I think we would agree that this saber rattling across the Taiwan Straits is unfortunate at this time.

Do you foresee this escalating, or is it just, in your opinion, the traditional saber rattling that we have seen from time to time?

Ambassador BARSHEFSKY. If I can make two comments, one on the Taiwan question and the other on the nonproliferation issues raised by Senator Thompson and by you, Senator.

With respect to Taiwan, as you know, the United States has a longstanding position that we reject the use of force or the threat of force to resolve the Taiwan question. Issues between the two sides, that is, between China and Taiwan, must be resolved peacefully. We do not support any action that raises tensions in the Strait.

PRC authorities need to understand fully that cross Strait dialogue is going to have to meet the test of the will and the aspiration of the people of Taiwan. We do not believe that the white paper that China issued at all addresses that fact or acknowledges

that reality. It is ultimately up to the PRC in Taiwan how they want to proceed with dialogue.

We, of course, as you know, strongly promote dialogue between Taipei and Beijing. We, of course, as you know, maintain our one China policy, however, we insist on a peaceful resolution of the Taiwan question, and certainly saber rattling is not remotely productive in that direction.

On the nonproliferation issue, let me just say that the United States has been very vigilant with respect to the concerns of nuclear proliferation by China or other nations, particularly rogue states.

We have, as you know, imposed sanctions on China in this administration a number of times because of proliferation concerns. Obviously, the question arises how best to address that issue, and it is an ongoing issue.

Our view is that certainly attempts to reject reform in China is not a means of promoting Chinese adherence to the MTCR or to the nuclear nonproliferation treaty, certainly any attempts to isolate China are antithetical to reaching the kind of goals we seek with respect to nonproliferation. Instead, I think further developing greater partnership with China can lead us, and lead China, in particular, more toward a path of compliance.

Senator MURKOWSKI. Well, we have a deep gratitude for your persistence. I think the ultimate delivery of the legislation will be the passing of the wand to us, and we look forward to that.

Ambassador BARSHEFSKY. Thank you.

The CHAIRMAN. Senator Hatch.

Senator HATCH. Well, thank you, Mr. Chairman. I will not take long.

I just want to compliment you for the work that you have done. Having been on the Presidential Hustings, some of the people have said that if we do not stand up against human rights by rejecting WTO and NTR, we are not doing what is right. I think your statement adequately answers that.

But if you were to encapsulize for those who have that viewpoint. I have been in China in the late 1970's, 1980's, and the 1990's—and the late 1990's at that—and I have seen dramatic changes in China in that intervening period of 20-some years. They have been dramatic changes because we have been willing to deal openly with them.

But how would you answer the critics who say that we should not be bringing benefits to China since they violate human rights so grossly?

Ambassador BARSHEFSKY. We are not bringing any benefits to China, it is absolutely the reverse situation. That is to say, WTO accession for China does not in any respect alter any of our current trade policies toward China, with respect to market access, with respect to our trade laws, with respect to our export control laws on sensitive technology, with respect to our perseverance on the human rights question, or with respect to rule of law or nuclear nonproliferation. China is the one making all of the concessions in this agreement.

Our only obligation is to provide, on a permanent basis, the trade status China has received in every year for the last 20 years without exception, and that is normal trade relations.

Senator HATCH. Should we formalize this relationship as you have suggested, what would be the results from a human rights standpoint, and how do you expect that this relationship, this formalized relationship, to contribute to better human rights?

Ambassador BARSHEFSKY. Well, if we look at the U.N. Declaration on Human Rights, for example, we already see some very interesting developments in China that also parallel the trade agreements and the economic cooperation that we already have with China.

For example, the notion of increases in private property rights, increased intellectual property rights protection, which is one of the standards in the U.N. Declaration on Human Rights.

The question of freedom of information with respect to telecom and the Internet. Certainly these elements are very important aspects in the longer term of building a more coherent and acceptable human rights regime in China.

The question of personal freedom for the Chinese people which, as you know, has changed markedly in the last 20 years, but which we believe will change yet further for the good as China's market opens more and more, as diversification of China's economy increases.

All of these aspects are aspects noted in the U.N. Declaration on Human Rights, and they are all aspects that can be enhanced by the WTO agreement. Or to put it another way, we certainly do not effect change in China by wagging our finger at China saying, you must change. We need to be proactive if we are committed to attempting to effect change in China. A proactive stance is an economic reform stance in China.

It is a stance that suggests we should be pushing China in the direction of international norms with respect to all aspects of economic activity, with respect to rule of law, and ultimately, ultimately, the spill-over effect of that into other areas of Chinese life has tremendous potential, tremendous potential, to change China over time in ways we could not have anticipated 20 years ago.

Senator HATCH. As I traveled through China and talked to the leaders from the equivalent of our chief justice to Xiang Zhi Min, they seem to have a very difficult time defining the difference between rule by law and rule of law.

Ambassador BARSHEFSKY. Yes, I agree with you.

Senator HATCH. In other words, it is almost impossible for them to describe.

Ambassador BARSHEFSKY. I agree. That is well said.

Senator HATCH. I found that intriguing to me, because I would explain the differences and they still would not grasp that. Maybe it was an unwillingness to grasp it, but it was something that I was very concerned with.

But I agree 100 percent with you, that we do not have a strategic partnership with China, we are geopolitical competitors. As such, it seems to me, it is much to our advantage to have China come into the normal world affairs so that the people in China can see the rest of the world a little more clearly, and so that they have

to deal with certain standard norms of conduct that they would not otherwise even have a chance to be acquainted with.

So I just want to compliment you for the leadership you have provided. I have a great deal of respect for you, and I cannot imagine, really, a decent argument on the other side. Yet, I have heard plenty of arguments. This is the one thing that we need to do to continue to have a better relationship and to continue to foster a better relationship, it seems to me. I think you are making a very good case for that.

Ambassador BARSHEFSKY. Thank you.

Senator HATCH. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Hatch.

Senator BREAUX. Mr. Chairman, could I have one question in follow-up?

The CHAIRMAN. Yes.

Senator BREAUX. Thank you.

Madam Ambassador, at the last minute in the November negotiations, the agreement on fertilizer was, apparently at the highest level from the Chinese standpoint, rejected.

As you know, Louisiana, I think, is probably the largest producer of nitrogen fertilizer in the United States, which probably means that I am up to my ears in fertilizer. What can you tell me about the potential for any side agreements on that very important issue?

Ambassador BARSHEFSKY. Let me say that, with respect to fertilizer, of course, we were successful in getting reduced tariffs, the elimination of quotas, as well as distribution rights.

Where China pulled back, was on the question of trading rights, that is, the right to export freely to China. Of course, China is a major market for our fertilizer, but they are also becoming a major producer of fertilizer, which complicates the situation.

The Chinese have agreed to work with us on this issue to attempt to resolve it in a mutually satisfactory way. We have been working with the industry, as you know, and with concerned members of the Congress, as yourself. We have presented the Chinese with a proposal on the issue which the Chinese are now considering.

Senator BREAUX. All right. Let us continue that effort. Thank you.

Ambassador BARSHEFSKY. Yes. Absolutely.

Senator BREAUX. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Moynihan, did you have something further?

Senator MOYNIHAN. Two things, Mr. Chairman.

I would ask the Ambassador, the United States has been the world leader in developing and commercializing fiber optics.

Ambassador BARSHEFSKY. Yes.

Senator MOYNIHAN. I guess this began in Corning, New York and in the general area of photon research and optical development. China is a major market for our exports. We understand that the Chinese government has recently directed cable manufacturers and telephone companies to stop importing optical fiber and, instead, purchase it from local suppliers.

Do you know where this matter stands, and if you do not, will you find out?

Ambassador BARSHEFSKY. Let me find out and report back to you. We did see a report of this, and your office has called this to our attention. We did make it plain to the Chinese that this kind of activity would be a direct contravention of their WTO commitments because local content requirements are prohibited with respect to WTO accession, and we have, indeed, clarified those commitments for purposes of the China agreement. Let me get a report back to you on where this matter now stands.

Senator MOYNIHAN. Fine.

Finally, Senator Baucus had planned to be at this hearing. However, a high-level Chinese government wheat purchasing delegation is visiting the United States this week.

Ambassador BARSHEFSKY. Yes.

Senator MOYNIHAN. And Senator Baucus has returned to Montana to meet with them. He has given me several questions for you, Madam Ambassador, that we will submit for written responses.

Ambassador BARSHEFSKY. Thank you.

Senator MOYNIHAN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. The record will be kept open until the close of legislature today.

[The questions and answers appear in the appendix.]

The CHAIRMAN. Let me just make one or two final observations.

First of all, I think you understand that this committee and most of its members hold you in highest regard as to your negotiating ability.

Ambassador BARSHEFSKY. Thank you.

The CHAIRMAN. But I have to repeat what I said earlier, I am deeply concerned as to where we find ourselves today. This is one of the most critical phases I think multilateral trade efforts has experienced in recent years. I think you said it has been 60 years since Cordell Hull began the era of open trade. I find that critically important to our continued prosperity, growth, and jobs.

But I have to tell you, the administration cannot have it both ways, as I think Pat Moynihan said recently. We need active leadership throughout the administration supporting the agreement if it is to have any opportunity of enactment.

Headlines like this, "Gore Assures Union on China Trade, He Pledges to Fight for Better Deal," that does not help as we seek both Republicans and Democrats to support this legislation when it comes to the floor.

So I cannot emphasize too much the critical need of strong, unified leadership from the administration if we are to be successful in opening up the markets. I am concerned. I am concerned for the American worker.

I am concerned for the American company, for American products, for American produce. We want these markets opened in China so that we can sell them, but we are not going to have this unless we have a unified approach to the problem.

Ambassador BARSHEFSKY. Mr. Chairman, again, let me assure you and members of the committee, the administration is entirely unified on this matter, first of all, with respect to the fact that the agreement is absolutely in the U.S. national interest, not just economic interest but the broader U.S. national interest. Second, that

this administration is committed to seeing PNTR successfully pass the Congress this year.

The CHAIRMAN. Well, I appreciate your loyalty and consistency, but I am still concerned about the lack of unified support. But thank you for being here today, and we will continue.

Senator GRAHAM. Mr. Chairman?

The CHAIRMAN. Yes?

Senator GRAHAM. Could I make one comment before Ambassador Barshefsky concludes?

The CHAIRMAN. Senator Graham.

Senator GRAHAM. I share the positive comments that have been made about the great leadership that you have provided, Madam Ambassador, and I would like to add to the record a letter which six, what we describe as moderate, Democrats, including three members of this committee, including my colleague Senator Breaux, have just sent a letter to Senator Lott and Senator Daschle in which we state, "It is imperative that Congress move quickly to grant permanent NTR status so that U.S. workers and companies can take advantage of the market access provisions and the other benefits."

We feel strongly that early positive consideration of this is extremely important to the U.S. interests, both economically and in terms of our long-term relationship with China. We thank you for putting us in a position to send such a letter.

Ambassador BARSHEFSKY. Thank you very much, and we support the sentiment expressed in your letter absolutely fully.

Senator GRAHAM. Thank you.

The CHAIRMAN. Thank you very much, Madam Ambassador.

Senator MOYNIHAN. Thank you.

Ambassador BARSHEFSKY. Thank you.

Senator GRAHAM. Mr. Chairman, I would like to ask unanimous consent that a copy of this letter might be entered into the record.

The CHAIRMAN. Without objection.

[The letter appears in the appendix.]

The CHAIRMAN. At this time, it is my pleasure to call forward the second panel. The second panel is made up of five distinguished witnesses. Doug Ellis is the president of the American Textile Manufacturers Institute and CEO of the Southern Mills Corporation. Christopher Galvin is the CEO of Motorola.

I am very pleased to welcome Jeffrey Swain, who is a very prominent leader in the Delmarva peninsula in the poultry industry. He is president and CEO of Townsends, Inc. Finally, we have Steven Van Andel, who is chairman of the Amway Corporation.

Mr. Richard Trumka, the secretary-treasurer of the AFL-CIO, because of illness, is unable to testify this morning. We will include his statement as if read, and look forward to having the opportunity to hear from him again in future hearings.

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

The CHAIRMAN. So, with that, we will start with Mr. Ellis, please.

**STATEMENT OF WILLIAM D. "DOUG" ELLIS, CHAIRMAN,
SOUTHERN MILLS, INC., AND PRESIDENT OF THE AMERICAN
TEXTILE MANUFACTURERS INSTITUTE, UNION CITY, GA**

Mr. ELLIS. Chairman Roth and members of the Finance Committee, thank you very much for the opportunity to speak to you today. My name is Doug Ellis. I am chairman of Southern Mills in Atlanta and president of the American Textile Manufacturers Institute, the national association of the textile industry.

The textile complex—that is, fiber manufacturers, fabric manufacturers, and apparel manufacturers—employs 1.3 million people in the United States. We are in every State and are spread out in the small towns and communities of the country. We are grass roots.

Over the past 20 years, the textile industry has become high-tech and globally competitive. If one of our textile companies down in Georgia can produce this lawnmower bag and sell it to a Japanese company for distribution all over the world, we must be doing something right.

1997 was a record year for our industry, with shipments of \$84 billion, and 1998 was the second most profitable year in the history of the textile industry. However, in late 1998 many Asian countries devalued their currencies and flooded world markets with textile products at prices we could not believe. We have been hit hard and have been faced with numerous layoffs and plant closings. This is not the first time we have been down; we are a cyclical industry.

But we are resilient. We are already beginning to recover from the Asian flu, and that recovery would be enhanced by the enactment of the Senate versions of the CBI and Africa bills.

The CBI model is working. The CBI model is a capital-intensive textile industry in this country supplying fabrics to a labor-intensive apparel manufacturing industry both in the United States and south of the border in Mexico and the Caribbean, thereby supplying garments back into the United States and on into the rest of the Americas.

We strongly support the Senate version of CBI and Africa bills which would enhance the model, and we encourage you to maintain your position in conference with the House of Representatives.

The entry of China into the WTO, on the other hand, would strike a devastating blow, not only to our 1.3 million textile employees and their families, but also to our neighbors and partners in Mexico and the Caribbean who are still recovering from Hurricane Mitch.

A 1999 U.S. International Trade Commission study on China's entry into the WTO determined that this entry would actually worsen the U.S. trade deficit with China and that Chinese exports of apparel into the United States would more than triple if quotas were phased out in 5 years.

A study by Nathan & Associates predicts that the early phase-out of these quotas would cost the U.S. textile complex 154,000 jobs, over 10 percent, not to mention the jobs lost down in Mexico and the Caribbean.

Theoretically, the world might be better off if China joined the WTO, because theoretically China would open up its markets to our exports and play by WTO's rules of fair trade. Unfortunately,

our experience has shown that this is highly unlikely. Even without China, the WTO is not working out for the textile industry.

Whereas, the United States has kept its word since the Uruguay Round and has let in billions of dollars of additional textile products, no new market access for U.S. textile products in other countries has occurred. India, Argentina, and Brazil are among many countries that have raised new barriers to our textile exports.

Our experience has shown that China, in particular, cannot, or will not, play by the rules. Over the past 16 years, China has signed six textile and apparel bilaterals with the United States and it has broken every one of them.

It has signed four intellectual property rights agreements, and the U.S. Trade Representative's office notes that intellectual property losses in China due to counterfeiting, piracy, and exports to third countries have exceeded \$2 billion.

The U.S. Customs Bureau estimates that, during the past 5 years, China has illegally transshipped over \$4 billion in textile products every year into the United States through other countries to avoid quotas. It has continually subsidized its textile exports and it has essentially closed its own markets to our products. Actions speak louder than words.

Further, through some grave oversight on the part of our trade representatives, the China WTO agreement contains no effective mechanism against Chinese export subsidies.

There is no commitment by China not to subsidize its industrial exports, as it has agreed with its agricultural exports, and there is no remedy under U.S. countervailing duty law.

This failure to deal with subsidies is reason enough to oppose the China WTO agreement. We can compete against Chinese companies, we just cannot compete against China.

The China WTO agreement is faulty in another way. Whereas, every other nation faced a 10-year phase-out of quotas, we have granted China only a 5-year phase-out. Of all countries, China should be required to observe a 10-year phase-out in order to prove to the rest of the world that she can and will play by the rules. U.S. industries deserve at least 10 years to adjust to these changes.

The events of Seattle introduced two other considerations to fair trade discussions: human rights and the environment. The moral aspect of these matters are of concern to everyone, but the financial aspects are a direct concern to this committee and this session.

In the United States, we provide fair and safe employment to our associates. In addition, our textile industry does more than its part in cleaning up the environment. However, these efforts and programs cost a lot of money and that makes it difficult for us to compete against companies which do not have such programs.

Since we all breathe the same air and drink the same water, we must insist that our trading partners, including China, must also meet minimum environmental and human rights standards. Such standards should become a part of WTO requirements.

Until such time as the WTO agrees to establish such standards and China agrees to abide by them, and until China agrees not to subsidize its industrial exports, and until China agrees to a 10-year phase-out of quotas and during that time proves to the rest of the world that she is willing and able to play by the rules, including

opening her own markets, until all of this is accomplished, we should not grant normal trade relation status to China or admit her into the WTO.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Ellis.

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

The CHAIRMAN. Next, we will call on you, Mr. Galvin.

STATEMENT OF CHRISTOPHER B. GALVIN, CEO, MOTOROLA, INC., SCHAUMBURG, IL

Mr. GALVIN. Thank you, Mr. Chairman, Senator Moynihan, members of the committee. Thank you for the invitation to appear before you on this important issue.

On behalf of Motorola's 140,000 employees around the world, I urge your swift approval of permanent normal trade relation status. We do urge that the committee and Congress reaffirm the trade relationship that has existed for 20 years and open the door to untold benefits for American workers, American farmers, and American companies.

PNTR is needed to lock in this agreement reached in November between the United States and China. That agreement was comprehensive in scope, providing greater market access for U.S. goods and services, lower tariffs, broad trading and distribution rights for every sector of the U.S. economy.

It creates enormous possibilities in China for U.S. high-technology companies. In fact, there is probably no other issue currently before Congress that will have a greater impact on the high-technology community and America's ability to compete in the new economy, in particular, in that part of the world.

Let me make one point clear. PNTR is not a reward to China or a blanket endorsement of its policies, it is the right thing to do for America's economic and security interest. It is one of the best tools at our disposal to encourage further reforms in China and strengthen the trade rules governing our global economy.

On a more personal level, I would note that Motorola's presence in China dates back many years. In 1986, I joined with my father and another executive for a very extended trip through China to assess its future potential in our trade with China.

We met with numbers of Chinese officials at that time and we were left with a very clear impression that they were committed to a path of economic reform. Since then, Motorola has become the leading U.S. investor in China.

But make no mistake, we have done this with our eyes open. Our experience has not been without its challenges, whether it is related to China's economic transition or the ups and downs of our government's bilateral relations.

At the same time, I can report today that our decision years ago to engage with China has been an unqualified success for Motorola, for our employees, and the many American companies that support our operations there.

Mr. Chairman and members of the committee, it is essential that the world's most populous nation be brought under the umbrella of the organization that sets and enforces the rules of global trade.

Congress decides whether or not this happens with the involvement of the United States or without it. We should be clear that this is the choice. China will join WTO, but American workers and American business will only get the full benefit if Congress approves PNTR and we agree to treat China the same as any other WTO member.

Approving PNTR status secures a bilateral agreement that is good for American, good for China, and good for the future health and growth of the global economy. As stated earlier in this set of testimonies, Ambassador Barshefsky, Bob Cassidy, and their associates deserve extraordinary praise for delivering an agreement that gives enhanced market access, increased investment in telecommunications services, reduced uncertainty in the rules of U.S.-China trade, and the promise of accelerating China's progression into a market economy.

The benefits of action are clear; so, too, are the risks of inaction. I, again, stress what this vote means. China will enter the WTO with or without our support this year. American companies and American workers will enjoy the benefits of China's accession only if China approves PNTR status.

Without that important step, America will be left behind as our foreign competitors and their workers exploit the new opportunities available to them, but denied to us in America as China enters WTO.

A vote against PNTR does not stop China's entry, but it does grant others the advantage that would weaken our position in the global economy for years to come.

Having sounded that note of concern, I want to say that I welcome the signs of bipartisan support evidenced in this committee for PNTR that have been made to date, and we look forward to further agreements to lock in the commitments that will bolster America's exports and extend China's economic reforms and strengthen the rules for more fair and open global trade.

By taking this step, Congress can help paint a brighter future for American companies, American farmers, American workers, and maintain America's competitiveness around the world.

Thank you.

The CHAIRMAN. Thank you, Mr. Galvin.

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

The CHAIRMAN. And now it is a pleasure to call on Mr. Swain.

**STATEMENT OF JEFFREY M. SWAIN, PRESIDENT AND COO,
TOWNSENDS, INC., WILMINGTON, DE**

Mr. SWAIN. Thank you, Chairman Roth, Senator Moynihan, and committee members. I appreciate the honor to have the opportunity to provide the poultry industry's view on the critical, important issue of U.S.-China bilateral trade agreement and the PNTR status of China.

I am Jeff Swain, president and chief operating officer of Townsends, Inc., with headquarters in Wilmington, DE, with poultry operations in Delaware, North Carolina, and Arkansas.

Townsends is both a member of the National Chicken Council, NCC, and the U.S.A. Poultry and Egg Export Council, USAPEEC.

It is my privilege to represent both of those organizations here today.

NCC represents companies that produce and process over 90 percent of the young meat chickens in the United States. USAPEEC represents member companies that account for over 95 percent of U.S. poultry and egg exports.

Together, these two associations work diligently to increase and expand the export market for U.S. poultry. They do so because the U.S. poultry industry recognizes that the economic health and viability of our business depends heavily upon capturing the stomachs and pocketbooks of 96 percent of the world's consumers who live outside our borders.

We strongly support the U.S.-China bilateral trade agreement and permanent normal trade relations status for China. Granting PNTR with China in their bid for accession to the World Trade Organization, as I explained in my following comments, the bilateral agreement and the future opening of the China market will have a very positive result, not only on U.S. poultry producers, but also all American agriculture.

For our industry, that is, companies that produce, process, and market poultry, exports are not an option, they are a necessity. About 16 percent of all U.S. chicken is exported. But, more importantly, the export market provides the opportunity to better balance the demand and the supply available from a live bird.

The primary example of this statement, is that the U.S. consumer has an overwhelming preference for breast meat, where, outside of our borders, the overall preference is for legs and leg quarters.

Thus, we can export the half of the chicken that we do not desire, while marketing the breast meat at home. This provides us with a very distinct, unique, and defensible competitive advantage of U.S. poultry versus all other competing countries.

Our industry is confident that the United States' largest poultry market, China, will also be marketing the best chance for continued significant growth. We believe in this positive outlook because the agreement terms truly do remove the major market impediments. With a fully implemented agreement, China is expected to grow our exports by 20 percent each year in the next 5 to 10 years.

U.S. poultry exports to China, including transshipments through Hong Kong in 1999, were over \$350 million. Adding 20 percent to this sizable market means substantially more income to all segments of agriculture involved in the chicken production process.

The Secretary of Agriculture, many years ago, referred to chickens as being condensed corn. [Laughter.] Chicken, of course, are much more than condensed corn, but the point is valid. When a metric ton of chicken is exported, it means that 50 bushels of corn and the meal from 20 bushels of soybeans are also exported.

Now, feed is the primary input in producing chickens, but there are many other inputs, including labor. USDA estimates that, for every 10,000 metric tons of chicken exported, that is 100 U.S. jobs throughout the linkage from farm, to the dock, to U.S. port.

Further, every dollar generated by the export sale multiplies by approximately 3.5 times throughout the agricultural and general

economy. That means that right now, our exports to China before this agreement employs at least 21,000 employees.

I can assure this committee that everyone in the poultry industry appreciates the importance of the international market and the opportunity to grow exports.

Secretary of Agriculture Glickman said that China's participation in the WTO will result in at least \$2 billion per year of additional U.S. agricultural exports by the year 2005.

It is my belief that, as the Chinese consumers enjoy increased disposable income in the years ahead, there will be a greater propensity to increase the amount of animal proteins in their diet.

I speak to you on behalf of the U.S. poultry industry and request this committee's full support, and the full support of Congress, for the U.S.-China bilateral trade agreement and PNTR.

While I cannot officially speak for all American agriculture, I can without reservation characterize the support of American agriculture as strong, positive, and anxious to move forward.

To summarize, the U.S. poultry industry appreciates very much the ongoing interest and support of this committee to build world trade for U.S. agriculture for other parts of the U.S. economy. We look forward to our government moving forward in a very timely manner on the international trade issues in China.

Thank you for the opportunity to share our opinions.

The CHAIRMAN. Thank you, Mr. Swain.

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

The CHAIRMAN. Now it is my pleasure to call Mr. Van Anandel.

STATEMENT OF STEVE VAN ANDEL, CHAIRMAN, AMWAY CORPORATION, ADA, MI

Mr. VAN ANDEL. Thank you, Mr. Chairman. I am Steve Van Anandel, chairman and CEO of Amway Corporation, a Michigan-based company that is known for its quality of products, as well as the use of the direct selling system, where we have millions of distributors around the world who operate businesses of their own.

I also represent today the U.S. Chamber of Commerce, where I serve as a board member, integral in developing some of the international policies of the board of the Chamber.

The U.S. Chamber is the world's largest business federation, with over three million small, medium, and large businesses around the country. We have long advocated normal trade relations with China on a permanent basis.

The historic market opening agreement brings China into the World Trade Organization and demands that we consider the permanent normal trade relations for China under this context.

Unless we grant China PNTR, once it becomes a WTO member American businesses, workers, and farmers will not receive the benefits of the agreement, but our foreign competitors will.

The U.S. Chamber has launched a nationwide, grass roots initiative called Trade Roots, aimed at increasing public understanding of the benefits to the United States of expanded trade with China.

The Chamber support for this agreement and the permanent normal trade relations is outlined in my full statement, but I am not going to repeat that. I would like to take this time, however, to make a few personal observations.

I think the first time I went to China was over almost 30 years ago, and I have made numerous trips there since. Particularly, I have noticed in the last four or 5 years some changes.

I have noticed the political atmosphere has changed, where the government is now relaxing more and more and it is ever increasing the number of officials who are willing to experiment with free market processes. I have also noticed that the improvements that come as a result of that are improvements to the lives of the people in China.

Some critics argue, I guess, that by granting China permanent normal trade relations, the Congress will lose leverage over China. They claim that the annual normal trade relation debate is useful and a way to prod China into improving its record on human rights and religious tolerance. But from my experience and observations, I would say that I really do not accept that thesis.

China is changing because the people of China are asking for the change. They are demanding the change, and the government is responding. They are responding cautiously and slowly, and maybe too cautiously for some, but they still are responding.

One of the forces driving these changes is the experience of those Chinese citizens who are working for U.S. companies. Amway and other U.S. firms that are operating in China have established high standards for personnel management, corporate citizenship, fairness, and equal opportunity. These experiences, and others, are demonstrating to all in China that they should open their doors to the world to become part of the international community.

In this regard, it is important to note that China wants to adopt international standards. Those that believe that progress in China has resulted from the unilateral pressure by the U.S. Congress are missing a key point, in that paternalism, or colonial dominance, really is counterproductive.

By their focus on international standards, Chinese officials are saying to us that they are going to strive to meet standards that apply to the United States as well.

I was in Beijing on Monday and met with Chinese officials, and they made it very clear that China is proud of its sovereignty and its independence, but that it recognizes it must adhere to a set of rules that are the same for all nations. They recognize, too, that this means that U.S. business will have the right to export to China, and they confirmed that to me.

They made additional points, I think, that are worth noting here. U.S. business has suffered in China, partly because of the uncertainty that the annual normal trade relations argument creates. The annual debate in Congress creates the uncertainty of whether or not the U.S. business will actually have the same trade relations on a year-to-year basis.

They added that China is now offering that permanent normal trade relation status to us. To take advantage of it, however, fully, under the WTO rules, U.S. business needs assurances from the U.S. Congress that they will grant permanent normal trade relation status.

I asked them what might happen if the U.S. Congress refuses to grant PNTR to China on a permanent basis, and their answer was unequivocal: China would join the WTO. They also made it clear

that China expects all countries, including the United States, to abide by WTO rules as well.

It is clear to all that, in order to abide by the WTO rules, it means that the United States must abolish the annual review of China's trade status. This is the heart of the matter. If we presume to ask China to live by international standards, we must do so, too. We must end the annual review of the China trade status. We should treat China as we treat all other countries and partners, as part of the WTO.

This agreement would tear down thousands of Chinese trade barriers. Under its terms, Amway and other companies will be able to distribute goods in China, including those that we export from the States. Industrial tariffs on U.S. products will fall from an average of 25 percent down to below 10 percent in 5 years. For the U.S., priority industrial items will have cuts that are even deeper. As we have heard, the agricultural tariffs will be cut as well.

This agreement, I think, is the mechanism to begin to reduce the trade deficit with China. If Congress does not grant permanent normal trade relations, American businesses will lose major opportunities as competitors in Europe, Japan, and elsewhere will benefit from China's market access commitments. China will enter WTO without regard to our action on permanent normal trade relations.

To me, a vote for permanent normal trade relations is a vote for American workers, American farmers, and American businesses. I think that we can look at this, not as giving more access to China, but, in essence, as China giving us permanent normal trade relation status.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Thank you, Mr. Van Andel.

Mr. Galvin, let me ask you, there is a lot of concern as to whether China, the government, will have the ability, the willingness, to live up to its commitment that it would make in this WTO agreement.

There are some recent statements, for example, by the ministry of information industries that suggests not all the ministries are ready to live up to the agreement. What is your assessment of the willingness of the Chinese government to live up to these? I would be particularly interested as it relates to the telecommunications ministry.

Mr. GALVIN. Thank you, Mr. Chairman. Our relationship in China has been based on one simple word: trust. For over 15 years now, we have been engaging with them. We made a promise that we would only make recommendations on changes, whether in telecommunications or other activities, that would be good for their country and mutually beneficial to ours.

In China, there has been tremendous progress at liberalizing and building their telecommunications agencies. They have effective ministries that have been managing that activity. They are proud of what they have done.

We found that, with Minister Woo, who is a very bright and capable executive in addition to a representative of the government,

has always met his word based on those promises that he has made, and we expect them to do that again in this set of agreements.

Mr. SWAIN. Thank you, Mr. Chairman.

The CHAIRMAN. Let me ask you, Mr. Van Andel, somewhat along the same lines. It is my understanding that the Chinese government shut down your operations only a few years ago when the government there banned direct selling.

Now, given what I understand to be the arbitrariness of that action, what confidence do you have in the way in which the Chinese government will regulate companies in their market?

Mr. VAN ANDEL. I think the fact that we actually are currently in business today and growing fast shows that there is cooperation with the Chinese government in trying to work through situations to clear the path for U.S. business.

I will say that, when Amway went in there almost five years ago today, in essence, we brought the direct selling business in there. We brought the concepts of direct selling in there.

At the time, China did not have regulations that ruled the direct selling business, so it was a learning experience for all. They had some difficulties with what we would consider pyramid companies in most other markets. They had those same difficulties.

They did not have regulations at the time, so in order for them to control many of those, what I think of as unethical companies, they had to close the entire industry down, only to come back then and begin to reopen it up for the various businesses that they did consider ethical. This is the process that they have been through. It tends to be the process that I have seen when new things happen in China that they go through.

But right now, with the WTO agreement, they are looking at taking the concept of rule of law and taking standards that are the same internationally around the world and implementing those into their country, and that change is a significant difference.

The CHAIRMAN. Let me turn to you, Mr. Ellis. You, of course, have expressed strong concern that U.S. quotas on Chinese textiles will phase out in 2005. The Chinese, however, have agreed to a safeguard mechanism aimed at their textile exports that we will have in place through 2009, 4 years later.

More fundamentally, our quota on textile and apparel exports from every other WTO member country will expire in 2005, including major textile exporters, India, Pakistan, and others.

Given that, why does the elimination of the Chinese quotas in 2005 cause you such concern?

Mr. ELLIS. Senator Roth, China has the largest textile industry in the world. They have over 20 million people employed in that textile industry. They have already stated that it will be their policy to subsidize that industry, in a number of ways which are listed, to make it more world competitive.

With that orientation, they have a tremendous power in the global textile market. We and our neighbors to the south, the Caribbean and Mexico, are very concerned about their misuse of that power. I think we have good reason to be concerned about the well-being of our textile industry in the years ahead with these quotas going by the wayside.

The CHAIRMAN. You mentioned the size, 20 million workers. How does that compare with India and Pakistan?

Mr. ELLIS. Sir, I do not have those numbers, but I could get them for you.

The CHAIRMAN. Could you submit them for the record?

Mr. ELLIS. Yes.

[The following information was subsequently received for the record:]

TEXTILE INDUSTRY EMPLOYMENT—1998

India.....	812,000
Pakistan	205,000

Does not include 8,000,000 in Indian hand loom sector.

The CHAIRMAN. Finally, let me turn to you, Mr. Swain. Prior to the devaluation of the ruble in August 1998, Russia was the number one export market for U.S. poultry for U.S. chicken farmers. Do you expect the WTO agreement in China to help make up for the sales you lost in Russia? In particular, what would it mean to Delmarva farmers?

Mr. SWAIN. One, we think it will help mitigate that unfortunate circumstance. We think that, by lowering the tariffs from 20 percent to 10 percent, that it will expand the market and improve our competitive situation versus other poultry producers across the globe. We think the market size will grow,—we think our market share will grow.

How it will affect Delmarva, will be a couple of ways. One, it will affect us directly, because various companies in Delmarva have direct customer bases in Hong Kong, Singapore, and the Far East. We believe that our Hong Kong and direct China shipments will grow.

The second way it will help us, Mr. Chairman, is in an indirect way, whether it helps North Carolina, Mississippi, or Arkansas, in a commodity market when we increase the market size and truly increase the market share of that larger market size, because of our competitive advantage in the United States in chicken, based on what I talked about earlier with the breast meat being in high demand in the U.S. and dark meat outside of our borders, that will help raise all commodity prices for all companies in the United States.

The CHAIRMAN. You made some reference to American corn and soybean farmers, how they will benefit from the increased export of poultry. Can you be a little more specific?

Mr. SWAIN. They will have a benefit that is two-fold. One, there is the TRQ reduction for the bulk commodities which will increase their market availability and market access, but also as animal proteins increase and improve our competitive status in the world, they would come along with us because they are the primary ingredient in our meat protein.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, this has been a fascinating, absorbing panel. I think the happiest example of different societies and different tastes is Mr. Swain's, that Americans like the white meat in chicken and others prefer the dark meat in chicken. If you

just cut them up right, you have optimal arrangements for all concerned, happy as can be.

I would say to Mr. Ellis that I was, as my colleagues on this committee have heard with more tolerance than I perhaps would reciprocate, one of the three persons who negotiated in 1962 the long-term cotton textile agreement in Geneva. It was the condition of our getting President Kennedy's Trade Expansion Act of 1962, which is the only legislation he really got in that Congress, and became the Kennedy Round.

Those quotas were for 5 years. I think that was about 29 years ago. No, no, 39 years ago. They are now going to go on another 5 years. You are still there. It is astonishing. You say 1.3 million people are in the textiles and apparel complex.

The circumstance was that we were not going to get a trade bill because the south was beginning to be concerned as they were producing textiles, that they did not want imports. The Mid-West, on the other hand, which had not lacked imports, was exporting and there were a lot of intelligent compromises to put in place.

But trade has not destroyed our textile industry. Indeed, we sometimes underestimate ourselves. I remember, some years later I was ambassador to India and they had closed off all, or most all, of their trade with us and were autarkic, and all that.

But just curiously, I once asked them, did they find that the quotas that had been imposed by the textile agreement in Geneva were onerous? An Indian official, much more candid than he probably ought to have been, said, oh, my God, no, without those quotas we could not sell a thing in the United States. Their labor costs were nothing compared to technology. I leave you that thought.

I found that, Mr. Galvin and Mr. Van Andel, you describe relations which seem to work. I hope they do. I hope the day does not come when the Chinese get into the WTO and start turning it around their way. You had better watch that. We hope for a system which is rule-based and transparent, and that is not exactly a Chinese tradition these past 5,000 years. It might evolve, might not. But I found the testimony very helpful.

Does anyone want to say something to me that I should know?
[No response.]

Senator MOYNIHAN. If not, thank you very much.

The CHAIRMAN. Thank you, Senator Moynihan.

Now, Senator Breaux.

Senator BREAUX. Listening to my Ranking Member is always an educational experience which I appreciate.

The CHAIRMAN. And you need a lot of educating.

Senator BREAUX. I do. [Laughter.] There is no doubt about that.

I thank all the panel members. They have been very helpful because, indeed, we are considering that affects every one of you directly, and a million other American industries as well.

Mr. Ellis, let me chat with you for a while, because obviously the textile industry is incredibly important to this country. It is also important to my State of Louisiana.

We have literally lost thousands and thousands of jobs in the stitch-and-sew industry portion of the textile and apparel manufacturing industry. Most of it is in Mexico, Honduras, and a lot of our CBI nations.

We have negotiated a CBI agreement which hopefully will allow the textile manufacturing industry to make the fabric, do the weaving and the dyeing and the more technologically difficult aspects of the industry in this country, give them the material, let them do the stitch-and-sew, and sell it back to us. Hopefully, that way we can continue this industry going.

But to the larger part of your opposition to this agreement because of what it does with China, I have been trying to understand it, because you made some, I think, good points in your opposition.

I think that a lot of it is, China just does not keep its agreements. I mean, you point out six textile agreements, and they have broken every one of them; four intellectual property right agreements, broken them.

I think that Ambassador Barshefsky would probably argue that that is an argument for the agreement, in the sense that this agreement, for the first time, would bring China into an international, multilateral organization with enforcement ability and authority that does not exist now.

The reason they are breaking their agreements, is because there is no enforcement mechanism. If they did come into the WTO, as she points out, we gain a number of advantages in enforcement that we do not have now. You are absolutely right that right now it is not being enforced, but if we get them in, we have enforcement mechanisms that we do not have now.

First, is the WTO dispute mechanism itself. In no previous agreements, she points out, has China ever agreed to subject its decisions to impartial review, judgment, and ultimately imposition of sanctions, if necessary.

The fact that we keep all of our existing domestic laws, Section 301, and Special 301, and our countervailing and antidumping laws would still be in effect, we gain substantial new leverage by creating the product-specific safeguards.

Fourth, we strengthen our enforcement capabilities through the multilateral nature of the WTO, and that China will then be subjected not just to enforcement by the United States, but to 135 other WTO members.

Fifth, she points out, the specificity of China's commitments in its bilateral agreement will help us ensure that China complies.

So what I want you to comment on, is the fact that you have basically said, look, they do not comply, they should not be in. The administration would argue that that is one of the reasons why they should be in, because we have enforcement tools that we do not have now.

Mr. ELLIS. First of all, our experience through the WTO has been very poor, as I mentioned. We are having difficulty enforcing with countries that are already in the WTO, Brazil, Argentina, India. All have raised their barriers against U.S. textile products, even though they are in the WTO, so that continues to be a concern for us.

Senator BREAU. On that point, I mean, these other gentlemen, chickens, Motorola, and everything you do, and Amway, everything you do, I guess, seem to take the opposite position, that the WTO does give them the mechanism to enforce these agreements.

Is it something that is specific to the apparel and textile industry that it is not enforced?

Mr. ELLIS. I think it is that those countries have their own apparel and textile industries, and therefore they have a much bigger stake in this global market than, perhaps, the competition that some of my friends here have.

The other point I wanted to make, though, is that on the matter of the countries subsidizing the industries, and China subsidizing its industry, the WTO has said that it has no rule against subsidies for developing countries.

The countries can choose whether they be classified as a developed or developing country. China will choose to be a developing country and, therefore, the WTO will not have any ability to curtail these actions.

Senator BREAUX. On the subsidy question, the administration, I guess, would point out that China has, in fact, agreed to certain subsidy rules, including rules applicable to their state-owned enterprises.

Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share, the United States can, and could, take action under our unfair trade laws.

In addition, their agreement establishes that the United States can determine whether government benefits such as equity infusion or soft loans have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

It seems like your argument is that they do not play by the rules, but the opposite argument is that this, for the first time, gives us the ability to use some tools to enforce these subsidy/anti-subsidy policies that we do not have now. They can only get better than it is without it.

Mr. ELLIS. I understand. We also have agreements with China, bilateral agreements, which they continue to violate and we have not been able to enforce those. So we do not have a lot of confidence these enforcement practices.

Senator BREAUX. Can I ask one final question?

The CHAIRMAN. Sure.

Senator BREAUX. One other question. I noticed that you were concerned about, if this agreement goes into effect, that the phase-out of the quotas would cause a lot more increase in Chinese imports into this country.

I note that, under the agreement, that China would reduce their tariffs on textiles and apparel products from their current average tariff of 25.4 percent down to 11.7 percent, which I think would be good for us.

But the other point, I was reading—at least the staff told me I should read this, which was helpful from them—the International Trade Commission looked at the assessment of this agreement on China, and particularly with apparel and textiles.

They pointed out that if the quotas on China are eliminated, that its share of the U.S. textile market would increase slightly—this is the textile market—to about 11 percent by the year 2010. Then in the case of the U.S. apparel market, China's share would increase by about 18 percentage points if the quotas are removed after De-

ember 31, 2004, resulting in China obtaining over 30 percent of the U.S. import market, which is a fear that I think you expressed.

But they further point out that this increase in China's share in the U.S. import market would occur as Chinese products would displace exports from other suppliers, particularly suppliers whose exports currently are not restricted by quotas.

I guess the point they are making, is while the rest of the world is going to get kicked out of selling stuff in this country, China would replace them, and the total amount of imports would not change that much.

Do you have a comment on that?

Mr. ELLIS. Yes, sir. Asia, back in the 1980's, was literally taking the shirts off of our apparel industry's back. The textile industry is high-tech, capital intensive, but our apparel industry continues to be labor intensive. The textile industry has been losing its customers with apparel manufacturing in the United States to Asia.

But then came CBI, and the CBI and NAFTA model. That model has enabled us to have apparel manufacturing in the lower labor cost areas south of the border. They are the ones that would be displaced by that Chinese apparel industry, and our neighbors south of the border buy our fabrics. The Chinese apparel manufacturers are not likely to buy our fabrics.

So we think we have a model that is in place, with your help, with CBI, that we can be very competitive in the world market on textiles and apparel, provided we play on a level playing field. If we have to compete directly against China itself, we are in trouble.

Senator BREAUX. I appreciate your comments and your observations, and everybody else on the panel. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Robb?

Senator ROBB. Thank you, Mr. Chairman. I apologize that I was not able to get here. I would particularly have liked to have been here for Ambassador Barshefsky's testimony, because a couple of the concerns that I would like to address would be more properly directed to her. I had two other competing meetings, as we all have to contend with from time to time.

But I wonder, Mr. Ellis, you addressed some of the questions in response to Senator Breaux's question that I was going to propound. The character of many of the southern States is fairly similar in terms of both the perception and the reality of jobs that are lost because of competition from other areas and areas where labor conditions, environmental conditions, and whatever may be considerably less stringent than they are here in the United States.

For the reasons that Ambassador Barshefsky has stated, I am one of those who plans to support the permanent normal trade relations because I think there is more net benefit, and I think because of some of the reasons that it is in the long-term interest of the United States.

But I am not by any means unconcerned. In fact, we have recent closings, as you know, and layoffs in Martinsville, Henry County, Danville, Pennsylvania, and some of the other areas.

We have had this over a long period of time, particularly the very labor-intensive areas where we have had individuals that have

been employed for many, many years, good, solid work ethic, and suddenly their whole source of livelihood is taken away.

I realize there is sometimes a difference between the interests of the countries and the interests of the employees in some of these areas in terms of the maintenance of economic stability for them, but are there ways that you can see, if this does pass, that the Congress can work to address, if not the corporate concerns—and I am not suggesting that corporate entities are not concerned about the workforce, because I know they are and they spend a lot of time, and I do not mean to be suggesting any difference at all—to the extent that we can account for some of what are either actual or perceived job losses, in much the same way we did with the BRAC and some of the defense closure activities and base readjustment funds that were available for transitional activities.

Can you suggest any areas here? I am working on some proposals right now, but can you suggest anything in particular that you think would be especially helpful if, in fact, the permanent normal trade relations are approved and go into effect, and we are still stuck with a very devastating impact in some of the regions where companies that you represent, both individually and in your larger capacity, are located?

Mr. ELLIS. First, Senator Robb, I hope that we do not give up on this question. We do not think that the end is in sight for the textile industry, and we have models in place, the CBI model being one of them, where we think we can continue on for another 50 years, actively growing in the world economy.

Senator ROBB. Let me say that I share that hope, and I am not suggesting that I am looking at the end of the world. But to the extent there are portions or there may be individual plants where the capital available for improvements to be competitive in the current trade status are not available, can we do that?

Mr. ELLIS. It is very, very important because our industry often is located in smaller towns and communities around the United States, and these smaller communities are very dependent on that job source in that community.

We are also affecting the demographics of America because none of us want everybody to move into Atlanta, or New York, or Washington. We like to keep our people out in the small communities of the United States, and that is where you have the real hurt.

We look at the unemployment figures in America and they are at record lows right now. But if you go to Hahira, Georgia or to another community where there has been a big job loss, there is serious hurt going on. Certainly, I think all of us, the Federal Government, the State governments, and the local communities need to be concerned about the well-being of these people.

Senator ROBB. In my own State of Virginia, the overall unemployment for most of the State is around the 2 percent level or less. In Martinsville, it is in the 20 percent plus level and it is directly related to some closures that at least are perceived, and in some cases acknowledged, to be as a result of decisions that were made under the provisions of NAFTA. So it is a very serious quandary.

Mr. Chairman, the panel has been here for some period of time, and you have been here for some period of time. I suspect you are

looking forward to terminating, and I will cease and desist at this point.

But the topic certainly is an important one, and to the extent we can continue to explore ways to address not only the positive benefits which frequently are not recognized, but the down side, which, for those directly affected, is very real and very personal, I think it is time well spent.

Thank you, Mr. Chairman. My time has expired.

Senator MOYNIHAN. Mr. Chairman, may I just take one second?

The CHAIRMAN. Please.

Senator MOYNIHAN. And then one anecdote. In 1962 in the Trade Expansion Act, we provided trade adjustment assistance. We have now 40 years of that principle, and it should be better applied.

But could I say and just record in a patriotic mode, 216 years ago yesterday the Empress of China cleared New York Harbor, the first American ship to make its way to China. Its cargo consisted primarily of 30 tons of American, genuine ginseng, the most powerful aphrodisiac in the world, or such it was thought to be in China. Chairman Mao smoked ginseng cigarettes.

It took these roots, which come from valleys such as ours in the upstate, and it returned with manufactured goods, porcelain—what we call China—umbrellas, things like that. So the world of trade is continually shifting, but I am happy to say that, even to this day, New York ginseng is the ginseng of preference.

Senator ROBB. Mr. Chairman, could I add one footnote—Mr. Swain, I know, would be very familiar with this—on a much lower level and with far less eloquence? The Ranking Member was making reference to the fact that there are markets for different parts of the chicken. There is a part of the chicken that many in this country might not realize, that there is a real market for chicken feet.

Indeed, we have containers that contain nothing but chicken feet that go, not unlike the ginseng contains in times of yore, that are actually profitable in this exchange and make it possible for us to use everything but the cluck.

The CHAIRMAN. Well, I think the time has come for us to have some chicken feet. [Laughter.] With that, I want to express my appreciation to the panel.

Senator MOYNIHAN. Thank you all.

The CHAIRMAN. It has been very helpful, and we will undoubtedly call on you further.

The committee is in recess.

[Whereupon, at 12:23 p.m., the hearing was concluded.]

TRADE WITH CHINA AND ITS IMPLICATIONS FOR U.S. NATIONAL INTERESTS

THURSDAY, MARCH 23, 2000

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

The hearing was convened, pursuant to notice, at 9:34 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Grassley, Hatch, Mack, Moynihan, Baucus, Rockefeller, Bryan, and Robb.

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.

This hearing is the second in a series the Finance Committee will conduct on China's accession to the World Trade Organization. I am pleased to announce that this morning I and Senator Moynihan introduced in the Senate the legislation the President sent up to Congress that would enact permanent trade relations with China.

We will require the President's continued strong support and the equally strong bipartisan effort here in Congress to ensure the consideration and movement of this legislation.

Before we get started, I think it would be helpful to once again state what the vote on PNTR for China is all about. A vote on PNTR will not decide whether China gets into the World Trade Organization. China will accede to the WTO regardless of how Congress votes on PNTR.

The question before Congress is whether our exporters will gain access to the Chinese market on the same terms as their competitors, or whether after 13 years of arduous negotiations to open the Chinese market and to encourage their adherence to a rules-based international trading system. We would now forego the benefits of that deal.

Under the WTO, if we impose conditions on our trading relationship with China, even in the form of an annual vote, we will not have granted China the same access to our market as we have other WTO members.

That, in WTO terms, would require us to invoke what is known as non-application, meaning that we cannot fulfill the terms of our own WTO obligations with respect to China.

In that event, China would be entitled to deny our exporters access to their markets on the terms available to all other WTO members. The losers will not be the Chinese Government, nor will the losers include heavily subsidized state-owned industries in China that are the principal source of labor problems.

The losers will be American firms, American workers who will be denied the opportunity to compete on a level playing field with their British, French, German, and Japanese competitors.

The losers will also include Chinese workers, who have no alternative but to work for state-owned Chinese firms that would deny them basic labor rights, or foreign firms that have in the past proved significantly less sensitive to labor concerns than have American firms.

As a technical matter, the passage of PNTR will simply remove China from the ambit of the Jackson-Vanik amendment. Our focus today is on whether removing China from the scope of the Jackson-Vanik freedom of emigration requirements has broader implications for U.S. national interests.

That issue has been joined by the administration's delivery of its PNTR legislation to the Congress in response to the concerns expressed by this committee at our hearing last month.

The President sent us a clean bill that simply authorized the removal of China from the scope of the Jackson-Vanik amendment upon accession to the WTO, provided that deal is consistent with the terms agreed to this past November between the U.S. and China.

China's statements since our last hearing, on the other hand, have continued to be troubling in the run-up to the presidential election in Taiwan this past Saturday. The PRC raised its rhetoric to new levels of hostility. As in Taiwan's last presidential contest in 1996, the people of Taiwan chose to shrug off the threat from Beijing.

In another manifestation of the island's democratic maturity, the people elected a president from the opposition Democratic People's Party for the first time. Lost in the sharp exchange of words has been Taiwan's consistent support for trade with China and China's accession to the WTO.

Just 2 days ago, Taiwan's parliament dropped a five-decade old ban on direct trade transport on postal links between two of Taiwan's offshore islands and mainland China.

President-elect Chen was quoted in yesterday's L.A. Times as saying, "We would welcome the normalization of U.S.-China trade relations, just like we hope the cross-strait relations between Taiwan and China can also be normalized." Chen said, "We look forward to both the People's Republic of China and Taiwan's accession to the WTO."

I think it is also important to remember that, within China, it is the hard-liners and the PLA who are most opposed to China joining the WTO. That is because they are the ones who most fear the forces China's greater economic openness will unleash.

The fact that Taiwan supports China's global economic integration and PRC hard-liners and the PLA adamantly oppose it, in my view, only makes support for China's accession to the WTO, passage of PNTR legislation more important.

We are fortunate to have a number of witnesses today and an array of experts who can address the impact of granting PNTR to China and that country's accession to the WTO.

So with that, we will proceed. Senator Moynihan is necessarily delayed and will be here in a few minutes. So we will proceed with the first panel, which is made up of four distinguished witnesses.

First, we are happy to welcome James Sasser, who is a former Ambassador to China, and of course a former member of the Senate. It is a pleasure to welcome you, Mr. Ambassador.

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

The CHAIRMAN. And James Lilley is a resident fellow at the American Enterprise Institute and a former Ambassador to China. If you would all please come forward.

Robert Kagan is a senior associate with the Carnegie Endowment for International Peace. Finally, we are delighted to have once again before us Richard Perle, who is a resident fellow with AEI and former Assistant Secretary of Defense for International Security Policy.

We will start with Ambassador Sasser.

STATEMENT OF HON. JAMES SASSER, FORMER AMBASSADOR TO THE PEOPLE'S REPUBLIC OF CHINA

Mr. SASSER. Thank you very much, Chairman Roth. It is a great pleasure for me to be here this morning, and I want to say hello to some of my former colleagues who I see on this rostrum here who are a member, not only with great respect, but also with great affection.

I have the honor today of appearing before the committee to discuss with you what I consider to be one of the most important issues facing our country and one of the most critical legislative items on the Congressional agenda for this spring, and that is whether or not to establish permanent normal trading relations with China when they join the World Trade Organization and the implications that this has for U.S. interests.

Now, I want to clarify one point at the outset, Mr. Chairman, if I may. I am here to talk to you today as a former Ambassador to China and as a former member of the Senate. I hope that my personal perspective will be of use to you as you deliberate the merits of this legislation.

I am not a spokesperson for the Vice President of the United States or his Presidential campaign. I know the Vice President well, as many of you do. I served with him in the Senate and I am familiar with his views on this issue, but my comments should not be received as the Vice President's own position. I will leave that for him to articulate.

But when the President asked me to serve as our Ambassador to China, which I did for three and a half years and I had the great pleasure of welcoming some members of this committee to China in that capacity, I immediately agreed to serve because I felt that our relationship with China is probably the most important bilateral relationship our country has, certainly one of the most important, and I think will be of continuing and critical importance in the 21st century.

China is a global and regional power emerging on the world's stage. It is home to one-fifth of the population of the world. It has an economy that is rapidly modernizing. It has been growing in the 1980's and part of the 1990's at a double-digit rate. It will continue to grow at the rate of about 7 percent this year.

Some economists have characterized the Chinese economy as the fastest-growing economy in the 20th century, some say the fastest-growing in the history of the world.

It is a society that is looking more and more to the west in general, and to the United States in particular. It is also, in its region, a growing military power.

Our actions, and in particular the actions of the Congress on this legislation, can have a direct impact on China's future and on the future of Sino-U.S. relations.

In my view, establishing permanent normal trade relations with China is vital to the interests of this country. This agreement will open the Chinese market to our goods manufactured by our workers, our services, the service sector of our economy which leads the world, and to our agricultural products.

But perhaps equally as important, it is going to promote openness in China and it is going to require China to play by the rules. I believe very firmly that it will advance America's national security interest, and I think it will push forward the progress of human rights in the People's Republic of China.

Mr. Chairman, China will enter the World Trade Organization whether we like it or not. It has already become part of the world trading system. We could not stop that process if we wanted to.

The United States is a market for 40 percent of China's exports. The only issue we have before us, as I see it—and others may differ—is will Congress allow Americans to benefit from this historic trade deal or are we going to reject it in what I would characterize as a misguided effort to punish China, only to find out later that we have only punished ourselves, our workers, our industrialists, our farmers, our high-tech entrepreneurs and our working families all across this country as we look at the China market and see our European trading adversaries exploiting it, as we are seeing the Japanese and others taking full advantage of it.

Now, let me add one important note. As I anticipate the other panelists will confirm, there really is a broad bipartisan consensus on this issue. Both the Democratic and the Republican candidates for President, as I understand it, agree that we need to pass permanent normal trade relations with China this year.

Sure, we may differ on some of the details about China policy and who is best equipped to handle the job of President, but that is not why we are here today. We are here to present the case for establishing permanent normal trade relations with China, and the subject is very, very important.

I see that, Mr. Chairman, my time is up. You are running a very tight ship here this morning. Perhaps I could answer some of the distinguished committee's questions at a later date. Thank you.

The CHAIRMAN. I would say to Ambassador Sasser and all of the witnesses, your full statement will be, of course, included as if read. Unfortunately, we are on a tight schedule because we have votes at 11:00, so we want to proceed expeditiously.

[The prepared statement of Mr. Sasser appears in the appendix.]
The CHAIRMAN. Mr. Secretary Perle, it is always a pleasure to have you here and we would call upon you, next.

**STATEMENT OF HON. RICHARD PERLE, RESIDENT FELLOW,
AMERICAN ENTERPRISE INSTITUTE, CHEVY CHASE, MARY-
LAND; FORMER ASSISTANCE SECRETARY OF DEFENSE FOR
INTERNATIONAL SECURITY POLICY, DEPARTMENT OF DE-
FENSE**

Mr. PERLE. Thank you very much, Mr. Chairman. Thank you for inviting me to participate. Like Senator Sasser, I think I should say at the outset that I am not here representing the Vice President, or for that matter, anyone else other than myself.

Like many Americans, I have tried to assess the security, economic, and political interests of the United States in the rapidly growing trade relationship with China.

I imagine that one reason, anyway, why the committee thought to include me in your deliberations was my involvement nearly three decades ago in a piece of legislation that became known as the Jackson-Vanik Amendment, after the name of its author Senator Henry Jackson and his House colleague Congressman Charles Vanik.

By linking trade to human rights, the Jackson-Vanik Amendment significantly reshaped a piece of legislation enacted in 1974 that granted most favored nation treatment to non-market economies.

It changed the administration's proposal to authorize the extension of MFN to state-controlled economies by requiring that the President first certify that doing so would lead to significantly freer immigration. With such a certification, MFN status would continue from year to year, without it, MFN treatment would cease.

Because Jackson-Vanik was enacted so long ago, it may be worth a minute of the committee's time to recall why it became the first statute in nearly a century to link human rights and concessions on trade.

At the time of its introduction in 1972, the Soviet Union threatened to halt or greatly diminish the flow of immigrants by imposing a prohibitive tax on anyone wishing to leave. The adoption of the so-called Education Tax came just as the Nixon Administration was asking Congress to extend MFN to the Soviets.

It was in that context that "Scoop" introduced his amendment to prohibit the granting of MFN status to any non-market economy that denied its citizens the right and opportunity to emigrate, or that imposed unreasonable taxes as a means of controlling immigration.

The amendment was eventually modified to allow the President to waive this restriction if, and only if, a waiver would promote the cause of free emigration. At the time, the Soviets lobbied unrelentingly to defeat Jackson-Vanik. As part of the effort to defeat it, they dropped the Education Tax and allowed the number of immigrants, many of them of Jewish origin, to rise sharply.

When it passed in 1974 after 2 years of debate, the Soviets responded by reducing the flow of immigrants to the level that, ob-

tained before the increase, aimed at discouraging the amendment's passage.

Eventually, the number began to rise again as the Soviet authorities struggled to contend with the linkage they abhorred but were unable to break. Hundreds of thousands were able to leave the Soviet Union and find freedom in the west, many in Israel and the United States, because Jackson-Vanik first gave them hope, and when they defied the authorities and demanded visas, protection as well.

Jackson-Vanik remains the law today and it is with respect to the waiver provision of Jackson-Vanik that the question of MFN for China has arisen each year. The premise of Jackson-Vanik was simple. If the Soviet Union wanted trade concessions from the United States, MFN status, and eligibility for credits, they could earn them by letting people go. Both the benefit to be gained and the price to gain it were clear. The pragmatists in the Kremlin could make a choice, and it was a plausible choice.

We were not asking Brezhnev's Russia to transform itself into a parliamentary democracy. We were not asking for free speech or freedom of political association, not because we did not value those instruments of democracy or believe in the human right to speak and to associate freely, but because we thought such demands were more than the traffic would bear, more than we could reasonably hope to achieve. More exit visas was plausible, democracy then was not.

"Scoop" believed that the right to emigrate was first among human rights because it alone could end the suffering that resulted when citizens were denied any or all other human rights. Emigration was the ultimate escape to freedom; countries that could not imprison their own people would be compelled to make life tolerable for them. Eventually, this would lead to greater freedom.

I believe "Scoop" was right, and I urge the committee to support the continuation of Jackson-Vanik as it relates to Russia. The Russian door must never again be closed to emigration. The prospect of an annual review is the best chance we have of discouraging those in Russia who might wish to turn back the clock and again limit the flow of emigration.

I believe that in recent years the demands made on the Chinese authorities as a condition for a Presidential waiver allowing MFN status to continue, has been far too ambitious.

For unlike the choice "Scoop" thought to put before the Soviet leaders, a focused, narrow, quid pro quo, the Chinese have been asked to accept a broad program of human rights that their controlling Communist Party could not survive. With comprehensive human rights in China, the Communists would not last a week.

I can stop there. I am not far from the end.

The CHAIRMAN. Go ahead.

Mr. PERLE. If it were up to me, I would leave the waiver provision in place and use it to insist on exit visas for those brave Chinese reformers who run afoul of the authorities, but I would not hold MFN status hostage to an unrealistic insistence on comprehensive human rights in China.

Mr. Chairman, I believe that trade between the United States and China has been, and can continue to be, a force for liberaliza-

tion. When private industry grows and flourishes, the citizens' abject dependence on the state is sharply diminished.

An alternative source of wealth and material well-being means an alternative to the central power and control of the Communist Party, and that must lead to a lessening of the totalitarian authority with which the Chinese Government now abuses its hapless people.

If we are on the side of greater freedom for the people of China, we will look for ways to encourage trade between China and the outside world. We will encourage the private sector in China, and we will encourage the open flows of information without which a modern industrial society cannot succeed and prosper.

If we have an opportunity to return to it, I have a comment on the WTO, but I do not want to abuse the time limit, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Perle.

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

The CHAIRMAN. I would call, next, on Mr. Kagan, then Ambassador Lilley.

STATEMENT OF ROBERT KAGAN, SENIOR ASSOCIATE, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, WASHINGTON, DC

Mr. KAGAN. Thank you, Mr. Chairman. I do appreciate the committee inviting me to this hearing, and also just for holding the hearing.

I think it is important that we look at our trade relationship with China, as we would with any other great power, in a broader context, in a broader strategic context, because the context is really crucial.

Everything depends, as we look at a trade relationship with a country like China, on what our expectations are of the future in a strategic sense.

If we anticipate that everything is going to go smoothly, if U.S.-China relations are simply going to get better and better, if there is no prospect for conflict over any fundamental issues of interest, then by all means we can think of trade as an unmitigated benefit.

On the other hand, if one thinks that there is a danger of conflict with China, then one obviously would want to think of trade in a different context. You might want to think of trade as being one of the many elements of a strategy that you were going to apply to what could be a conflictual situation.

Now, most of the discussion about trading with China focuses on a very important assumption, that economic liberalization will lead eventually to political liberalization.

This argument is embedded in every justification that I have seen for expanding trade relations with China, and we as Americans certainly like to believe that this kind of linkage exists.

We believe it exists in our own country, we think we have seen it elsewhere. But I think we have to acknowledge, nevertheless, that it is still a speculative question.

We do not know exactly what effect economic liberalization will have on the political system in China, and more importantly, and I think crucially for our strategic interests, we do not know when this will occur.

If one were looking at Germany in the 1890's, a time of rapid industrialization and economic growth, one would have anticipated that this economic liberalization would lead eventually to democracy, a function of democracy in Germany. And sure enough, by 1950 there was a fully functioning democracy in Germany. The only problem, was the two World Wars that occurred in between.

I think we face a similar question. I do not mean to be comparing China to Germany, although many have. We face a similar question.

Will the effects of economic liberalization which our trade with China may, in fact, spur, happen in a time frame that is useful for our strategic purposes? I fear that we just cannot be sure that we are going to see an evolution in China soon enough to make a big difference for our strategic concerns.

Since I think it is entirely possible that we could wind up in some kind of conflict with China over Taiwan, perhaps not this year, perhaps not next year, but some time in the next 5 years, it is for those purposes irrelevant whether China becomes a democracy in 2025, 2030, or 2040 if we are going to be in a conflict with China in the next 5 years over Taiwan.

If we might be engaged in a competition with China over the regional balance in East Asia, which I think is going to come at some point in the next 10, 15, or 20 years, it will not matter if China is a democracy in 2050 if we have already joined that struggle in East Asia.

Now, again, as I say, it all depends on what one's perspective is. My perspective is, we are in for some kind of strategic competition certainly, and possibly conflict, with China in a time frame that is going to be shorter than anyone, I think, in this room would expect, a fundamental evolution of internal Chinese policy in terms of political reform.

It seems to me, if you look at trade, then in that strategic context you have to begin to think of it as one element in an overall strategic approach to deterring conflict with China.

It seems to me, if you do look at it in that broader strategic perspective, it seems to me you do not want to give away one very important tool of leverage that you may have with the Chinese.

We certainly wanted to use such leverage when we were dealing with other competitive powers in history, certainly with the Soviet Union. I do not see why we would want to give up our ability to keep pressure on China, both in terms of deterring its external misbehavior and also in terms of affecting its internal political decisions.

It also seems to me that we have got to at least take into account the down side effect of trade with China, or the down side effect of our making China a wealthier country.

It seems to me, if one is worried about a conflict with China over Taiwan, or another kind of conflict, then one does not want to make it easier for China to have the money to acquire weapons which will eventually be used against us, like the recent acquisition of Soviet destroyers, the sole purpose of which is to deter the U.S. Navy. It seems to me we want to be very careful about the transfer of dual-use technologies.

I see that my time is going to come to an end, and I want to end on one very important point. The overall decision we are going to be making about trade issues with China are important, but so is the timing of those decisions if you are thinking in a strategic context.

What I am most concerned about right now, is that the Congress' first official response to China's very, very serious, belligerent warnings to Taiwan before the elections, the first official response will be to vote permanent normal trade relations status for China. I think that will send a very bad signal to the forces in China.

I think it will encourage hard-liners within the regime to be able to argue that, we can take a belligerent attitude toward Taiwan and the American response is to give us permanent normal trade relations status, not to warn us.

So my final point would be, whatever e'se Congress does, I would hope either that it will delay the vote on permanent trade status for some months until we can see how China responds to the election of Chung Swaybien, or at the very least, that it will pass the Taiwan Security Enhancement Act as its first official response to Chinese belligerence, not PNTR. Thank you. I am sorry I went over.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Ambassador Lilley, we are delighted to have you. We saved you for last because we understand that you have just returned from Taiwan, where you observed the election. We are eager to hear what you have to say about that, as well as China-U.S. relations. Welcome.

STATEMENT OF HON. JAMES LILLEY, RESIDENT FELLOW, THE AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC., FORMER AMBASSADOR TO THE PEOPLE'S REPUBLIC OF CHINA

Mr. LILLEY. Well, Mr. Chairman, in response to your suggestion, I have here Taiwan elections as my first point. The second point, the Asia Development Bank case handled as a practitioner and how to get things done. Third, U.S. arms sales to Taiwan and the coming together historically between China and Taiwan, and fourth, what the U.S. should do.

Let us start with a few comments. I have heard this Chinese term, "we will listen and watch," about 77 times. It is a technique on the Chinese part, both to buy time and to make you the guilty party, to make you prove yourself to them. But at least it means that they are going to tone down for a while, in terms of their belligerence.

I do not think this term should get into our vernacular, like "renegade province" and "pro-independence candidate". This is our media stirring up the pot, getting both China and Taiwan angry.

But let us get to the Taiwan election. It reminded me of "The Last Hurrah" about Frank Skeffington or Mayor Curley in reality, the Irish in Boston. But this is not "the last hurrah", it is the second hurrah, the second time in the 5,000 years of history of China we have had a democratic election, and had a president elected.

But it is important. I think the message probably should go over to China, that you can change things by the ballot box and not by power out of the barrel of a gun. I think that is important.

Who is the winner and loser in this election? Let us look at China, first of all. Yes, everybody runs around and says they lost, they lost face because of the "pro-independence candidate", Chen Shui-bian, got elected. Let us look at it another way: China was also a winner.

First of all, their nemesis, President Lee Teng-hui, on whom millions of words of invective men poured allegedly, supported by Americans. Lee has left. He is politically finished. He is probably going to resign tomorrow. Why can China not declare a victory and stay home? They won on this one.

Number two, Chen Shui-bian, the so-called "pro-independence candidate" since 1991, has moved to the center. Significantly, he did not mention independence once in his statement after he won. China has won on this one. Declare a victory, again.

Number three, through a myriad of sources they let everybody know that James Soung was their preferred candidate. He came within 2 percent of winning. He was and is very popular. He was all over the island. He is against theater missile defense for Taiwan, he will not support Taiwan in the U.N., and he is for the opening of the three communications (SAN TONG) to China. He is from the mainland.

So what I am saying, is: China can declare a victory. But we are dealing with some very delicate issues in Taiwan right now. First of all, there is a very nasty rumor spreading all over that Lee Teng-hui, in fact, supported Chen Shui-bian, the "pro-independence candidate". I believe, he did not. He got a poll maybe two weeks before the election telling him that his man, Lien Chan, was 10 percent behind. Lee was furious. He said, get me another poll. They later came back and said, Lien is now 6 percent ahead. Lee told us this the day before the election—that Lien was 6 percent ahead.

Number two, there is a nasty rumor going around that James Soung and Lian Chan colluded with China to get the Zhu Rhongji to make his belligerent warlord speech to discredit Chen Shui-bian terming him the war candidate.

It reminded me of the 1964 election between Goldwater and Johnson. The picture of a little girl with a flower, and the mushroom cloud behind her. They were saying, Chen Shui-bian wants war.

The people of Taiwan, the people in China, and the sycophants here, all saying he was "the war candidate". They are however trying to grab smoke because Chen has said all the right things to date. So I say, China, look at this election as a victory.

Second, the Asia Development Bank (ADB) case. We hear this statement made all the time that China cannot compromise on the issue of sovereignty and unity. Wait a minute. We need to get to the real world as seen by a practitioner's sense. We had a case in 1985 where Taiwan was in the Asian Development Bank, and China wanted in for reasons of money.

The first position taken by China and its American supporters here, is Taiwan gets kicked out; the World Bank formula was ap-

plicable. China comes in, Taiwan out. It is two Chinas, otherwise. You cannot do it as it violates the three communiques.

Two and one-half years later, both China and Taiwan were in. Why? Number one, Taiwan needed security. They got the Indigenous Defense Fighter (IDF). So we showed Taiwan that we supported its security.

Number two, Taiwan accepted a move that would dilute its position on sovereignty namely, the Republic of China its previous name became Chinese, Taipei, a name requested by China.

Number three, China compromised because we have two Chinese official entities in the ADB, an official organization. Arms sales can mean a coming together. China supporters run around saying U.S. arms sales to Taiwan are disruptive, of Taiwan-China relations, of U.S.-China relations. It is therefore a bad thing. History does not however support that contention.

We gave Taiwan assurances through the Taiwan Relations Act (TRA) in April of 1979. This was bipartisan passed overwhelmingly by both Houses of Congress. Six months later, Ye Jianying, the marshal, comes out with his nine points, one of which was peaceful reunification a major shift from the previous more militant liberation of Taiwan. There were other factors, of course, but the chronology is compelling.

Second case, early 1980's, we supported Taiwan with needed defensive arms, and, President Reagan gave Taiwan spiritual support. What happened? Taiwan opened up to China in 1987, it was an unprecedented opening and it was done because Taiwan had the confidence to move ahead. China responded favorably and trade, tourism and exchanged blossomed.

Number three, F-16 sale in September of 1992. Retractors yelled that this broke the August 1982 communique limiting arms sales to Taiwan. This was the end of the world. Hysterical memos poured out of State saying you cannot do this. What happens? Two months later, China and Taiwan agree on a one-China formula with different interpretations. Four months later, they are sitting down in Singapore and talking openly for the first time since 1949.

So I am saying arms sales have to be handled skillfully and the timing has got to be good. Obviously we cannot make the case that arm sales ipso facto will improve relations. But the nay sayers have to make a better case that they do.

Finally, what should the U.S. do? Economic globalization is in our interest, and WTO is part of this process. The way some people (protectionists, chauvinists) are fighting it in China tells you how important it is. The bad guys do not want it so extend PNTR to China. It is important.

It is also a good deal for the United States. We should not run around saying that PNTR and WTO are going to change China. That becomes "peaceful evolution" and feeds the hard-liners. They will say, see, it is a trick by the Americans to cause problems in China, to change our regime.

We are passing PNTR in America's national interests. Nixon said he came to China in America's interest when he first went to China in 1972, and the Chinese have never forgotten it. They said, we finally have met an honest American, Richard M. Nixon. Nixon also said no force should be used on Taiwan. The U.S. has to do that.

Our rule still is, no use of force. Stick to that one. It helps keep war away.

Third, support Taiwan in its hour of need. I am not saying you give them everything they want, but I am saying right now, with the difficulties in transition, which is very rough, Taiwan needs U.S. support. Chen has to take over a very complicated situation. If we pull the rug out from under him or if China starts to threaten again, it could become a bad and dangerous show.

Finally, we have to manage our affairs with China well in this context. We have to provide incentives and disincentives for their behavior. We have to encourage them to go on a peace offensive. We have the tools for it: the Taiwan Security Enhancement Act, arms sales to Taiwan, the Geneva talks on human rights.

If you get a balance here, and a multifaceted policy toward China which deals with military adventurism and stresses economic cooperation and strength, I think you will have a good policy that will work. Thank you.

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

The CHAIRMAN. Thank you, Mr. Ambassador.

Ambassador Sasser, having worked with the Chinese in many areas, how would you judge the likelihood that they will abide by their commitments to open the Chinese market?

Mr. SASSER. Well, Mr. Chairman, I think that they will make a concerted effort to abide by the commitments of the WTO agreement. They have already set in place educational efforts to try to educate the officials out in the provinces, the lower levels of the bureaucracy, as to how these fixtures of WTO will affect them.

Now, having said that, I think we have got to be realistic. The enforcement of the WTO provisions and the opening of the market is going to be uneven, I think, in certain areas of China. But the government itself, I think, is going to make every effort to try to live up to their agreement as far as the WTO is concerned.

There is an old saying in China that the mountains are very high and the emperor is far away. The thrust of that is, sometimes on a local level you can do what you want to independent of what the central government wishes to be done.

The central government is aware of that and they are, as I say, making efforts now to try to instill the discipline to enforce market openings and the WTO strictures already. But it is going to be, frankly, an uneven enforcement at the outset and it is going to take some time. We cannot expect enforcement instantly.

I think the best example of that, is the intellectual property rights agreement that we entered into with China some years ago. Initially, the enforcement, from our standpoint, was unsatisfactory. We came to the point of having some very pointed discussions, even acrimonious discussions, with the Chinese Government over that.

But eventually, they got their enforcement act together and now they are enforcing the intellectual property rights agreement with us, I think, quite well. I think that bodes well for the marketing opening that we can anticipate in the future.

The CHAIRMAN. Mr. Perle, you, of course, have been a tireless advocate of our National security interests throughout your career. In your view, would the granting of PNTR that would allow our ex-

porters access to China's market be inimical to our National security interests?

Mr. PERLE. Well, I don't think that grant, in itself, is inimical, Senator. But I do believe that, within the context of trade between the United States and China, which I think on balance is a good thing, there is a great deal we could do to mitigate some of the dangers.

For example, our policy with respect to the export of sensitive technology has been dangerously inept. Whole factories producing advanced military equipment in the United States have been dismantled and shipped to China, where they are now engaged in developing their military capability.

I think we have no interest in seeing the growth of Chinese military capabilities. It is not good for us, it is not good for our allies in the region, it is not good for stability in the region.

I think the Chinese are ambitious, and that ambition is limited only by capability. So while, in general, I think the promotion of the private sector and trade between our private sector and the Chinese private sector is a good thing, we should be very careful about the export of advanced and sensitive technologies.

I believe we should draw the distinction between business with the private sector and the state enterprises in China, and in particular those state enterprises that are run by the Chinese military.

It seems to me quite foolish for us to be customers of Chinese military enterprises, which only has the effect of strengthening them to the detriment of our friends and allies, and ultimately the United States.

The CHAIRMAN. I would like to ask you both, former Senator Sasser and former Defense Secretary Perle, if you were advising the President—and I know you both have said you do not speak for anybody but yourself—what would you advise the next President to adopt as the key principles of our China policy? Mr. Sasser?

Mr. SASSER. Well, I think the first thing would be to continue the policy of engagement with China, to continue to engage China on a broad front, diplomatically, economically, military exchanges, to try to continue to build on those areas of cooperation which are essential to both of us, from the national security point, that is, control of weapons of mass destruction, continued cooperation on keeping a nuclear-free Korean peninsula, continued and enhanced cooperation in trying to deal with the problem of nuclear proliferation in Southeast Asia, a whole constellation of things that I think really fall under the category of engagement.

Part of this, is our enhanced economic relations. Now, I said earlier that the United States market is a target for 40 percent of China's exports. One of the important realities, I think, of normal trading status for China, is this opens up the Chinese market to American exports.

I think this is going to be a very valuable economic tool for American manufacturers, American workers, our service industries, et cetera. But equally important, Mr. Chairman, I think that as more American business expands in China, it is going to have a very liberalizing effect on the political regime there. I have seen that with my own eyes.

The CHAIRMAN. Thank you, Mr. Ambassador.

Mr. Perle?

Mr. PERLE. Senator, I had a chance to observe Chinese commercial practice at close hand and it would be hard to imagine a more outrageously predatory behavior than that practiced by Chinese industry, and especially the state-run industries. They will lie, cheat, and steal on a breathtaking scale.

It would be a great mistake to expect a level playing field, because in China there is no level playing field, not even for private Chinese enterprises, much less foreign ones. Any business with experience in China, I believe, whether American or European, will tell you that.

Now, what should we be doing? What should the next President do? That, in fact, was how I would have ended my prepared remarks, so I can be very brief about it.

First, with respect to human rights, we would zero in on plausible objectives, like freer emigration, when emigration is most necessary to protect those who are engaged in the struggle for human rights. We must not allow people who are trying to improve the human rights situation in China to languish in jail. In the extreme case, they must be permitted to leave China.

Second, it would comprehend the liberalizing potential of the growth of the private sector in China and it would avoid in every possible way strengthening corrupt and dysfunctional state enterprises which, in fact, are a drag on the economic development that we all hope will bring about political change.

Third, it would have a security dimension in which we would think twice before importing or exporting services and technology with significant military implications. There is no reason why we should be buying products from the Chinese military industries, and there is no reason why we should be exporting sensitive technology that is only going to develop their military capability.

Finally, we should be clear, and clearly skeptical, about the benefits to be found in Chinese membership in the WTO. It is not self-enforcing. Unless we enter this with a plan for a vigorous defense of our rights under the WTO, when those rights are violated—as they surely will be—we will be bitterly disappointed. So we should go into this with our eyes open.

The CHAIRMAN. Thank you. My time is running out.

But Ambassador Lilley, let me ask you. Would the grant of PNTR in any way undercut our ability to advance our interests with the Chinese or with our strategic partners elsewhere in the area?

Mr. LILLEY. I think permanent PNTR would, in fact, advance our strategic interests, both with China and our partners in the area. Our partners in the area were appalled when we attached human rights conditions to MFN in 1993. There was universal condemnation of that move. Not that we have to follow their lead, but when we are all alone out there, it is not so good for China policy.

Second, in terms of China, I think basically that you are feeding the forces of change. But I would stress, do not blow your horn on this one, because you are going to feed the guys inside that do not like it, and there are a lot of them that do not like it.

We saw that in Joe Fewsmith's analysis of the WTO decision in China, where he outlines the power blocks that went after Zhu

Rongji when he came back after his disastrous trip here in April 1999. They tore him apart, but he prevailed in November, with President Jiang Zemin's help, in November over this great opposition. So my sense is, you are feeding a system that helps our exports, and that is the way I think we should sell it. It helps the United States.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, I was, as they say, necessarily detained and I have not been able to welcome my old colleague and friend, the Ambassador, Mr. Perle, Ambassador Lilley. I want to yield my time to the others today. But can I just note that there has been some considerable progress on this matter since the first hearing which you held a month ago.

For the information of all, we finally got from the administration the bill that they would like us to pass, and Senator Roth introduced it this morning, with myself as a co-sponsor. I believe you plan to mark up a bill.

The CHAIRMAN. Very quickly, that is correct. We, of course, hope to keep it clean.

Senator MOYNIHAN. Keep it clean. Thank you, sir.

The CHAIRMAN. Next, Senator Grassley.

Senator GRASSLEY. I am going to start with Ambassador Lilley. This is a very general question, maybe not as easy to answer shortly as I would like to have you.

But we have this kind of debate going on whether or not the United States should view China as a strategic partner, as the President has put it, or more as a strong competitor with certain shared interests. I would like to have from your expertise what model of U.S.-China relationship is in our best national interest as you see it in the broad scope.

Mr. LILLEY. Well, Senator, certainly in the 1980's China was in fact a strategic partner, but we did not call it that. We worked well with the Chinese to destroy the Russians in Afghanistan, and this contributed to the fall of the Soviet Union. We worked with China to get a peace agreement in Cambodia, and this led to the Vietnamese pull out.

We worked with the Chinese effectively to cover Soviet nuclear and missile developments from our northwest sites which was a very successful joint effort. That was strategic cooperation. That has since evaporated because we now differ on a number of major items.

First of all, the Japan-U.S. security treaty. The Chinese are dead set against it; we are for expanding it. Number two, we differ on the use of force and the developments in Taiwan. As you know, we sent aircraft carriers off Taiwan in March of 1996 after Chinese fired four missiles off Taiwan and had live fire exercises. Two years later we were saying we were getting a strategic partnership with them. We were working towards that goal.

I do not think you get things done by attaching labels to them, you get the things done first and then you can perhaps make a convincing case that you have a strategic cooperation.

Right now, it seems to me, to use an old Chinese expression, it is "qiu tong cun yi," you are looking for areas of agreement, and you are putting aside major differences.

We have good reasons to agree with and to work with China on trade matters, on continuing proliferation, and in other areas such as a dangerous North Korea. We are not working with China on Japan. We are trying to move on this on the second track.

We are trying to accomplish a cooperative and less confrontational approach on Taiwan. Right now, as I say in my testimony, there is a chance in Taiwan to get the Chinese to begin to come around on some issues. And if we play it right, we should be able to build a situation in Taiwan where we are actually working more in parallel. Once you get that done, then you can talk about strategic partnership.

Senator GRASSLEY. My next question would be to Senator Sasser. I am cognizant of what you said in your very first sentence, that you were not here representing anybody in the administration.

But my question gives me an opportunity to put out a frustration that we Republicans have sometimes when the President takes a stand on trade issues. So let me read this question and then ask you to respond, if you can.

The President obviously is pushing very hard for PNTR with the submittal of his bill, but we are concerned about the level of the President's zeal for the bill. There are a lot of us here who remember that, in 1997, President Clinton appeared to be working at the eleventh hour for the passage of legislation to renew the President's fast-track trading negotiating authority, but he ultimately caved when faced with heavy opposition from labor union membership. He even blamed so-called Republican isolationists for his own failure to win approval of his own bill.

My question is, what is your view about how hard the President will work to get this bill passed, given the heavy labor union opposition, and do you think that if he does not succeed, he is going to blame Republicans for it?

Mr. SASSER. Well, as I said, let me say to my good friend Senator Grassley, once again, I am not here speaking for the administration. I do not really know what is on the President's mind, other than judging by his actions.

It appears to me that the President and this administration are dedicated wholeheartedly to trying to secure passage of PNTR. The President himself has made at least one very forceful speech, and I think perhaps a second, within the last three weeks.

Secretary Daley has been put in charge of the overall operation to try to secure passage. My understanding is that they are running a so-called war room operation both out of the White House and out of the Department of Commerce.

Secretary Daley himself has started a comprehensive speaking tour across the United States. He is conducting a tour of China, I think, with some distinguished members of the Congress, some who may be on this committee.

So it is my sense that this administration is very much dedicated to this. They fought hard and worked very hard to get this agreement on WTO with the Chinese Government, and they certainly do not want to see it go down the drain because they cannot secure permanent normal trading status.

Now, if it fails, whether or not the President will blame the Republicans, Senator Grassley, I have no idea on that subject. We will just have to wait and see. Your guess is as good as mine, sir.

Senator MOYNIHAN. I will give you a hint, Jim. [Laughter.]

Senator GRASSLEY. Secretary Perle, let me quickly ask a last question that I think you know a lot about, military things around different countries.

Critics of permanent normal trade relations for China say that China's military aggressiveness and the fact that China recently implemented a 12 percent increase in its military budget are reasons to oppose PNTR.

But I think that you could probably make a case that these are reasons to vote for it. That is because China's military gets a lot of its funding from the businesses it owns. If those businesses are forced to compete in the open market, they would be a lot less profitable.

So these two questions. Do we know exactly how many businesses are run by the People's Liberation Army, and exactly what, if anything, is China trying to do to protect these businesses from new and open competition?

Mr. PERLE. Senator, I cannot tell you the number. It is possible that somebody could hazard a guess. But as in all state-controlled economies, the linkages among state-operated entities, military and non-military, are significant and not always readily apparent.

Within the overall context of growing trade between the United States and China which I think has benefits that we should welcome, there is room, there is scope, to try to limit the extent to which one result of that trade is a strengthening of the Chinese military. I have seen no serious effort within the current administration to devise a set of policies that could achieve that purpose.

So, for example, we have been profligate in the transfer of sensitive technology. We have done things like encourage the development of industries that directly benefit the military capabilities of China, for example, the space launch industry.

So I would hope that the committee, in considering whether to recommend a yes or a no vote on the larger proposition, would think hard about ways in which policy, including policy mandated by statute, could be developed that would mitigate the adverse consequences of this expanded trade, which would be a strengthening of the Chinese military.

Mr. SASSER. Could I just amplify on that for a moment, Senator Grassley? Two years ago, if memory serves me correctly, or two and a half years ago, the Chinese Government embarked on a program of divesting the People's Liberation Army of businesses.

Now, that has gone along fairly successfully. Many of those businesses range from being in the grain business to bring in the scotch whiskey importing business, all up and down the line.

Now, the government moved to get the PLA out of these businesses because, one, it was a major source of corruption in the system. They have done pretty well in moving them out.

Now, I think we in the United States ought to have a mixed feeling about that because when you had a People's Liberation Army that was more interested in making profits, and more interested in perhaps smuggling operations, more interested in running their

businesses than they were in running their military, they were much less, I think, formidable from a military standpoint. But I think we can say with some degree of certainty now that the military, their business activities, have been sharply curtailed.

Now, this is one reason you are seeing the Chinese military budget go up, because many of the profits from these businesses were used by local military leaders to house the troops, to feed the troops, to clothe the troops, and that sort of thing.

So as the business activity goes down, there has been a necessity to raise the military budget itself simply to sort of maintain the status quo. So I, for one, am not alarmed by these statements about a 12 percent increase in the Chinese military budget. A 12 percent increase in the Chinese military still, by the most optimistic figure, puts it at \$45 billion.

The last time I looked at the CIA web site, they were saying the Chinese military budget stood at \$9.8 billion, which of course I think is an understatement. But when you contrast the Chinese military budget with the budgets of the Republic of South Korea, certainly with the budget of Japan, they are below, I think, both of those countries.

As a matter of fact, the most powerful navy in the Northern Pacific now is the Japanese navy, with the Russian navy rusting, the Far East navy rusting in Vladivostock. So I am not concerned. I do not share Dr. Perle's concern about the increase in the Chinese military budget.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Robb?

Senator ROBB. Thank you, Mr. Chairman. Thank you for this hearing. It is an important topic and you have got some distinguished witnesses, and another panel to follow.

I am resisting the temptation to put on my former foreign relations hat or my current armed services hat with these particular witnesses, because they have appeared before those committees and we have benefitted from them.

Let me ask one question of all four of the witnesses for this panel, if I may. Implicit in many of the discussions that we have had about whether or not to grant permanent normal trade relations or whether or not WTO is a good thing, notwithstanding our ability to influence that particular decision, is the question of how much does U.S. policy toward China and Taiwan actually influence decisions and actions that are made by the Chinese Government? Senator Sasser, would you take that one?

Mr. SASSER. Well, I think that is an excellent question, Senator Robb. A wise old politician said one time that all politics are local, and I think that is certainly true in the People's Republic of China.

Their political system is driven by what the leadership views as their political needs. One of their political needs, to some extent, is to enjoy a good relationship with the United States. I think that is secondary to other domestic political needs, and their domestic political needs, number one, are to keep that economy going and keep it rolling.

What you have here, is a leadership in China now that these are not the old revolutionaries. They do not get their legitimacy to rule because they were Mao Tse Tung or Deng Xiaoping. The leaders

of China now are technocrats and they do not get their legitimacy from the ballot box, as the members of this committee do.

Senator ROBB. But are Xiang Xi Ming and Zhu Rongji actually influenced positively or negatively by our actions, is the question.

Mr. SASSER. Well, and I am going to get to that. Their legitimacy comes now from being able to grow that economy and elevate the standard of living of the Chinese people. Now, if that economy stalls out they are in serious trouble. Part of the ability to grow that economy is through international trade, and the United States is a large factor in that.

So they need to meet their internal domestic political needs, but part of those internal domestic political needs are growing the economy, and the U.S. is part of that because we are a large market for them and we are a source of direct foreign investment in their economy.

Senator ROBB. Secretary Perle? Thank you, Ambassador.

Mr. PERLE. Of course, the government does not control that economic relationship so the Chinese benefit from that relationship independent of what the government may think about it, Senator. But there is one area where what we do is vitally important, and that is with respect to Taiwan.

If the United States is resolute in the proposition that differences between Taiwan and the People's Republic must be settled without resort to force, and if we are prepared to assist in the defense of Taiwan should China test that, then I think there will be no military action, no significant military action, in the Taiwan Straits.

If we are unclear, ambiguous, if we make empty gestures, then I think we run a significant risk that there could be military action. So in this one particular, what we do rather more than what we say—but what we say is also important—what we do is vital to the peace and stability of the region and to the protection of Taiwan, and the protection of any hope for a peaceful evolution there.

Senator ROBB. Could I just get a brief answer? I did not realize that my time would expire with a single brief question. But Ambassador Lilley and Mr. Kagan, could you just add anything that you might want to add to what direct influence it has on the actions taken by the Chinese, and the policy?

Mr. LILLEY. Yes. I was involved in one of the early approaches in 1977 when we went to them with an original proposal on "risk" oil contract. A year and a half later, Deng announced his economic opening and reform. I am not saying these are necessarily related, but I am saying Deng started to break up the monopoly system of state-owned enterprises, and invited foreign investment in, partially because the Americans were there in 1977 ready to participate.

I think, second, I agree with Mr. Perle, that if you draw the line about their military adventures in the Taiwan Strait, they will behave more realistically. We should get an improved response from them. Especially if they turn to other means to influence Taiwan when the military option is closed.

Senator ROBB. Thank you. Mr. Kagan?

Mr. KAGAN. I just would say that I think the Chinese are consumed with what the United States thinks or does or any given issue, whether it is economic or military. We are foremost in their

thinking in terms of their ambitions in the region, their ambitions as a power, our effect on their political and economic system.

I do not think they take practically any decision without calculating what the United States is responding, and I think we can see it right now in terms of their effort to try to keep the lid on their own rhetoric as this vote is pending with regard to Taiwan.

Senator ROBB. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Mack?

Senator MACK. Thank you, Mr. Chairman. First, I want to welcome back Senator Sasser. It is good to see you. I appreciate so much the hospitality that you showed Senator Lieberman and I when we visited China a few years ago.

Mr. SASSER. It was our pleasure. Thank you.

Senator MACK. It is good to have you back.

I want to, first, pose a question, I think, to Robert Kagan. It has to do, and you touched on this in your statement, there is an idea that trade is a miracle tool that brings about the liberalization of politics, the economy, and so forth, and people draw from that that the collapse of the Soviet Union occurred as a result of trade. What are your thoughts with respect to that?

Mr. KAGAN. Well, it is a good question. I am glad you brought it up. I even read the Wall Street Journal's otherwise always intelligent editorial that recently suggested that somehow American trading with the Soviet Union was ultimately what brought down Communism, and I was rather astonished to read that, and I am sure Richard Perle would be astonished with that view, since, in fact, the opposite is what occurred in the Soviet Union. Gorbachev undertook political reform in order to achieve economic reform.

One of the reasons he carried out the Glasnost policy was to try to break through the entrenched bureaucracy which was opposing economic change. So as a matter of fact, in the Soviet Union political change preceded economic reform, it was not the other way around.

U.S. trade with the Soviet Union was negligible in that period. So I do think it is important, because there is a certain kind of sloppy comparison made—I do not know why it is made—between how the Soviet Union fell and how Chinese Communism might fall.

Senator MACK. Thank you.

Mr. KAGAN. Thank you.

Senator MACK. Secretary Perle, I want to raise a question also that involves Russia. If China is granted PNTR and is accepted into the World Trade Organization, should Russia expect similar treatment?

Mr. PERLE. Certainly not, if one is looking at this from the point of view of American interests. I think it would be a great mistake to do in the case of Russia what is proposed in the case of China, which is to abandon the Jackson-Vanik requirement for annual review.

The annual review, as it relates to Russia, is still implemented in the narrow, but I think effective, context in which it was initially proposed. That is, the only issue on the table is free emigration. Because emigration from Russia now is free, it is not really an issue, but that amendment remains in the event that there

should be an unanticipated change in Russia and a new leadership is tempted to shut that door once again.

We have in place now a piece of legislation of historic proportions as it relates to Russia. I think it would be a tragedy to remove it and offer even a slight encouragement to some future Russian leader, and we do not know what is going to happen in that troubled country to revert to the old policies of imprisoning its own population.

Senator MACK. Very good.

Ambassador Lilley, let me ask you a question with respect to Taiwan. I would like to get your thoughts on Taiwan's accession to the WTO. Specifically, I would like to hear your thoughts on the likelihood of Taiwan entering the WTO alongside the PRC.

Mr. LILLEY. Well, I think Taiwan should definitely be in. I think the deal has been made implicitly that Taiwan would enter right after the PRC. I do not believe this is in writing, but it is an accepted compromise.

Senator MACK. You do not anticipate that China would block?

Mr. LILLEY. I think they might play games, yes. I have this in my testimony. I think Taiwan is concerned that, at the last minute, China will change this routine of Taiwan entering as the Customs territory, and could add in something some other condition such as the Customs territory of China, or do some one-China maneuvering on this at the last minute to see if they can get Taiwan to give in on this to get into WTO.

We have to watch for that and make it quite clear to China that the deal is already struck, and that this could lead to much greater economic cooperation between the two sides, China and Taiwan. They can deal in that WTO forum as equals. It would be good for both sides to be in there, but we probably are going to have to see Taiwan, which has already met all of the conditions, come in slightly after China.

Senator MACK. I wonder if I might get Ambassador Sasser and Secretary Perle's response to that.

The CHAIRMAN. Yes. Please proceed.

Mr. SASSER. Response to your question about Taiwan?

Senator MACK. Yes. And its entry into the WTO, and the timing of that entry.

Mr. SASSER. Well, quite frankly, from my conversations with elements of the Chinese leadership, I get the impression—the strong impression, in fact—they have stated, that they anticipate that Taiwan will enter WTO. Their stipulation was that China come into the WTO prior to Taiwan. Their apprehension was that Taiwan might beat China into WTO. But my impression is that, once China ascends to WTO, that they anticipate and expect Taiwan to come in.

Mr. PERLE. Well, Senator, there is no substitute for a clear understanding on a matter like this, and I see no reason why a clear understanding should not be achieved before China is admitted to the WTO. It need not necessarily be made public, but it should be clear, unambiguous, and resolve all of the issues so that the temptation to which Ambassador Lilley referred is resisted.

Senator MACK. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Ambassador Lilley, you have been our Ambassador in China, in Korea, and representing the United States in Taiwan. In Korea and in Taiwan, you helped, I am sure, the forces of democracy. Those countries have changed from authoritarian rule to, by and large, democratic countries.

Is there anything fundamentally different in China that would prevent the same change? How much would an affirmative PNTR vote help that change? You have been in all three, you know all three quite well.

Mr. LILLEY. At the risk of being facetious, yes, I was in Taiwan and Korea at the coming of democracy, but I did not do it, they did it.

Senator BAUCUS. I am going to give you some credit, too.

Mr. LILLEY. I was as you know a CIA officer for a number of years. When I went to China it was in May of 1989, 1 month before Tiananmen. The Chinese have subsequently come out with the accusation that I currently organized the whole Tiananmen demonstrations, which is a little beyond my capabilities to organize 300,000 people in two weeks. But anyway, I have this Chinese accusation in their Hong Kong press of being the black hand there. I might say, that particular effort failed.

This is a very complex question, Senator. There are, unquestionably, forces in China that want to see this kind of change. You hear it all the time. There are people from China that have been over in Taiwan watching the elections. They are also watching it on TV and they are fascinated by it. Yes, the administration is being bad-mouthed as corrupted by "black gold." They also say it is only a provincial election.

They want to discredit Chen Shui-bian, and I do not believe that we want him to fall into that trap. They tried to discredit Lee Teng-hui and China had a little help from Lee Wei, but some people in the U.S. who jumped on that one and tried to make Lee the bad guy who caused the downturn in U.S.-Chinese relations.

But my sense is, there are positive forces moving in China, but we have to be careful about championing them too much because they are inside China. I know at times past we have tried to have our Assistant Secretary for Human Rights see Wei Jing Sheng at the time of Secretary Christopher's trip. It did end up hurting Wei.

When I was there, President Carter came through and wanted to see the dissidents and we advised him not to do it in person. It would look good back in the States, but could really hurt them. We did arrange for a member of his party to see a dissident's wife.

My own sense is, there are four instruments which can affect the democratic process in China. First, protect Taiwan. Do not let that democratic process be taken over by force.

Number two, try to help all you can democratic forces in Hong Kong. Number three, it is the rule of law that we introduce into China that undercuts the capricious, paternalistic efforts of the Party to interfere with the judicial system. Four, support village elections.

Senator BAUCUS. Does WTO help there?

Mr. LILLEY. I think it does, yes. But do not jump on it and say this is "peaceful evolution". Be careful about that. You might hurt the process because there are people in China who really do not like WTO at all, and they will go after it if we keep telling them that we are going to change their system by using our businesses to infiltrate subversive thoughts. There are elements of range in what we do, but it is very important we handle this with some subtlety.

Finally, I stress that these village elections we have worked with both Republicans and Democrats have done this. It is not changing China much at this point, but they are seeing that the election process does not necessarily bring about the downfall of the Party. In fact, Party people win the elections when they have a good program.

So I believe village elections, rule of law, protecting democracy where it exists help. Even the human rights talks in Geneva where we stand up and bring world pressure on China to change. They dislike it, but it has some effect.

Senator BAUCUS. Yes. I would just like to ask the other panelists, does China's interests in the WTO and also in an affirmative PNTR vote, which after all is only giving China the same trade status that we give virtually every other country in return for vast opening of markets in China in services, products, distribution, investments, and so forth, not help the forces of reform rather than hurting the forces of reform, given the caveat we do not tout it?

Mr. SASSER. Can I answer that, Senator Baucus?

Senator BAUCUS. Yes.

Mr. SASSER. I think that is a very, very important question. One of our panelists a moment ago, and I think quite accurately, characterized what happened in the Soviet Union—the old Soviet Union—when he indicated that Mr. Gorbachev sought political change as a way to perhaps foster later economic change.

Gorbachev went for political change faster than the economy could satisfy. In other words, the economic expectations of the Russian people were elevated and the old economy, the old Soviet economy, could not transition fast enough and satisfy them.

Now, the Chinese say, we are not going to make the same mistake the Russians made. What they are looking for is to fashion and build an economy that, later on, will meet the political demands or the popular demands of a population that is moving in the direction of a liberalized political structure.

Ambassador Lilley spoke a moment ago about the village elections. When Premier Zhu was asked not too long ago about whether or not village elections should be expanded to a higher level, to the county level, his answer was, the sooner, the better. Of course, Premier Zhu Rongji is the primary catalyst now behind pushing WTO and getting China into the WTO organization.

So I think you can make a case that the Chinese are coming at it differently from the way Gorbachev did. Gorbachev was a reformer and he knew that that system had to be reformed and modernized if it was to survive. He tried to reform it politically and the economy collapsed out from under him.

I think some of the more enlightened members of the Chinese leadership are trying to reform this economy and the economic re-

forms that come, and the internationalization that will come in China will, in turn, have a salutary impact on liberalizing the political system. It is not going to make it into a western democracy overnight. It is not going to make it into, certainly, an American democracy. It is going to be an evolutionary process.

What they are trying to do, is to stabilize a country now of almost 1.3 billion people as they build this economy so it will continue to support and broaden the standard of living of the people. I think there are many in the leadership that see this also as an instrument of liberalization of the political structure over a period of time.

Senator BAUCUS. I wonder if, very briefly, Dr. Perle could just answer.

Mr. PERLE. Senator, I hope you will let me say that I think that—

Senator BAUCUS. I will let you say whatever you want to say.

Mr. PERLE [continuing]. That we are only talking about normal trade is, in a sense true, but I think that is a little bit misleading. The reason for that is, when we talk about normal trade we mostly have in mind the interaction of private sectors, where access to markets is determined by the ability to provide goods and services at the most effective price and to meet the demands of the market.

In the Chinese case, so much of the economy is controlled centrally that even though one may have a nominal and legal entitlement to trade freely, in fact, the state can continue to restrict trade access in very important ways.

Senator BAUCUS. That is true. But different countries are different. We are only talking here about MFN, most favored nation trading status. That is all we are talking about.

Mr. PERLE. No. I understand.

Senator BAUCUS. Right. It is the same that we are giving to virtually all countries.

Mr. PERLE. Right. But when we extend that status to a market economy, we can be reasonably confident that openness is going to be the result, and it probably exists anyway.

In the Chinese case, I think it is a mistake to believe that most favored nation status will, in-itself, open that economy. The decision to open that economy is going to be made by the people who manage that economy, which is why I put the emphasis on the private sector.

The mechanism that you are after here, and I believe in this, is if people are not dependent on the state, they will behave in a way that exerts the human desire for freedom and liberty.

So, to the degree to which there is a private sector and the state does not determine whether you can put food on the table, it is going to lead, ultimately, to a deterioration of Communist rule.

Senator BAUCUS. But the question is, all things being equal, does it help reform or not?

Mr. PERLE. All things being equal, the growth of the private sector in China helps reform.

Senator BAUCUS. Thank you.

The CHAIRMAN. Senator Hatch?

Senator HATCH. Thank you, Mr. Chairman.

I am happy to see all of you again and welcome you to the committee.

Let me just follow on with that, Mr. Perle. It is estimated, more or less, China has 40 ICBMs, moving to 200 within the next 10 years. They have got MERV, Busing Faring failure analysis technology for missile design and testing, they have highly classified antisubmarine warfare techniques, night vision technology, machine tools that are necessary for military production that they could not have had otherwise during the last few years. Many believe they have plans for basically every nuclear warhead in our arsenal.

They also have high-capacity computers, with 10,000 million theoretical operations per second, going to 20,000 MTOPS per second. A lot of people are concerned about this, because if they go to the 20,000 MTOPS per second, to combine the military and the civil, as explained by this administration, peace and war, they will be able to give a lot of priority to military products, it seems to me, and military matters.

Of course, the civilian side will certainly be supporting the military. This is something that is really concerning a lot of people in this country. Have I stated it fairly accurately?

Mr. PERLE. You have certainly identified some very troubling growth in the modern weaponry of China. I think you are right to identify the issue.

The question of the controls on computing power is a technical question on which I have a view, and whether you want to get into that, I am not sure. I think we are less effective when we attempt to control raw computing power because it is now so widely available.

But there is a great deal that we could do—it will not be perfect—to try to control the extent to which the Chinese are developing a powerful military capability, including nuclear weapons, utilizing our technology, and even our designs in some cases. We have been remiss in not taking serious steps to deal with that problem.

Whether you can fashion a policy in the context of the vote that is before you, I do not know. But this administration will leave office without having exerted any adult supervision over the flow of militarily sensitive technology to China.

Senator HATCH. Anybody else care to comment about that?

Mr. LILLEY. I would, Senator.

Senator HATCH. Sure.

Mr. LILLEY. I bring to your attention two little books here. One is called Dao De Jing, in effect, The Way of Peace, and one is Sunzi, The Art of War. Both books, agree on one thing: "To win without fighting is the best way," says Sunzi. But the Dao De Jing says a lot of other things, too.

"To be open and to win over the other side is the best way." That is the old Laozi peaceful solution. I think that the Chinese ought to pay a little more attention to their own philosophers about how to handle things peacefully. That is rather patronizing on my part, but I think it is a truism in the Chinese cultural history.

Let me make a comment on the budget. First of all, I think it is foolish for people to run around and say China is a huge threat.

I do not believe that is right. It is even more foolish to say China is no threat to anyone.

Senator HATCH. Certainly foolish now. But the question portended was is that 10 years from now it may be a different matter.

Mr. LILLEY. Yes. I am getting to that point, sir.

Senator HATCH. All right.

Mr. LILLEY. It is more foolish to look the other way in terms of what we know what they are doing now.

Senator HATCH. Right.

Mr. LILLEY. I have talked to four sensible China scholars who have worked this problem intensively. Mike Pillsbury has looked at their theory and their practice of warfare and their target, and it turns out to be us.

Number two, Mark Stokes has written a thoughtful piece on the way China institutionalizes this thinking into their budgets, into their priorities, into their sciences, and into the systems they work on, the particular weapon systems. It emphasizes the theory of asymmetrical warfare which is aimed at our weaknesses, namely that we will not take losses. We are vulnerable in our carriers, our stealth bomber, and our satellite watching.

Finally, the real problems we have militarily right now with China, as delineated by people in the Pentagon, as I understand it, are two priority: one is their missiles and the other one is their submarines. There are specific weapon systems to deal with these potential threats. We need to reassure but these are the real threats, really, to our friends and allies in the area that over the next, let us say, 10 years. That the threat will not be overwhelming. We can manage them if we and our friend and allies stay strong.

But it takes careful strategic thinking to deal, for instance, with submarines and with missiles. Whether we emphasize theater missile defense or massive retaliation in one case, or whether it is sensors, secure data links, and a ready strike force against submarines. All this has to be worked out by thoughtful people. We have to focus on what China's capabilities are and their intentions and get our own act together in order to deal realistically with them.

Senator HATCH. Mr. Chairman, if I could just finish one last thought on that. We are at, currently, 3.2 percent GDP for our military, going to 3.1, then down to 2.9. How are we going to do that?

Mr. LILLEY. You mean, our budget going down?

Senator HATCH. Right. With our budget going down and the stresses and pressures, as a percentage of GDP.

Mr. LILLEY. Yes. Well, I cannot say about our budget. I watch their budget. And I agree with Ambassador Sasser, that the numbers they give you are phony. Everybody knows that. The question is, how large is the budget? It runs as high as \$90 billion according to some, \$40 billion by most others.

Whatever it is, there is a real commitment to strategic weaponry. The two biggest intelligence gaps we have is what they are getting from Russia and the nature of their exchanges with Taiwan. These are two intelligence gaps we have.

What we see they are getting from Russia, and what we hear, is a modernization of their entire submarine force, going from Kilo

class possibly to Akula class nuclear powered subs. That would really make our navy think.

They may also be getting submarine launch cruise missiles and the air launched cruise missiles which are very effective missiles. We believe this is happening but I do not know the extent of it.

On the missile side, as I pointed out, they are building the solid-fueled, SRBMs and are significantly building up this force opposite Taiwan. They shot the solid-fueled DF-21 off Taiwan in 1996. I think it was Admiral Blair who said, this is the first time I have ever gone into a meeting with an interlocutor who says the deployment of their missiles is their sovereign right, and the deployment of our missiles is their sovereign right. So it is a little hard to get a dialogue going under these conditions.

But my own sense is, we can talk strategy with the Chinese on military matters because we hold a lot of very good cards.

Mr. SASSER. Senator Hatch, if I could just comment on this for a moment. One, I think there is a tendency in this country in some quarters to enormously over-estimate Chinese military capability.

I do not think that you can spend much time around China or in China and watch just what is on the surface you can see of that military and come away from it with a sense that they are in any way a threat to the United States.

In quoting a very distinguished scholar, Michael Mendelbaum, who was commenting on the Chinese and the Chinese capability, he was asked about the Chinese ability to dominate Asia. His answer was, it lacks the power, the ideology, and the will. I think that is perfectly clear.

I mean, we talk about this Chinese weaponry. To my knowledge, they have something—and this has been in the newspapers, so I think we can talk about it—like 15 ICMBs, liquid fueled. It takes maybe 24 hours to fuel these things up. They are targeted not just at us, but at others.

My sense is, the Chinese are more afraid of the Japanese, and they are more worried about the Russians, and they are more worried about the Indians, than they are the United States.

Now, with regard to their ability to generate all this so-called high-tech weaponry, they have been trying to build a jet fighter for the past 15 years that would be a match for our first generation F-16, and they have not gotten that thing moving yet.

So they have moved in the direction now of buying Soviet fighters, and they have bought, I think, 60 to 90 of them. That does not sound to me as if that is a very significant threat. They are having enormous difficulty maintaining them. They cannot keep the engines running on them because they do not have the maintenance capability.

They bought two Russian submarines. Both of them, the last time I heard, were not operating because they did not have the maintenance capability to maintain the generators on them. I mean, this is not a threatening military.

It has been characterized by some of our experts in the Pentagon as the world's largest collection of military antiques. It is large, it is defensive in nature, and it is largely still bogged down in the technology of the 1950's and 1960's. They have got an enormous

way to go. Their inventory of modern weaponry today is less than the Netherlands', to give you some frame of reference.

The CHAIRMAN. Well, I want to thank the panel for the excellence of their testimony. This is probably the most critical vote that we will face this year.

Senator MOYNIHAN. This decade, Mr. Chairman.

The CHAIRMAN. This decade. Absolutely. So your insights and information are extremely helpful, and we urge you to keep in contact with us as we move forward on the legislation. Thank you very much for being here.

We will now call forward the next panel. We have a vote going on, but I think we will try to start, if we can.

Our second panel, like the first, is made up of a number of outstanding witnesses. We are very pleased to have with us John Sweeney, who of course is the president of the AFL-CIO; Mr. Michael Santoro, who is a professor of Rutgers Business School; Harry Wu, who is the executive director of The Laogai Research Foundation; Merle Goldman, who is a professor at the Fairbanks Center of Harvard University; and finally, Nelson Graham is the president of East Gates Ministries International.

Gentlemen, as I mentioned, we do have a vote, but I think we have time to hear the first witness. I would like to call on Mr. Sweeney.

**STATEMENT OF JOHN SWEENEY, PRESIDENT, AFL-CIO,
WASHINGTON, DC**

Mr. SWEENEY. Thank you very much, Mr. Chairman. I am delighted to have an opportunity to appear before this committee on behalf of the 13 million members of the AFL-CIO and our affiliated unions.

As you know, Congress will soon be asked to grant permanent normal trade relations to the People's Republic of China. You should not. An affirmative vote would reward the Chinese Government at a time when there has been significant deterioration in its abysmal human rights record and would significantly reduce our ability to insist upon improvement in the future.

It would also dramatically weaken our ability to insist that China live up to trade agreements that it has already signed and that it routinely violates.

The record is clear. China routinely tramples human rights and religious liberty. It is a massive user of prison labor, and according to the Laogai Research Foundation, operates over one thousand forced labor camps, many of which produce commercial goods.

China routinely tramples human rights and religious liberty. The Chinese Government does not allow workers to join free and independent trade unions and imprisons those who try to exercise this fundamental right to freedom of association and to organize.

Tens of thousands of Chinese citizens have been detained for daring to express their religious views. For instance, Amnesty International reports that over 200 Roman Catholics were arrested when they tried to celebrate mass in 1997.

Both the U.S. State Department and the United Nations have concluded that China's human rights record is deteriorating, not improving. The State Department finds that China's active human

rights dialogues with a large number of countries have not produced significant improvements in the government's human rights practices.

As you know, Mr. Chairman, I could go on and on with examples of the Chinese Government's outrageous repression of human rights. The question that will be before this committee and the Senate is, in effect, will the United States make it easier for the Chinese Government to go on repressing its citizens and violating every norm of international conduct?

We believe that a grant of permanent normal trade relations will have exactly that effect. It will signal to the Chinese Government that the international community will continue to turn a blind eye and welcome China to a seat at the table.

Not only will that send the wrong message to China, but China will use its seat at the table to obstruct the efforts of the U.S. Government and other countries to insist that those who wish to gain benefits from the world trading system must meet international standards with respect to core workers' rights and environmental standards.

President Clinton was correct when he told the World Trade Organization that labor and environmental standards ought to be incorporated in the rules governing the trading system. China's unchecked accession to the WTO will work against those goals directly and indirectly.

First, it will, perversely, give the world's biggest law breaker a voice in writing the rules. Second, it will signal to others that we do not mean what we say and that they can continue to repress their citizens and violate international standards without any fear that they will be called to account.

On those grounds alone, Mr. Chairman and members of this committee, you should refuse to grant China a blank check by voting no on permanent normal trade relations. But the story does not end here.

China also routinely violates existing trade agreements and high-ranking Chinese officials have made it clear that they have no intention of living up to the deal negotiated with the United States in Beijing last fall.

Since 1992, the United States and China have entered into four bilateral agreements. The Chinese Government has failed to live up to its obligation in all four cases. The violations are blatant, widespread, and continuing.

If past behavior were not bad enough to raise questions about Chinese intentions with respect to the latest agreement, we need only turn to the words of the Chinese leaders themselves.

Since November when the U.S. Government completed bilateral accession talks with China, high-ranking Chinese officials have repeatedly stated that they have no intention of living up to their WTO commitments.

We have examples of such statements covering insurance, wheat, beef, telecommunications, autos, and petroleum, and I refer you to my written testify for details.

The record is clear. China has not lived up to past commitments, has no intention of living up to its latest commitments, and if we grant permanent NTR we will have given up our ability to protect

our interests by using bilateral tools to respond when violations occur.

Contrary to administration claims, granting permanent normal trade relations will effectively pardon China's past violations and give the government a blank check for the future.

Thank you.

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

The CHAIRMAN. Thank you, Mr. Sweeney.

We have a vote. I think we are going to have to recess. We actually will have two votes, so we will recess temporarily. I apologize, and look forward to the testimony of the rest.

The CHAIRMAN. The committee is in recess.

[Whereupon, at 11:18 p.m., the hearing was recessed to reconvene at 11:45 a.m.]

The CHAIRMAN. Senator Moynihan will be returning soon, but I think we will start ahead. I again apologize to the witnesses for the delay.

We will call, next, on Professor Santoro.

**STATEMENT OF PROFESSOR MICHAEL A. SANTORO, RUTGERS
BUSINESS SCHOOL, NEWARK, NJ**

Professor SANTORO. Thank you. Mr. Chairman, Senator Moynihan, members of the committee, thank you for the opportunity to testify today.

My name is Michael Santoro. I am an assistant professor at Rutgers, the State University of New Jersey, where I teach business ethics.

Over almost a decade, I have taken numerous trips to China to research how foreign corporations influence human rights. My book, *Profits and Principles: Global Capitalism and Human Rights in China*, will be published in April by Cornell University Press.

As are many Americans, I am deeply concerned about human rights conditions in China. Nonetheless, I urge your approval of PNTR because it is the most effective way to promote democracy and human rights in China.

American corporations are influencing four factors that are positively related to democracy and human rights: economic prosperity, merit-based hiring, information sharing, and leadership style. In my book, I call these four factors "human rights spin-off."

The recent Taiwan presidential election offers the best illustration of the first human rights spin-off. Following decades of strong economic development and the emergence of a middle class, the Taiwanese people demanded a greater role in the rule of their country and increasingly open and free elections. The presidential election this past weekend featured an astounding 82 percent voter turnout, further proof that democratization follows economic development.

A second human rights spin-off occurs because foreign corporations are helping to create a new meritocracy class that achieves wealth, status, and power in the private sector on the basis of merit.

The MBA has replaced Communist Party membership as the credential of choice among bright young students.

One member of this new meritocratic elite I met in China is "Tom." Tom is proud that his Ph.D. in theoretical physics was earned with honors. He touts his credentials to distinguish himself from his father, who became a factory manager as a reward for being a soldier in the People's Liberation Army. Tom, however, wants to be judged by his technical and business skills.

A third human rights spin-off is that American corporations are helping to redefine power relationships. "Louisa", a Shanghai-based consultant, told me that "relationships between colleagues and bosses are much better in American companies. Here I can really open up and act on my opinions." Another woman working for a European company in Shanghai told me that "we learn to speak out and say what we think."

A fourth, and final, human rights spin-off results from how American companies use information technology. Each day, it seems, the Internet is enabling thrilling new business paradigms, allowing information to be shared instantaneously and globally. Inevitably, those who work in foreign corporations will wonder why their government restricts the flow of political information.

How significant is human rights spin-off? Foreign enterprises, along with private companies, are the fastest-growing segment of Chinese society. As Figure 8 on page 7 of my written testimony illustrates, if present demographic trends continue the private sector will very soon outnumber the state-owned sector. Make no mistake about this: this is a sign of revolutionary social change and PNTR will help to make it happen.

Human rights spin-off is happening even in Chinese state-owned enterprises. Two years ago, "Chen," who worked for a state-owned enterprise, sought me out for career advice. He lamented that his Chinese counterpart at an American joint venture partner was making a lot more money than he was.

At the time, I was only able to tell Chen to be patient. Eventually, his SOE would have to pay for performance to retain top employees and compete with foreign-owned firms.

I thought this would take 5 to 6 years, maybe 10 years, but China's impending entry into the WTO has accelerated the pace of change. SOEs already have started to pay on the basis of performance. One Chinese company has even been drawing up a plan to issue stock options.

In conclusion, I want to reiterate that granting PNTR is the most effective way to promote America's interests in a stable Chinese democracy that respects the human rights of its citizens. The changes that PNTR will bring in China are profound and far-reaching.

Thank you for the opportunity to express my views. I will be happy to answer any questions you might have.

The CHAIRMAN. Thank you, Professor Santoro.

[The prepared statement of Professor Santoro appears in the appendix.]

The CHAIRMAN. Let me call, next, on you, Mr. Wu.

**STATEMENT OF HARRY WU, EXECUTIVE DIRECTOR, THE
LAOGAI RESEARCH FOUNDATION, WASHINGTON, DC**

Mr. Wu. Thank you, Mr. Chairman.

As you may know, after spending 19 years of my life in Laogai, I have dedicated myself to investigation of Chinese forced labor camps. I also have spent much time in researching the Laogai's "big brother," the Soviet Gulag.

Last August, I visited one of the centers of the former Siberian labor camps, the Gulag in the city of Magadan. After Khrushchev condemned Stalin in 1956, Magadan was no longer a Gulag city. But still, the West knew that the Soviet Union was based on principles other than freedom and democracy.

Unfortunately, these concepts do not exist in China and they will not exist as long as the Chinese Communist Party controls the government of China. Maintaining one-party rule is the ultimate goal of this party.

That is why, despite economic reform, we have never heard Deng Xiao Ping, Jiang Zemin, Zhu Rongji, or any of their predecessors renounce Mao Zedong. Actually, the current Chinese regime is based on Mao's structures and his political concepts.

Well, the statues of Lenin and Stalin were taken down in the former Soviet Union in 1991, but the portrait of Mao still hangs in Tiananmen Square. I am not talking about isolating China, but we must ask why the West kowtows in its dealings with the Communist Chinese Government? We pretend to have a strategy partnership with the regime whose goals and values are very different from our own.

Today, we will have discussion on granting PNTR to China. One of the major mistakes of this administration is treating the Chinese Communist Party as if it is a permanent ruler of China. This government is a criminal, illegitimate government that abuses its own people. It is a source of instability, not stability. You should not treat it as permanent. It is an unhealthy situation. So many people today want to shake Chinese Communist leaders' hands, treat them as business partners.

In 1997, when Chinese president Jiang Ze Ming visited Harvard University, I also was there. I said, remember, 40 years ago Mao Tse Tung visited Moscow. At the time, he said capitalism is like the sun setting down, and socialism is like the rising sun. Forty years later, Jiang Ze Ming came to the most powerful capitalist country, the United States, to ask for financial support. Forty years, for history, is very short term.

I want to ask the policy makers in the United States to just be a little patient. What happened in the Soviet Union and the Eastern bloc will also happen in Communist China, maybe not in the same way. Trading with this government and putting investment in this country is like a blood transfusion to a dying regime.

It is true that economic reform and openness has changed China, but Deng Xiaoping's policies of economic reform were not intended to weaken the power of the Communist Party. After Mao's death, Deng did not end the communist system. Rather, he restored it with economic reform.

This is embodied in Deng's doctrine of "it does not matter if the cat is black or white, as long as it catches mice." The Chinese leaders will continue to try to take the best from the West, but they will still be the cat that catches the mouse. The Chinese Com-

unist Party needs foreign investment because their socialist economy in China cannot support itself.

Last August, I visited Vladivostock. This city is the headquarters of the Russia Pacific fleet. I saw these battle ships and submarines lined up in port because of the Russian Government's lack of money to operate.

You heard that last month the Chinese People's Liberation Army obtained a Russian-built missile destroyer, and they will acquire a second destroyer by the year's end. Currently, two thousand former Soviet military experts are working for the PLA. I ask you this question: are these Russian weapons and experts helping China become a more free and democratic society?

Where did the Chinese Communist Government obtain the hard currency to purchase this military equipment and pay the Soviet weapons experts? This is the same country that owes many of its employers in its state-owned enterprises months of back pay.

It is the same country that is the largest recipient of aid from the World Bank. Our money, the money from Western capitalists, is helping fuel the Communist vehicle.

The State Department's human rights report released last month said that the human rights situation in China is getting worse. But still, one of the most popular theories in politics today is that the best way to promote democracy and improve human rights in China is to build up the trade and investment. Of course, this theory has only been applied to Communist China, not to any other authoritarian countries, even the Russian Republic.

I am sorry, my time is up. Let me say in conclusion, I remember something that Jiang Ze Ming said during his Harvard speech in 1997. He said that the Chinese Government had to crack down on the democracy demonstrations in Tiananmen Square, otherwise China would not be enjoying its current state of economic development. He added that stability is the number one priority.

It means that American and European business appreciated the crack-down which provided this stable investment environment. I wish foreign business will be honest and admit why China is good for United States business.

The biggest advantage is the cheap and disciplined labor force. It is very good for American business to have a strong Communist Party, because then they do not have to worry about giving workers benefits and dealing with strikes. China has learned that, as long as it negotiates with trade agreements, it can continually repress its own people.

The international community must tell China clearly, we expect to see a peaceful, prosperous, free, and democratic China, not a prosperous and stable Communist China. Peace and prosperity are possible only when human rights, democracy and freedom—

The CHAIRMAN. Please bring it to a conclusion.

Mr. WU. I will respect. Thank you.

The CHAIRMAN. Thank you, Mr. Wu. Sorry that time is running out.

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

The CHAIRMAN. It is now my great pleasure to call on Dr. Goldman. It is a great pleasure to have you here.

STATEMENT OF MERLE GOLDMAN, PH.D. PROFESSOR OF HISTORY, BOSTON UNIVERSITY, MEMBER, EXECUTIVE COMMITTEE, FAIRBANKS CENTER, HARVARD UNIVERSITY, CAMBRIDGE, MA

Dr. GOLDMAN. I should say that I teach Chinese history at Boston University and I am on the executive committee of the Fairbanks Center at Harvard. I do not want to go under a false name here.

Also, I am here primarily to give you the views of two major human rights advocates in China. They have given me their statements, and then I will elaborate on them.

One, is Wang Don. Wang Don was the young student who was the leader of the Tiananmen Square demonstrations and was the first most wanted person on the list after the June 4 crackdown in 1989.

I will read you his statement, first. He said:

"I support China's entry into the World Trade Organization. I feel that this will be beneficial for the long-term future of China because China will thus be required to abide by rules and regulations of the international community. Furthermore, it will allow space for further development within China.

"However, entry into the WTO will be harmful for the human rights situation in China for the short run because the international community will lose its annual chance to pressure the Chinese Government to improve its human rights record. I think the only way to deal with this is to create a new way of putting pressure on the Chinese Government.

"One, the American Government should expand its dialogue with China on the discussion of human rights," and he mentions primarily to get the ratification of the two U.N. covenants by the China's National People's Congress, and two, he says, "The Chinese Government should be encouraged to sign more international human rights covenants."

The statement is by Wang Juntao. Wang Juntao was imprisoned for the demonstrations in 1989. He got the longest prison sentence, and he was called the black hand behind the demonstrations.

He was released in 1994 as a deal for economic linkage of most favored nation treatment from human rights issues. He states:

"Whether or not China should be admitted to the World Trade Organization, I prefer to say yes, for three reasons. Both fundamental change in the human rights situation and democratization in China will mainly come from efforts by the Chinese within China.

"The more the relationship between the two countries expands, the more space there will be for independent forces to grow. In an international environment, independent forces will be more competitive than the state-owned enterprises and they will eventually push towards democracy.

"Two. The current Chinese Government is still pursuing its reform policy. As the economic situation improves, it will have to carry out reform more aggressively and more deeply in order to bring about—" he said, again, this will help to bring about political reform.

I think the most interesting reason he gives is three, in which he says that "most Chinese are mainly interested in material benefits. They will find any policy that damages their economic interests to be offensive."

Therefore, he says, "an emphasis on economic sanctions will contribute to the growth of nationalism and anti-Westernism in China, and this will limit both the influence of the United States, as well as the democracy movement in China."

Now, even though Wang Juntao and Wang Dan do not specifically state that China should be given PNTR, permanent normal trade relations, the implication is that their entrance into the World Trade Organization will mean that. Their argument is that it is counterproductive to tie human rights issues to economic issues.

They believe that—and this is very important and a reason I have not heard until recently from my Chinese friends—this threat of economic sanctions not only upsets the leadership, which you would expect, but really upsets the ordinary Chinese citizen who believes that it is directed against them.

So it is one of the factors that has been building up, this kind of anti-American nationalist feeling in China, which really was not there, frankly, in the 1980's when we did not tie MFN to human rights issues.

Second, and again, I tend to agree with them, their belief is that we should try to bring China into any kind of international that is possible, because gradually they play by the rules.

I have had experience with the U.N. Human Rights Commission and I have seen there that, gradually, China—I cannot say it plays by the rules, but it has accepted certain ideas that they would have nothing to do with before during the Mao Tse Tung period. One, is they accepted the concept of universal human rights, as in the U.N. declaration.

Two, they have signed onto the covenant on economic, social, and cultural rights, and they have signed on to the covenant on civil and political rights. So the belief is that the more China is involved in these kinds of organizations, the more they will play by the rules.

They believe, and I believe, it is going to take a long time, but it is a process that is under way. Entering WTO will be part of that.

The CHAIRMAN. Thank you, Dr. Goldman.

[The prepared statement of Dr. Goldman appears in the appendix.]

The CHAIRMAN. Now, Mr. Graham?

STATEMENT OF NELSON E. GRAHAM, PRESIDENT, EAST GATES MINISTRIES INTERNATIONAL, SUMNER, WA

Mr. GRAHAM. Thank you, Mr. Chairman, Senator Moynihan, members of the committee. I appreciate this opportunity to testify today on the critical issue of U.S. trade relations with China and its impact on religious activity in the PRC.

I am Ned Graham, president of East Gates International, a religious, nonprofit corporation located in Washington State, whose

primary purpose is to have a positive impact on China's religious history.

East Gates has sought to accomplish this through developing relationships at all levels of Chinese society, and through engaging those responsible for establishing and implementing religious policy.

We have sought to help the leadership of China better understand that spiritual values are not Western or imperialistic, but core to being human, and that religious practitioners who live by these values can only serve to help and strengthen the growth of Chinese society.

Because of this engagement, we have been able to legally distribute over 2.5 million Bibles, both Protestant and Catholic, to nonregistered religious practitioners since 1992. These Bibles are printed in China on the Amity Printing Company Press in Nanjing. We have also been able to publish and distribute biographical, historical, and cultural religious literature.

For example, we recently signed a letter of agreement to publish a compilation of 160 of my father, Dr. Billy Graham's, sermons. In addition, we are also involved in religious training programs, both in the registered and unregistered religious communities there.

Although East Gates advocates free trade and engagement with the PRC and is therefore seemingly aligned with business interests in China, we do not receive funding, nor benefits, from any profit-making corporations or businesses. We receive our funding exclusively through the support of individuals.

In other words, our position on MFN, NTR, and now PNTR, has remained constant and grows out of our experiences working on the ground in the PRC with the indigenous religious population.

This being said, I would like to address the question before us today. Will granting China PNTR and China's accession in the WTO benefit or harm religious practitioners in China and the U.S.-based religious organizations seeking to serve them?

I can only answer this question through our experiences on the ground in China. When we first started traveling extensively to China in early 1990, less than a year after the Tiananmen Square incident, Western missionary activity was almost completely underground.

Today, 10 years later, there are hundreds of different missions groups either working or attempting to work openly and legally in China. They are involved in education, service sector training and retraining programs, publishing, media, humanitarian assistance, medical and dental work, animal husbandry, agriculture, and many other creative endeavors, all of which help the growth and development of Chinese society.

Ten years ago, there was almost no information exchange technology available to the average Chinese citizen. If we wanted to contact friends or co-workers in China we had to do it by post, unless the individual had a private phone, which is extremely rare, especially in the inland provinces.

In addition, no one outside of large corporations or government offices had access to computers, modems, faxes, cell phones, and even the usage of those technologies was tightly controlled and monitored.

Ten years ago, people could not travel freely, choose where to live, have a say in what type of education they wanted, pursue a career of their choice, or start a business.

Today, despite occasional difficulties, much of this has changed. We routinely communicate with our friends and co-workers all over China via fax and e-mail, we have them equipped with cell phones. This proliferation of information exchange technology has allowed us to be much more effective in developing and organizing our work on the ground in China.

The economic reforms of the past 10 years and China's expanded trade relationship with the West have dramatically increased the personal freedoms experienced by indigenous religious practitioners in China. Now our friends and co-workers in China can travel anywhere they wish, by whatever means they can afford. They can choose a career or start a business, and even place their children in private schools. This sea change in the PRC has greatly benefited organizations such as East Gates.

It is important to note, however, that even though East Gates is a religious organization, we confront many of the same problems that businesses face while working in China: leviathan bureaucracy, nepotism, the use of poorly defined laws, policies and regulations to obtain competitive advantage or outright control, and the opaque decision making processes, just to list a few.

We have been in an ongoing struggle to get our business partners, especially in the area of publishing, to become more transparent and to conform to internationally accepted standards of business practice.

Over the years as our relationships have deepened we have seen improvements in this area, but there still needs to be greater consistency in how business is conducted in China from city to city, and province to province. This is also true for the implementation of religious policy.

I look forward to the U.S. granting PNTR to China and China's accession in the WTO because it will, one, encourage China's adherence to international law and a rules-based trading system—

The CHAIRMAN. Please proceed.

Mr. GRAHAM. Two, facilitate China's civil society in developing its internal rule of law, and three, expand personal freedoms for its population. I believe that these continued changes will have a positive impact on China's religious policies and stimulate China's overall growth and development.

Having traveled to China over 40 times, I am increasingly concerned by the level of suspicion, and often negative perceptions, of the U.S. Government. These perceptions are held not only by many top leaders, but also by many average Chinese citizens.

Negative perceptions exist on this side of the Pacific Rim as well. These negative perceptions have increased dramatically over the past two to 3 years, especially since the unfortunate bombing of the Chinese embassy in Belgrade, the campaign finance accusations, and the alleged PRC acquisition of U.S. nuclear technology.

If the growing misperceptions are allowed to go unchecked, they could ultimately lead to disaster. In 1971 in his book, *Nations in Darkness*, Dr. John G. Stoessinger wrote concerning Sino-American relations, "The stage of world politics lends itself all too easily to the

development of wide gaps between what reality is and the way it is perceived.

Because of this fact, perception probably plays as important a role in international relations as does objective reality itself. Misperceptions among nations may have disastrous effects on policy decisions; stereotyped images on one side may elicit similar ones on the other, compounding the distortion.

Even worse, if one believes a stereotype long enough it may become reality by setting in motion a mechanism of self-fulfilling prophecy. Thus, if a nation believes that another nation is its implacable enemy and reiterates this often enough, making it the guideline of its national policy, it will eventually be right."

If the U.S. does not grant China PNTR before China's accession into the WTO, it will not only hinder U.S. businesses and organizations such as East Gates who are seeking to serve the religious population in the PRC, but it will only reinforce negative perceptions held on both sides of the Pacific Rim.

However, I believe that granting China PNTR before China's accession into WTO will not only benefit U.S. businesses and U.S.-based religious organizations, but will be one further step towards bettering the relationship between our two countries. In other words, I think that it is an appropriate and a good signal to send.

In summary, I believe that granting China PNTR and China's accession into the WTO will only encourage China's continued engagement with the global village, increase the availability of information exchange technology to its citizens, accelerate its development of the rule of law, and allow for increased contact between U.S. and Chinese citizens, and will ultimately lead to positive changes in China's implementation of its religious policy. This will inevitably serve to benefit China's religious practitioners and the Western organizations seeking to serve them.

Most importantly, it is my belief that granting China PNTR before China's accession into WTO will help diminish the negative perceptions that exist between our two great countries.

Thank you, Mr. Chairman and members of the committee, I would be happy to try to answer any questions you may have.

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

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

Mr. Sweeney, I will start with you, if I may.

Mr. SWEENEY. Sure.

The CHAIRMAN. I am sure you are familiar with this advertisement that appeared in the Washington Post headlined, "Another Voice Joins the Chorus: Former UAW President Leonard Woodcock Supports China PNTR." In this article, he is quoted as saying, "I have spent much of my life in the labor movement and remain deeply loyal to its goals. But in this instance, I think our labor leaders have got it wrong."

Part of the article says, again quoting Mr. Woodcock, "American labor has a tremendous interest in China's trading on fair terms with the U.S. The agreement we signed with China this past November marks the largest single step ever taken towards achieving that goal. The agreement expands American jobs.

While China already enjoys WTO-based access to our economy, this agreement will open China's economy to unprecedented levels of American exports, many of which are high-quality goods produced by high-paying jobs."

I guess my question is, why do you disagree with your distinguished colleague?

Mr. SWEENEY. Well, I think it is safe to say that Leonard Woodcock, who had spent many years in the labor movement and was a good leader, has lost touch with the working people in the United States.

We are confident that the position that we have taken, based upon our polling and all of the other means that we use to reach out to workers all across the country, that 70 percent of our members, of the public at large, working families, are supporting our position.

Leonard Woodcock is the only voice that I hear that could be identified with the labor movement who is taking the position, and I think he has lost touch with the American people.

The CHAIRMAN. My only comment on that is, I do not think he was putting it on the basis of a poll of the workers, but rather he was addressing it from how he analyzed the situation, that he sees this as an opportunity rather than a foreclosure.

Mr. SWEENEY. And we think he is wrong. His analysis is wrong. We know his background. It is interesting to note who is paying for the ads with Leonard Woodcock's statement: it is the opponent, it is the business community. That is one of the rights that we have.

The CHAIRMAN. Professor Santoro, Bob Kagan—I do not know whether you were here. I think you were—in his testimony questioned the link between economic openness and political change.

Could you address this issue specifically focusing on China and U.S. companies moving to that country?

Professor SANTORO. Yes. Thank you, Senator Roth.

I think it is important to understand how it is that economic interaction leads to political change. It is not a direct effect. The activities of American corporations, European corporations, and other foreign corporations in China are changing the society, not the government. They are changing the society in a dramatic way, in an accelerated way.

The change that is occurring is not as Mr. Kagan was discussing, something that is going to cause change in China over 30 or 40 years. I think we are looking at change in the next 5 to 10 years, and perhaps even sooner.

If you look at the graph on page 7, Figure A of my written presentation, it shows how the composition of Chinese society is going to have to change in order to continue the rates of growth which they have enjoyed in the past.

If this occurs, the private sector will be far larger than the public sector. We are going to have a completely different kind of Chinese society—most importantly, one in which citizens are not dependent upon the state for their salaries and for their promotions. Moreover, the values that they will acquire as a result of acting in the private sector are very much at odds with the values of an authoritarian government.

The CHAIRMAN. Thank you.

Dr. GOLDMAN. Could I just add to that, if you do not mind?

The CHAIRMAN. Please.

Dr. GOLDMAN. I would even say it is changing the government as well. You just have to compare the post-Mao period with the Mao Tse Tung period. During the Mao period, where there was no opening to the outside world, where the whole economy was controlled by the state, literally millions of people were put in the Laogai, as Mr. Wu says. In the post-Mao period, people are still being put into the Laogai, but you move from millions being put into now to thousands being put in. It has been a process. And unless you directly challenge the state today, you do not get put in the Laogai.

You might have some other penalties. You might get labor reform for 3 years, which is pretty serious. But the point is, there has been a definite change through this process. I would agree with Mr. Santoro, that that change is accelerating as these economic and social factors continue.

Mr. WU. May I make comments?

The CHAIRMAN. Yes. I was going to turn to you next, Mr. Wu. What is your response?

Mr. WU. No one can deny the changes today that are happening in China, but I want to emphasize, this is a demand by the common Chinese in the first place. The changes come from the people suffering, come from people's experiences. They ask for change, and international society plays an important role in this change.

The Western society today, in the financial area, military area, or whatever, to negotiate or exchange information with the Chinese Government, plays a very important role.

But when you put money in China, you have to think about both sides of the story. You have to tell people both sides of the story. Most of the benefit of trade and investment is going into the Communist Government's pocket, and they are using the money to control.

For example, Falun Gong is one other case. When you see this Bible, it is printed and distributed in China. The other way you see the Falun Gong people, 35,000 are thrown into jail. So this is both sides that we have to put together.

Mr. SWEENEY. If I may, I would agree with Harry Wu and just make the observation that the economic interaction will create more pressure to violate basic rights that workers have, basic rights like freedom of assembly, freedom to organize, and will not be benefiting the people, but be benefiting those at the top.

The CHAIRMAN. Let me turn to you, Mr. Graham. Why does your conclusion somewhat differ from other religious leaders? Would you care to comment on that?

Mr. GRAHAM. One, I think that, from the beginning, our goals have always been for the greater good at the macro level, not the micro level, if I may. We are more concerned about long-term trends. We are specifically focused in the area of freedom of religion.

One, we do not openly criticize the Chinese Government or the people with which we deal in China. We disagree with them vehemently, but we do it behind closed doors and they respect that.

Relations in Asia, China, specifically, are everything. They have the greatest value of any commodity. We have worked hard to develop and nurture those relationships and those relationships, as any relationship should be, is based on trust.

So we went in early on when millions and millions of Bibles were being smuggled into China, China was losing face at the Religious Affairs Bureau level. Both the Catholic Patriotic Association and the Three-Self Patriotic movement were losing face by this smuggling activity.

We actually grew out of the house church movement in China. They came to us because they knew of my mother's birth in China, they knew of my family's love for China, and they asked us if we would approach the China Christian Council in Nanjing to see if we could acquire Bibles legally for them. They were of higher quality and they did not put them at risk of being detained or imprisoned for having a product that as smuggled in.

So we went and successfully negotiated an original contract, and successive contracts since then, and that initiative has expanded to other types of engagement, all the way up to Jiang Zemin, Zhu Rongji, and others where we have been able to engage them on what is religion.

It is a very important process, because religion did not blip their radar screen at all. The top leadership just does not think about it, except for the Falun Gong. This jerked their chain pretty hard. Then they have overreacted, and we have talked to them about that. But I think that is why, because we have built those relationships and have tried to gain their trust.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Yes. Mr. Chairman, may I, first, just observe that I have been 24 years on this committee and Mr. Graham is the first person I have ever seen who, when that red light went on, made to stop in mid-sentence. [Laughter.] Early childhood training, perhaps.

Mr. GRAHAM. I had a very strict mother.

Senator MOYNIHAN. I just want to thank everyone here. I think we all understand what you are feeling. The President is in India, so it would not be appropriate for me to say I feel your pain, but I see we understand each other's positions.

I had one response I really want to make, though. It comes of being an old fellow. I was very much involved in government in the 1960's and early 1970's in the Kennedy, Johnson, Nixon, and Ford administrations, all three in a row, either in the Cabinet or sub-Cabinet of each of those Presidents.

The problem of Vietnam was always sort of central to us. People sometimes forget that, in the same speech that President Kennedy said we will go to the moon, he said we will go to Vietnam. That was sort of left out since.

But the dominant paradigm, if that is not too fancy a term, of the response in Vietnam was that you had a Communist Soviet Union and a Communist People's Republic sort of joined together and supporting the North Vietnamese as they moved down the China coast and up the Bay of Bengal, and as Trotsky said, "The road to Paris leads through Calcutta."

What I kept finding, because I knew John Fairbanks and loved him, as we all did, and others, is, hey, what was this idea of a united Soviet Union and People's Republic joined together? They were almost at war.

They were, in fact. There was a river encounter where the two armies fought each other, whilst we thought they were fighting others. But most importantly, China was swept up in the great cultural revolution, which obviously had to distract it and weaken it.

So my argument would have been that I think we have gotten this wrong. As a matter of fact, it was not long after that the North Vietnamese did prevail in the Vietnam War, that they proceeded to have a small war with China. We miss a lot of things out there. Historians do not, and persons like you, Mr. Graham, and of course, Mr. Wu. We all do.

But that cultural revolution probably consumed 15, 20 million people. I do not think Stalin ever did anything quite like that. Mao had more people to consume, but that is about the right number, is it not, some range?

Dr. GOLDMAN. That is the right range. It goes all the way from 100 million to 5 million, so you are right.

Senator MOYNIHAN. All right. And you said, Dr. Goldman, that there are plenty of human rights abuses. You have mentioned that Falun Gong group where they certainly have.

Dr. GOLDMAN. Falun Gong.

Senator MOYNIHAN. Falun Gong. But we talk about things in the thousands, I mean, atrocities, not to be overlooked. But thousands is different from millions, much less tens of millions. We have no idea what that means, tens of millions of people.

That occurred when they were closed off from the world and had no touch, and the world did not influence them. The world did not know much about them. We had a profoundly important national interest in knowing what was going on in China, and I do not think we did. I think Fairbanks did, but I think the Pentagon did not, and the CIA did not. They just did not.

So it seems to me the case that our three excellent witnesses here have made for continuing our opening up of relations has a certain didactic claim on us, and I think that no one could ever fault the American labor movement for its commitment to human rights. It is one of the things we have to be proud of as a Nation.

Mr. Wu, we have a long history of welcoming persons such as yourself to this country, and are proud of you. But we have to make a decision based on these other concerns. I would like anybody to comment.

Dr. GOLDMAN. Could I add something that I did not mention? It is in my written testimony. I would like to emphasize a point you made, that during the Mao period when China was isolated from the outside world and these terrible things were going on, no matter if we had criticized it, if we had imposed economic sanctions, it would not have made any difference because he did not care.

China was not involved in the world so it could not have had an impact. It is only as China becomes part of the world and engages in that world that you can then have an impact on them.

So that is the main argument. The argument of these two human rights activists is that China is not going to change until it be-

comes democratic, but in the meantime there is room for this kind of pressure to move China in that direction, and there has been this gradual change.

Senator MOYNIHAN. Professor Santoro?

Professor SANTORO. Yes. I would like to agree with Professor Goldman and say something to follow up on that.

I think that what you are expressing, Senator Moynihan, is that history seems to be on the side of change in China. As Professor Goldman is pointing out, that even the leadership of China is going to understand that, sooner rather than later.

As the Chinese society continues to change at the rapid pace that is occurring there, either the leadership is going to have to take account of that change or the people are going to become very dissatisfied with their leadership. So I would agree with you. I would agree that history is on the side of China's opening up with the world, and that this is causing political change within China.

Senator MOYNIHAN. Mr. Wu?

Mr. WU. Today, China is on the crossroads of history. China will take a long time to become a democratic country, I would say, maybe a hundred years. But the first step, is to remove the Communist assistance. So I want to suggest to Congress, hold up PNTR. This is very important leverage. We will tell the Chinese Communist Government, no free lunch.

Today, the workers in China have no rights to organize unions. No religious freedom at all. It is a showcase.

Senator MOYNIHAN. Well, we heard a little bit differently from Mr. Graham.

Mr. WU. Yes, I agree. I feel that is kind of a problem, if President Clinton and Newt Gingrich going to the Patriotic Church—is give the Chinese Government church, a state-owned church, a Communist-run church, recognition and millions of underground Catholic and Christians waiting for the recognition, waiting for the support. We have to give these people a hand.

All the religions right now in China have to register and be approved by the government, otherwise you are illegal. So I think we hold this NTR and say, no free lunch. We will not serve the lunch for you, but we want to see more changing. Thank you.

Senator MOYNIHAN. I can see why you would.

Sir? John?

Mr. SWEENEY. I am not going to rehash what I have already stated or what is in my written testimony. But we have heard several references today to the Chinese gradually playing by the rules. There is no evidence, no indication of that happening. The Chinese have violated every trade accord that we have had with them, and they continue to do so.

Senator, with all due respect, I think the evidence is in in terms of the abusive human rights record that Chinese has, and it is not just hundreds and it is not just thousands, it is hundreds of thousands of people. There are many stories that have not even been told, and I do not think it should be taken too lightly.

Senator MOYNIHAN. Well, Tibet.

I would just like to say, in closing, nothing of any great consequence, but I have to tell you, I am not enamored of the spread

of democracy everywhere in the world. I would be much more impressed with the spread of human rights.

About 5 years ago, the U.S. Congress passed, and the President signed, a bill that denied prisoners in death row habeas corpus. I thought it was a hideous thing to do. I said at the time on the floor that if I had to pick between choosing a country in which they had free elections and a country in which they had habeas corpus, I would take habeas corpus every time. It is those procedural matters which are so fundamental. So you see the perplexity which the Chairman and I have to deal with, and are doing the best we can.

Thank you, Mr. Chairman.

The CHAIRMAN. Let me just follow up with one additional question to you, Mr. Sweeney. If we deny market access to U.S. firms, do we not condemn Chinese workers to continuing their employment with these various state-owned enterprises that have not recognized labor rights or other human rights? Are we not just condemning them to the same future?

Mr. SWEENEY. I do not think so. But are we going to shut our eyes to the track record that exists in China? Are we going to just go away and let China have all the advantages and not address any of the issues that are important to the people of China?

The CHAIRMAN. Well, I think some of us feel that isolating China is the wrong way to go.

Mr. SWEENEY. China has got a pretty good trading record with the United States right now.

The CHAIRMAN. Of course, the basic fact we have to face is they have access to our markets and we want our workers to have access to theirs.

I want to thank this panel for their very excellent testimony, and appreciate your being here. Once again, we apologize for the lateness of the hour.

Thank you very much.

Senator MOYNIHAN. Thank you all very much.

The CHAIRMAN. The committee is in recess.

[Whereupon, at 12:37 p.m., the hearing was recessed.]

CHINA'S ACCESSION TO THE WTO

THURSDAY, APRIL 6, 2000

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

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley presiding.

Present: Senators Thompson, Moynihan, Baucus, Rockefeller, Conrad, and Robb.

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

Senator GRASSLEY. I would like to welcome everybody, and thank you for your interest in this very important issue of China's accession to the World Trade Organization. This is the last of three hearings that Senator Roth had scheduled of our Finance Committee on this very important issue.

As you probably remember, in the two previous hearings we have examined details of the U.S.-China Bilateral Market Access Agreement, human rights, and our National security concerns.

Today, it is our intention to look at issues relating to the enforcement of market access and other obligations China will undertake pursuant to its succession to the World Trade Organization.

As we examine these issues, we should bear one very important fact in mind. The Market Access Agreement between the United States and China is much more comprehensive than any other previous U.S.-China agreement. It covers many more areas, and also in much greater detail and greater depth.

The nature and scope of the market access concessions China has agreed to will give pork producers in my State of Iowa, wheat farmers in the State of North Dakota, banks in New York, and insurance companies in Connecticut unprecedented access to China's markets.

But as good as these tariff reduction and market access concessions are on paper, we must make sure that we can enforce them effectively. I would like to give just a specific example of my concern.

For instance, China recently signed a Bilateral Agricultural Cooperation Agreement with the United States. This agreement spells out China's commitment to open its markets to American citrus, wheat, pork, beef, and poultry products.

But it took months before China published regulations telling our meat producers how China would comply with this agreement. Fi-

nally, under great pressure by members of this committee, including myself, China finally issued rules telling our exporters just exactly how to bring their products in to China.

Just 2 days ago, I learned that the first American shipment of pork has reached China. I know that there will be many others. This is a very significant development, one that we are watching very closely.

I very much hope that we will not have to go through this type of effort to enforce the terms of our Bilateral Market Access Agreement. Frankly, I believe one major reason that we had so much difficulty enforcing the Agricultural Cooperation Agreement is because China's legal framework is incomplete and China's economy has endured the heavy burdens of a corrupt-driven, gray economy that has resisted changes that will be brought about by China's modernization of its economy, the competition that is involved, and all of that is more or less demanded by the World Trade Organization.

The prospect of reforming China's economy is a major reason I support China's access to the WTO, and granting China permanent trading relations status. Once China is a WTO member and subject to international rules, the reform process, I think, will be greatly strengthened. This will be better for us, and it is certainly going to be better for China and their economic future.

Opponents of China's membership in the World Trade Organization argue, however, that it really will not make much difference. They say China will still do what it wants to in the trade realm. But this view ignores reality, I believe.

A recent study by China's Central Bank shows that, for every \$3 lent by the bank—and mostly to state-owned enterprises—output increased by only \$2. In other words, China's wasteful state enterprises destroyed one-third of the capital that they received. China knows it must join the world trade community and live by our rules for its own economic survival as well, or at least economic advancement.

But the most important reason that I support China's accession to the World Trade Organization is that I sincerely believe that free trade helps keep the peace, and I think commerce will do much more than even diplomats and political leaders can do.

The history of the last 50 years shows that, because of the General Agreement of Tariffs and Trades and the tremendous efforts we made to tear down barriers and foster greater economic cooperation, free trade helped keep the peace even during the darkest hours of the Cold War.

Finally, I want to say a word about the President's leadership, because we all agree—in fact, it has probably come as loud from the Democrat side of the Senate as it has from the Republican side of the Senate—that the President's leadership on getting legislation approving permanent normal trade relations for China through Congress is very, very important.

Recently, President Clinton lobbied 150 high-tech CEOs in Silicon Valley for permanent normal trade relations for China. These high-tech companies see the future. They already know how vital it is to bring China into the global trading community's chief forum.

I want to say to President Clinton, that hopefully he will stick by this leadership he has, not withdraw any of the pressure he puts on. But I still run into too many Democratic members of the House of Representatives who really are legitimately on the fence that have not even received a call from the President yet. I hope he will call those people.

Also, I think he would really bring the high level of importance this is to him and to our country if he would make a point of addressing a joint session of Congress on trade with China.

Unless the President makes a strong, clear case to Congress, and doing it to a national audience, I do not know whether the President's efforts are going to be as successful or as meaningful as what they are.

I do not fault the President for not having this as a highly visible issue, but I just think going this extra route will really help. I fear that organized anti-World Trade Organization demonstrations here in Washington next week may cause him to change his mind about China.

We saw some reversal of opinion, for instance, in Seattle, just as similar demonstrations there caused him to change his administration's policies on putting enforceable labor and environmental sanctions in the World Trade Organization trade agreements.

I urge the President to come to Congress, to build bridges between the parties on this important issue, to make the moral case for free trade, not just the economic case for free trade.

If he does that, we can get this legislation through here in a short period of time. We can start this new century with a renewed commitment to peace and prosperity, a new century that can be like the last one, the American century.

Senator Moynihan?

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

Senator MOYNIHAN. Well, Mr. Chairman, that was a powerful statement, with which I have not any disagreement. We are close. Our hearings in this committee did prompt the administration, at length, to send us the bill that was required, a small, three-page affair, and we are now going to have a vote in the House in the last week of May.

At that time, I hope we will have a bill reported from our committee at the desk awaiting the House measure. They should be identical, as Mr. Gibbons will tell us. Then we will have it.

This is not just the most important bill of this Congress, it is the most important bill of this decade. We are in danger. We have put at risk 70 years of American policy that begins with Cordell Hull and the reciprocal trade agreements.

The President does not have negotiating authority, the first President in memory not to do with respect to future trade rounds. Seattle was a disaster, to quote the economists.

We see looming a new mode of isolationism on the left. I do not like to use words like that, but something such is taking place, so much so that I will allow that some weeks ago on the afternoon of one of our hearings a representative of the Business Round Table

came around to ask if I would be in support of this measure, having spent 2 years saying we must get on with it. I said, yes.

Senator GRASSLEY. It has happened to me, too.

Senator MOYNIHAN. It happened to you, too? Would you help us? You have been making those speeches for years.

I said, when I was a freshman at the City College of New York, I was taught that corporations run this country. Now, I said, do it! Perhaps they will. But, in the end, it is this Congress and this President, and we know our work, and let us be about it. We have got some distinguished witnesses today, and I look forward to hearing from them.

Senator GRASSLEY. Well, our first panel today is made up of three distinguished witnesses, and I agree with Senator Moynihan's regard for them as well. I have a friend, Sam Gibbons, here, a former chairman of the House Ways and Means Committee.

Also, a person that we knew through public service and writing, Robert Hormats, is vice chairman of Goldman Sachs International.

We also have Nicholas Lardy, a senior fellow, Foreign Policy Studies, with the Brookings Institute, and obviously in that position publishing a lot as well.

We will go in the order that I just introduced you, Congressman Gibbons, Mr. Hormats, Mr. Lardy. At the end of your testimony, we will take turns of 5 minutes each asking you questions.

STATEMENT OF HON. SAM M. GIBBONS, FORMER CHAIRMAN OF THE HOUSE WAYS AND MEANS COMMITTEE, WASHINGTON, DC

Mr. GIBBONS. Thank you, Senator Grassley. I appreciate the opportunity to come here today, because every time I have an opportunity to talk to a member of Congress, either the House or the Senate, I always lecture to them that the most important immediate step that they must take is to bring China into the world family of nations as a cooperative parent, as a cooperative entity who will pick up their responsibility for world governance.

If we do not make that transition, if we do not help the Chinese make that transition, we are in for a lot of trouble. Now, I have lived long enough to have seen a lot of history. I have studied it even more. I believe that the peace and prosperity of the United States depends upon how well we accomplish the task of bringing China into this family of nations, the 134 that now comprise the World Trade Organization.

There are many members of our bodies who say, well, we control this situation. We can keep China out. I do not think they understand the World Trade Organization. They certainly have never read it.

It would take our one vote and 44 other votes of sovereign nations around the world to keep China out of the WTO. Frankly, I went through the list as recently as last night, and I cannot count 44 votes on our side to keep China out.

Sure, a lot of people respect us, a lot of people envy us, but from your service, Senator Moynihan, and from others of you, we have a hard time in public bodies rallying support for our position.

There is an old Chinese saying about, the little birds flock together, but the big birds fly separately. That is where we are. We

are in the big bird category. We do not have a whole flock of people, like sparrows, following us around. They like to tweak us, they like to disagree with us, and they will do it.

But if China comes into the WTO and we do not help bring them in on a friendly, cooperative basis, it spells trouble for us. China's barriers are still very high. The U.S. barriers, as we all know on these committees, are very low.

We cannot unilaterally force China to bring down its trade barriers to us, but it would probably joyfully bring down its trade barriers in the WTO to other countries who had granted them this normal permanent trade relationship.

Now, let us talk a little about normal permanent trade relationship. What is permanent, that the Congress does? Really, nothing. There is nothing that the next Congress cannot undo. For 20 consecutive years, we have debated this issue back and forth.

We have not really increased our knowledge about the situation by a heck of a lot, but we have debated it for 20 consecutive years and we have granted China normal trade relationships. Why not do it again and just call it permanent? That is all that the WTO requires. It is just a formality.

We would be foolish to break off a relationship that means so much to us not to say to the Chinese the same thing we have said to them 20 times in the past: sure, we will trade with you, as long as you treat us fairly and as long as you give us opportunities to penetrate your markets.

They have, with the agreement that you talked about, Senator Grassley, agreed to do that. I think it is an excellent agreement. I have seen a lot of agreements and listened to comments about a lot of agreements.

I hear less dissension about the U.S.-China agreement than I have heard on any other comparable agreement, if there are any comparable agreements around the world with other trading partners. Our people did a good job. We ought to be proud of them.

Now, what does the WTO mean to us? All of us in this group here fought to strengthen the General Agreement on Tariffs and Trade and we created the WTO. We have prospered by that. The WTO is a rule of law, and that is the American way to do business and to treat each other under the rule of law.

I have followed the decisions of the court that has made these decisions, the Banana decision, the most recent decision that we have a little pain with on our tax system. The courts have followed the law and we have profited from all of that. Because we are a country of laws, because we have respect for the rule of law, because we do work under the law, we will prosper, we have prospered, and will continue to prosper.

Now, in closing, I repeat again, I can think of nothing that is more important for members of the Senate and members of the House to do than to stick out their hands, vote yes, and welcome China into the family of nations, to bring them in.

I visited China shortly after President Nixon went there and I was shocked and surprised to find what I found there. I have watched it since that time. They have made more progress in the last 25 or 30 years than most countries have made in 150 years.

They do learn fast. They are smart people. They have many people who want to emulate our system. We should encourage them.

Thank you for this opportunity.

Senator GRASSLEY. Thank you, Sam.

Mr. Hormats?

**STATEMENT OF ROBERT D. HORMATS, VICE CHAIRMAN,
GOLDMAN SACHS (INTERNATIONAL), NEW YORK, NY**

Mr. HORMATS. Thank you very much, Mr. Chairman and members of the committee. It is nice to be back here again, particularly to testify on a subject that is of extreme importance to this country, both in terms of its economic outlook and in terms of political and security outlook not just this year or next year, but over the course of the next 10-15 years.

What the Senate and the House are going to be voting on, probably before the end of May, is extremely important, first of all, in terms of the exports of many Americans. American farms, American factories, American services industries, are going to see a substantial increase in their export opportunities in China as a result of a positive vote and China becoming a member of the WTO.

If, in fact, the United States decides not to provide China with PNTR, then other countries will get the benefits of China's opening and the United States will not—which sacrifices jobs in many sectors of the economy. So, not to vote for PNTR would create great opportunities for the Europeans and Japanese at our expense. That is certainly not very good economics. No constituency in the country would benefit from that.

More broadly, however, the opportunity for China to be part of the WTO reinforces—and I think this is the critical point—the process of reform and the rule of law in China.

The reformers in China who have been at the forefront of the effort since 1978 to improve the lives of the people, to create an opening of China to the rest of the world, to utilize the market system instead of the command-and-control system of the old government and the old regimes in China, these are the people who are advocating PNTR and advocating WTO membership.

So by passing this, we reinforce the development of rule of law in China, we reinforce the development of market forces, and we strengthen the process of reforms which have led to huge improvements in the lives, in the education, in the health care, and the personal liberties of hundreds of millions of Chinese over the last 20 years.

Therefore, the reform process in China is very much on the line here. If the United States, having made a deal with China, refuses to implement it, or implement part of it, that would undermine the reformers and set back the reform process considerably. It would also set back the relationship between China and the United States for years to come.

We have been at the forefront of the effort over the last 20 years to normalize relations, and those have helped. Those who say there have not been major changes in China really have missed the point.

As Congressman Gibbons has indicated, there have been huge changes in China and those changes are largely due to the reform process. The reform process is really what is on the line here.

The trouble with this debate, unfortunately, is that a lot of misconceptions have crept into it which have, I think, convinced some people that PNTR is either not important or that the United States would benefit from turning it down by a negative vote.

I would like to address five of those misconceptions. The first misconception, is that defeat of this legislation will prevent China from becoming a member of the WTO. As Sam Gibbons indicated, it will not. China will become a member. In fact, the U.S. is committed to support its membership, as is every other major country in the world.

If we defeat this, we will not isolate China, we will isolate ourselves because we will stand alone in not providing them with PNTR.

The second misconception is that postponing a vote until next year would enable U.S. negotiators to reach a better deal next year. This is, in my judgment, wishful and unrealistic thinking. In fact, negotiations next year will be more difficult.

First of all, China will be in the WTO by then. Even more difficult, the reformers would not be in a position to give more concessions to the United States. They are already under criticism in China for giving away what they have given away, because some people criticize them for having made too many concessions and opening China too rapidly as a result of the WTO deal they reached with the United States in November.

The critics would say, do not give any more in a subsequent negotiation, and the reformers would certainly find it very difficult to make additional concessions.

Misconception three, is that voting down PNTR would improve human rights, treatment of workers, and environmental conditions in China. Nothing could be further from the truth. The opposite is much more likely; over the last two decades, it is the reformers who have led the process of improvements across the board—improvements in the lives of many millions of Chinese.

Voting down PNTR would weaken the reformers, it would weaken the reform process, and it would slow down the process of reform which is extremely important to the millions of Chinese who expect to benefit from that economically, and in terms of improved political freedoms as well.

The next misconception, is that giving up the annual Congressional vote on the terms of China's market access would somehow give us more leverage over the Chinese. In other words, the argument goes, keeping this annual review process gives us leverage and removing it would not. I think that is wrong.

We have used this process since 1979. It has not led to very much success. This annual process only creates irritation between the two countries. Working in a cooperative environment is much better.

This is a procedure, as many of you will remember, that was started in the 1970's. It was aimed at the Soviet Union, a country that does not exist any more, and it was aimed at increasing emigration from the Soviet Union.

So, it is a bill which may have been appropriate two decades ago vis-a-vis the U.S.S.R.—in my judgment, it probably was not at that point, but one can debate that—but it is certainly not appropriate to take Cold War legislation aimed at the Soviet Union and try to use it against China. It is demonstrably unsuccessful.

The last point, misconception five, is that if Congress does not approve PNTR, the U.S. can conduct productive trade relations on a bilateral basis with China. It does not need the WTO, it can operate on the basis of a bilateral deal.

First of all, that is wrong because China will give benefits to other countries under the WTO and not to us. But it misses a broader point, and that is that once we and the Chinese work together in the WTO and they join the WTO we will be able to use the dispute settlement mechanisms of that institution to support our interests. If we have a problem with them it will not be just bilateral, we will have the whole weight of the WTO apparatus to encourage the Chinese to comply, which is your point, Senator Grassley. Compliance is very important. It is much more effective to use the apparatus of the WTO to get the Chinese to comply than to try to do it bilaterally.

Once we provide them with PNTR, we will have that benefit. If we do not provide them with that, then we will not be within that, WTO framework and we will not be able to use the mechanism of the WTO to achieve our specific goals in terms of compliance if, in fact, they do not comply with parts of the WTO agreement.

Thank you.

Senator GRASSLEY. Thank you.

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

Senator GRASSLEY. Dr. Lardy?

STATEMENT OF DR. NICHOLAS R. LARDY, SENIOR FELLOW IN FOREIGN POLICY STUDIES, THE BROOKINGS INSTITUTION, WASHINGTON, DC

Dr. LARDY. Thank you, Senator Grassley. I would like to thank you and other members of the committee for inviting me to appear before you today to discuss China's accession to the WTO.

What I would like to do, is to give a brief overview of the economic challenges China faces today, how the WTO accession fits into what I think is an emerging new strategy of the leadership for generating economic growth, and then say something briefly about U.S. interests with respect to China's participation in the WTO.

China came through the Asian crisis much better than virtually any other country in the region. Its growth did not go into negative territory, it held its currency constant, and so forth.

But in the wake of the Asian financial crisis, as we see the other countries in the region responding and recovering very positively, China actually is now encountering quite a number of difficulties. Its growth is declining. This will probably be the eighth year in which growth is lower than the year before. Its export growth is down dramatically.

The exports only went up by an average of 3 percent in the last 2 years as opposed to an average annual rate of increase of about 17 percent in the previous decade. Growth of foreign direct invest-

ment began to taper off in 1998, and last year it fell significantly for the first time ever in the reform period. It continues to decline in the early months of this year.

Similarly, their ability to borrow from international banks has been reduced. Bank lending to China has been reduced over the last 2 years by about 20 percent. At first, this was part of a general withdrawal of banks from Asia in the Asian crisis, but more recently it has been a consequence of some major difficulties in certain domestic Chinese financial institutions.

China is also grappling with deflation, a significant deflation, the first in three decades. Real prices have been coming down for some commodities for quite a number of years, but the level of price decline has accelerated over the course of 1999.

I think all of these things suggest major structural problems. They have a pretty aggressive program to deal with them, and I think WTO accession is a major part of that strategy.

In a sense, I think the Chinese are seeking to move away from a growth strategy that relied primarily on very high rates of savings and investment to a growth strategy that relies much more on efficiency and productivity gains.

That depends, obviously, on increasing the role of the market, increasing competition, and even a much larger role for private firms, and obviously a much greater flow of information that supports a market economy. I think the leadership, as Bob has already suggested, sees the WTO as part of that strategy of moving towards a much more market-oriented growth strategy.

There certainly are major risks in that strategy. We have already seen, in anticipation of entry into the WTO, China has accelerated closings of certain state-owned factories that inefficient. Millions of workers have been laid off.

There is substantial dislocation to come in the rural sector as well as they open up their agricultural markets, as Senator Grassley mentioned. One estimate is that eight million wheat farmers will lose their jobs as a consequence of this opening up. So, there are major dislocations to come.

Obviously, there are some significant longer term gains that will come from the productivity benefits, but I think it is a measure of the depth of the commitment of this leadership to a much more market-oriented economy, is that they are willing to incur very significant short-term political costs in order to get the long-term benefits.

I certainly think that the WTO is a key part of the strategy towards moving towards a much more market-oriented economy. In a sense, they are going to try to use the WTO as a lever to move ahead, to accelerate the pace of domestic economic reform, to achieve some of the reforms that they have been working on for a long time but have proved to be somewhat elusive.

Now, let me just say, very briefly, something about how U.S. interests fit into this. Most of this has already been covered. Bob points out, I think quite correctly, that voting against PNTR is not going to serve any interested in the United States, it is only going to give the advantage to the Europeans, the Japanese, the Canadians, the Australians, and every other country in the world. So

certainly not being able to apply the WTO with respect to China will work against our economic interests.

Second, and I think equally importantly, it will work against the reformers in China, as Bob has already indicated. I think we should be embracing the commitment of the China's leadership to integrate China more fully into the international economy, to move towards much greater reliance on market forces to allocate resources, to have further liberalization of the flow of information on which the markets depend, and to allow a much greater role for the private sector.

If we do not get PNTR, we will, in other words, be playing into the hands of conservative elements in China that seek to constrain the growth of the private sector, to limit the role of the market, and to control more tightly the flow of information.

Finally, I would say it is in our interests to approve this at this time because I think it will help our negotiators in the multilateral process. Bob mentioned, there is nothing to be gained by waiting until next year.

I would say, if we move into the multilateral process and we are not in a position to give PNTR to China, that the voice of our negotiators will be reduced. There are a large number of critical issues remaining that must be addressed in the multilateral process. I mention quite a number of them in my prepared statement.

If we are not in a position to give PNTR, my belief is that our negotiators will have a weakened voice in the multilateral process compared to the very strong voice they had, and very effective voice they had, in the bilateral negotiations that led to the agreement in November.

Thank you very much.

[The prepared statement of Dr. Lardy appears in the appendix.]
Senator MOYNIHAN. Thank you, Dr. Lardy.

I just want to tell you what a special pleasure it is to have Chairman Gibbons with us again. Your proposition about rule-based trade is so clear and so very much in our tradition and our interests, that I cannot doubt—well, I do doubt. We are not there in the House. Now, Sam, what are you doing over here?

I wonder if Senator Thompson would not like to ask the first questions.

OPENING STATEMENT OF HON. FRED THOMPSON, A U.S. SENATOR FROM TENNESSEE

Senator THOMPSON. Thank you very much, Senator Moynihan. I guess you can see where we stand as far as members are concerned on this issue. From someone with friends in Middle Tennessee who have footwear factories in China and whose children go to the University of Beijing, it certainly is a different world than it was a few years ago. I think most of us are committed to pursuing free trade.

A couple of points. One—and I understand we have had some hearings on this I was unable to attend—we should keep in mind the context in which we are doing this.

We are about to enter into a new agreement, in all probability, with a country that is consistently delineated by our own intelligence community as the world's greatest proliferator of weapons of mass destruction.

We are hopefully about to embark on a missile defense system to protect us against the very countries and entities that China continues to supply with weapons of mass destruction. We are warned about this threat repeatedly, by Rumsfeld Commission, the CIA, the Cox Committee, public estimates, yearly, biennial estimates, etc.

I think this debate is going to give us an opportunity not only to address these trade issues, but also to address China's proliferation. I do not propose conditionality, but I do suggest that this may be an opportunity—as strange as it may seem, it is difficult to get attention on this subject—to devote some attention to this.

I hope those who are, like myself, committed free traders will look at some opportunities separate and apart, but perhaps contemporaneous with this trade debate that will enhance our ability to get China's attention with regard to their proliferation activities, because we clearly are not right now. I think future generations will hold it against us if we pass this opportunity to address those issues.

Second, it appears to me that it is important that we approach this with our eyes open. As other people have said, perhaps each side is engaged in a little hyperbole from time to time. But I really do wonder about the speed with which we can expect to see change in China and the speed with which we can expect to see a real opening of China.

It seems to me, and I had the privilege of listening to some comments of Mr. Lardy earlier this morning, that, clearly, there is a lot of turmoil going on in China. There is high unemployment, there are some riots.

Even in cases where things are going more through the private sector, you see the same things that went on in Russia, where favored friends get the good stuff, and people see that, and it produces riots.

You also have a very ingrained system of Communist bureaucrats in the People's Liberation Army who are going to have to give up a lot pursuant to this agreement if it is carried out, all of which leads me to believe that the Chinese are going to have to walk a very thin line. They clearly have made a commitment to open up somewhat as far as trade is concerned. They have not made a commitment to divest themselves of power.

So it looks to me like a very delicate and very thin line. A good case could be made that our expectations are much too high. They cannot possibly do what they are committing to do because of the potential unemployment and the ingrained bureaucracy. Especially in light of the compliance problems that we have had with them in the past, it seems like our expectations are too high.

The fact that Mr. Zhu Rongji was criticized so heavily by hardliners really raises questions about compliance. Those who are criticizing Zhu and the other reformers, they also have a role in compliance. What does that say about compliance?

The WTO's ability to monitor compliance is going to depend in large part upon the transparency of the Chinese system, and it is not. It is not. How will the WTO determine what is in violation and what is not?

All of this just simply leads me to believe that we are perhaps much too optimistic about the economic benefits of China's accession to the WTO. Dr. Lardy pointed out earlier today in the context of whether there will be a surge in our exports to China, that their tariffs are already fairly low. I read figures saying that the Chinese buy 2 percent of our exports, and estimates that it may go to 2.5 percent.

So I would just simply ask you your view of whether or not we are being unrealistically optimistic in view of the internal problems that they have got and their history of compliance. It very well may be that we should move forward, but we should understand the limitations of what we are about.

Mr. GIBBONS. Could I respond to that?

Senator MOYNIHAN. Please, sir.

Mr. GIBBONS. First of all, Senator, I think you make some excellent points. Because of my age, I fell in a generation that experienced a lot of war. It penetrates my personality and I am always concerned about it. In my remarks, I tried to touch on that just a little, because I think not only are we talking about our own prosperity, but we are really talking about our own national security.

I think the only way we can really work with the Chinese and get them to do the kind of things that need to be done, is to engage them. Not to stand off and preach at them or to them, but to engage them. I think that they will feel, just as all human beings do, that we have got to be more responsible in living in this very shrinking globe that we live on.

If I could pick out any job on earth, the last job I would pick out would be to be a Chinese leader today. I have never seen in my lifetime any particular group of leaders that have a tougher job than they do. They took an old command society and they are trying to convert it to a market society.

Just a couple of years ago, they had 90 percent of their people on farms. When you would go to their factories, as I took my Ways and Means Committee on a number of factor tours of China, there was not a manager in those factories that did not tell us, we have got five times as many workers as we have got jobs for. We have got one working and four standing around and looking. We know we have got these big problems, but we have got so many people.

I talked to one U.S. Senator who has a farm in the northern part of the United States. He compared his farm to a Chinese farm that we were looking at. The Chinese had 18,000 people on the same acreage that this farmer-Senator had on his same acreage where he did the work with 7 or 8 people. They have got to move people off the farms and into some other kind of productive labor in a society in which there are already more laborers than there are jobs.

No wonder they have so much unrest. You could see it bubbling up 20 years ago, and it is really bubbling up now. They have got a terrific job. I think we can do more by engaging them than we can by standing off and preaching to them and cajoling them.

Yes, it is proper for us as Americans to remind them of their responsibility, but I think we ought to remind them of their responsibility in a constructive way of bringing them in to these institutions, getting them used to the rule of law, and working with them.

I appreciate you giving me so much time, Mr. Chairman.

Senator GRASSLEY. I would be glad to call on Senator Robb if he wants to.

Senator ROBB. Mr. Chairman, I understand that there are about two and a half minutes left. I believe I had better go over and vote and then come back.

Senator GRASSLEY. All right.

I am going to start with questions of Sam, and each of you separately. But if somebody wants to contribute something to a question I ask somebody else, feel free to do it.

The questions are probably very obvious questions, but we do not get a person of your experience, Mr. Gibbons, before this committee where you have had so much political experience as well as understanding the world view. They are also based on some things that I said in my opening statement.

But throughout your career in the House, and especially all your work on the Ways and Means Committee, you have been a leading advocate for what I call the moral case for free trade. I know you believe that there is a moral case for Chinese's membership in the World Trade Organization.

How can we better make this case to Congress? It ought to be easier to make it to Congress than the American people, but eventually to the American people, because I think this is seen purely in economic terms.

Mr. GIBBONS. Well, unfortunately it is. We have failed, frankly, to communicate with those members of the House that have taken up the position that they have. I have tried, but I am no longer within the body and I do not have the persuasive ability that I once thought I had over there.

I think your suggestion that the President ought to come down and address a joint session of the Congress, hold out an olive branch to his Democratic members who disagree with him, and say, listen, gentlemen, we have got to work together. This is not only an economic problem, it is a national security problem. I think that that may appeal to them.

He could also say—this is Sam talking now, not the President talking—that if I listened to the rioters and demonstrators in Seattle, they were not talking about, they did not want a WTO, they really wanted a more aggressive WTO. They wanted a WTO that would have labor rights in it, they wanted a WTO that would have environmental rights in it. They wanted a WTO that was more open, and I think all of us want that.

But they were not really advocating, do away with the WTO. They were really saying, do away with a weak WTO. Give us a stronger one that will do more things. As I listen to my former colleagues over on the House side, I regret that some of them just have not really gotten the message.

So I think you had a good suggestion there, Senator Grassley, that I think we all ought to pursue. Let us encourage the President to come down, to lay the cards on the table, to offer an olive branch to those members of the Democratic party who were disagreeing with him on all of this, and to really set the stage so that America understands that, if we do not do this, we are the losers. We are risking our National security. I think that is what the message is.

We are not omnipotent. We cannot keep China out of the WTO. But if they come in with a grudge against us, they are going to be proliferating weapons even faster than they have been. We want them to work with us. We want to engage with them and have them engage with us.

So I agree with you, Senator Grassley, we have failed as an American public to communicate with those members of the House who look unfavorably upon all of this.

Senator GRASSLEY. Mr. Hormats, your testimony highlights a point that I am concerned about. You state that postponing a vote on permanent normal trade relations until next year will not be to our advantage because it will weaken the process of reform in China.

My sense is that a lot of the radical hard-liners in China do not want China in the World Trade Organization for just that very reason. Do you think that that is the case?

Mr. HORMATS. Yes. I just got back last week from China, and I am confident that that is the case. The irony is, those people who oppose PNTR in the U.S. argue that it will help to strengthen human rights, workers' rights, environmental rights, the whole range of things. In fact, it plays into the hands of exactly the people who do not want to strengthen any of those things, who do not want to support a continuation of the reform process.

The key, and I think Nick pointed it out in his testimony very effectively, is that the reformers who want to strengthen the role of the market, to use China's resources more efficiently, to adhere to the rule of law—these are the people who see the WTO as helping them to do that.

There are a group of people in China who do not want to be part of the WTO, and they do not want to be part of the WTO because they do not want more competition, they do not want to strengthen the rule of law in China. For us to turn our back on this deal would strengthen that latter group of people.

If we were to try to renegotiate this deal next year, first of all, those people would resist it, as they resisted it before. But the people who actually made the deal would be under enormous pressure because, as was pointed out, they came back, they were criticized for having given too much away already.

The notion that, after the United States voted PNTR down, it could come back to the table and the Chinese would give more than they did, I think, just is highly unrealistic. Our negotiators would be in a much, much weaker position. I think getting a deal next year would be ten times more difficult than it was in November, and it was difficult enough, as you will recall.

Senator GRASSLEY. Yes. We spoke a lot about one of the advantages of China being in the WTO, is accountability and being subject to the rule of law and the WTO rules, and particularly their involvement with dispute settlement.

Of course, that is something that I agree very much with. But is it not the case that, simply being a WTO member will make a difference because China will have many more informal contacts, perhaps, on a daily basis with important trading partners? Is that not an important advantage of permanent normal trade relations, as well as WTO membership?

Mr. **HORMATS**. Indeed. Indeed, it is. I think one of the things, the openness of China to contacts with foreign government officials and with the private sectors in the United States and other parts of the world, is an extremely important part of the process, as you point out, Senator **Grassley**. I think you are absolutely right.

One way to look at it, is this. In a system where you have command and control economics, the power structure depends on a few major players making the economic decisions.

Once you open up the economy and you have decisions made, in effect, by the market, you open a lot more of the economy up to interaction with American exporters, American investors, indeed, investors and exporters from all over the world.

I think this process of a diffusion of power, pluralism in the economy, is extremely important. First of all, it would make the economy more efficient. Second, it reduces the power of those who want to use their influence to control the economy and control the society, both economically and politically.

And **Deng Xiaoping** understood this. One of the reasons he wanted it more open, is he saw that it was going to strengthen the economy and also lead to more pluralism in their society.

That process has been continued by the reformers today, which is why you have all of these Chinese students studying here, you have a lot of people going there, and the WTO process and PNTR simply reinforced those sorts of changes.

Senator **GRASSLEY**. Dr. **Lardy**, there clearly seems to be a commitment at the highest levels to these fundamental changes within China. But I have a question about how far down in government layers below the national government, or even lower levels within the national government, go.

For instance, could the ministries or local governments inhibit compliance even though the highest levels are for it?

Dr. **LARDY**. Well, I think that certainly to some extent they can, and we have seen that, for example, in the case of the Ministry of Information, where the leadership of that organization has, quite frankly, been engaged in a long-term process of trying to maintain the monopolistic control of the single telecoms provider.

I think the lesson, though, is if you get them into the WTO, they will lose that battle more rapidly. If they stay out of the WTO, they do not have to allow investment in telecoms, for example. It is going to strengthen those people.

So, yes, there could be some slippage. There will be resistance, but I think that getting them into the WTO, and particularly their willingness to open up the service sector, will move them in the right direction much more rapidly than would occur if they did not come in.

The other thing I should say, is that sometimes people down below are more liberal. I can point to examples of things that are being allowed locally that are in violation of national regulations.

A U.S. petroleum company, for example, operates a huge string of filling stations in Guangdong Province. Technically, it is illegal, but they have an arrangement with the local authorities. They are going to expand their market dramatically out of that province once China comes into the WTO and distribution is liberalized.

But there is an example where the local authorities have actually taken a more liberal attitude on opening up and foreign access than the central authority. So, it is a mixed picture.

Senator GRASSLEY. I am going to delay two questions so that Senator Conrad can ask questions, because we are in the middle of two votes here, and I want to get as many questions in as we can.

Would you proceed, Senator Conrad?

Senator CONRAD. Thank you very much, Senator Grassley, for your accommodation and your graciousness. I appreciate it.

This has been a terrific panel. I wish that the American people could have all just heard these three witnesses, because I think it would make a difference in many people's views.

Congressman Gibbons, I want to tell you, I just recently re-read D-Day and read about your contribution. You can be incredibly proud of what you did for our country. Once again, you are standing up for the United States and doing it, as you always do, in a very distinguished way. It is awfully good to see you again.

Bob Hormats is a good friend. It is wonderful to have you here. I thought your going through the misconceptions was right on target, because I find that in the debates and discussions we have had behind the scenes, you have really targeted the things that I hear repeatedly that are real misunderstandings about what this vote means.

There are so many people who believe that if we say no, this means China is out of the WTO. That is just not the case. The one who is going to get isolated here, is us. Now, that is a serious mistake. We understand there are problems in China. There are deep problems. There are abuses of human rights in China. We all understand that.

The question is, what course has the best chance of reducing those violations? That is the key question. The key question is, what will be the implications of a failure to vote normal trading relations with China?

Dr. Lardy, awfully good to see you again. I had the privilege of going to China with Dr. Lardy and benefitting from his insights while we were there. It was a really informative and educational trip. I do not think anybody who was on that trip could have come back without a very strong feeling that we have got to find a way to work with the Chinese people. That is absolutely in our interests.

In just moments, I am to meet with representatives of the United Auto Workers. They feel very strongly that this threatens jobs in the United States.

Dr. Lardy, how would you react to that argument?

Dr. LARDY. Well, I think that, particularly in the short run, there is a significant creation of jobs, even in the auto industry. The Buick plant that is operating in Shanghai that produced something like 40,000 cars last year is importing large numbers of parts and components from the United States. So even the production there is, in a sense, supporting jobs in the U.S.

I do not think China, given its large size and its rapidly growing income, is going to be an economy that is going to rely entirely on

cars coming from the U.S. I think that is simply not on, so we have to look and see what the real opportunities are.

I think investment by foreign companies there has created jobs in the U.S., and, as the tariffs come down under that deal, there will be a limited market for imported vehicles as well. It will be significantly larger than it has been.

The quota is going up to \$6 billion on entry, and then will rise by 15 percent per year. Given the rate of growth of the economy, I think there will be substantial opportunities for increased sales of vehicles into that market. They are not going to be huge.

Most of the demand is going to be met by domestic companies and, most importantly, by the foreign invested companies that are already there, Volkswagen, for example. The Shanghai Volkswagen plant is the single biggest producer of cars in China. The GM plant will become one of the larger producers over the course of this year.

So I think they have to have a realistic assessment of what is possible, and I think in that context this is a pretty good deal.

Senator CONRAD. Bob, one of the arguments that will be made momentarily to me, is that we give up our leverage on the human rights questions if we grant permanent normal trade relations with China. How would you respond to that?

Mr. HORMATS. That is really one of the key misconceptions. For 19 years, we have been doing this every year. There is a vote on whether to continue MFN, or now NTR, another year. For 19 years, it has had very little effect.

The notion that this somehow constitutes real leverage is a myth, in two respects. One, because we have not seen any demonstrable evidence that it is a source of leverage, because most Chinese and most Americans know that the Congress is not going to vote down that annual extension.

Nineteen Congresses and Democratic and Republican Presidents alike have supported continuation, and are likely to do so for quite some time to come. So, it is not real leverage at all, it just serves as an irritant in the relationship.

Second, we are the only country that does that. So, in fact, if we want to preserve this myth that we have any leverage, we are going to do so at a very high cost to Americans. The high cost will be that the Chinese will not apply their version of most favored nation treatment to us because the WTO requires unconditional MFN.

Senator MOYNIHAN. Sir, could I say that we spent two full years getting that "most favored nation" phrase turned into "normal trade relations."

Mr. HORMATS. Right.

Senator MOYNIHAN. It does not help you at all to say that Communist China is our most favored nation.

Mr. HORMATS. I am using the old term which is in the GATT, which is still in the GATT.

Senator MOYNIHAN. Exactly. It is a 17th century term.

Mr. HORMATS. It is a 17th century term. The point is, the legislation that we are using to hit the Chinese is Cold War legislation. That is the point. This is legislation which essentially was aimed at the Soviet Union for emigration reasons. There is no longer any

Soviet Union, there is no longer an emigration problem, but we have turned this legislation on China.

The basic point is, normal trade relations, if we do not extend it to China, they will not extend it to us. Our products will not get the benefit of WTO in the Chinese market. That is the real issue.

So, first, we are not really giving up any real leverage, because we do not have that leverage to begin with. We have never exercised it, no one ever believes we will. Second, it has not benefitted us at all on any of the counts that these people argue it might. Third, we pay a very high price in terms of our own trade and investment opportunities in China for continuing this myth. That is the way I would answer that question.

I take Senator Moynihan's injunction and will use NTR now in perpetuity. [Laughter.]

Senator CONRAD. That is always wise.

Mr. Gibbons, if I could ask you, you have served in the highest position of authority in the Congress in terms of the committee structure as chairman of the Ways and Means Committee.

You have had many experiences in life, as you started your testimony by saying. What is your judgment of what it would mean to our country if we failed to pass permanent normal trade relations with China at this point?

Mr. GIBBONS. I think it would be a terrible setback for us, and it would be a terrible setback for global security. I know there are many members of Congress who are dissatisfied with China's present conditions.

I learned a long time ago, was taught and learned it from experience, that if you would lead, you have got to be a leader. A leader does not really get many followers by saying, you do as I tell you. If you want to be a leader, you have got to say, follow me. Let us go.

That is what we have got to do, we have got to engage the Chinese. They do not respond positively to our corrective rhetoric. They are just human beings like all the rest of us and they do not respond.

One of the first principles of leadership is not to give up and say, well, you do as I tell you. You go out there and do it. The way you lead, is you say, come on, follow me. That is what we ought to be doing.

What a wonderful tradition we have got to sell: the highest standard of living on earth, the most open society on earth, the greatest opportunity society that anybody has ever produced. We have got so much to sell by saying follow me, not do as I tell you.

Senator CONRAD. Well stated. Thank you, Senator Moynihan.

Senator MOYNIHAN. It sounded like World War II, to me, infantry. Right?

Mr. GIBBONS. Those are things that have been distilled from, not just my experience, but years and years of experience of people who find themselves in the role of being a leader.

Senator MOYNIHAN. Yes, sir.

Mr. GIBBONS. You know that from your study of people, that you lead by saying follow me, not just, do as I tell you; this is the way you ought to do it. That does not work.

Senator CONRAD. Might I ask one more question of Dr. Lardy?

Senator MOYNIHAN. Of course you may.

Senator CONRAD. I would like to go back to the economic questions. You started your testimony with some very interesting statistics on what is happening to the Chinese economy in terms of reduction in the growth rate.

What do you believe the implications are for their economy and the international economy if there were a failure to pass NTR in this country?

Dr. LARDY. Well, if there were a failure to pass NTR but China still came into the World Trade Organization, as we all agreed, almost, certainly would, the negative implications really are in the U.S.

In other words, I think they would still be able to use increased international competition as a prod to increase productivity and efficiency in their own domestic economy.

I think they would play a greater role in the world economy; their exports would grow more rapidly than they have been in recent years, they would attract more foreign investment because of the liberalization of various service sectors.

It would just be other countries' companies that would be able to take advantage of these opportunities. We would have British investment banks, Swedish telecom providers, and so forth that would be taking advantage of the new opportunities.

Everybody that has tried to model this in a sophisticated way has found that China coming into the World Trade Organization will make a real difference to world economic growth.

It is just a big enough economy that its participation at a higher level will have positive effects on the entire global economy. If we are not in that, we would benefit still indirectly, but it would be a very indirect benefit.

So I think the negative implications, in economic terms, would fall primarily on the U.S. I think China would still benefit from participating in the WTO, even if it did not get most favored nation status in our market. So, the costs would be borne mostly in the U.S.

Senator CONRAD. Again, thank you. I think this has been a terrific panel. I wish I could stay and hear more, but we have a vote on on the floor.

Senator MOYNIHAN. We do. I must apologize to the panel. This is the final day of our budget deliberations. You have been there, Mr. Chairman. There will be votes every 30 minutes from now until midnight. It is called the world's greatest deliberative body, but it is not, not on budget day.

Could I ask just one question, though? It is not, perhaps, something you have been thinking a lot of. I do not know, indeed, how you do think of it.

But the Chinese are facing a fair amount of internal unrest and dislocation, are they not? I mean, when one reads about coal mines closing and the PLA encounters, the equivalent of strikes. That is a very chancy world that they are coming into, and this will expedite it.

Sir?

Mr. HORMATS. As has been pointed out by all of us, there are lots of layoffs that are involved in closing these highly inefficient state enterprises.

The Chinese know they have to do it because they cannot keep subsidizing them forever, and they do waste a lot of the country's resources. Therefore there will be layoffs and those do cause social tensions. Therefore, there are major short-term adjustment risks involved.

The hope is that some of those risks can be offset by such things as additional foreign investment, which does create jobs, and more productive jobs, at that.

Also, utilizing resources efficiently will shift resources from some of these old, inefficient state enterprises to some of the newer sectors, like the services sector, the information technology sector, which is growing. So there are some areas in which job creation is beginning to take place, but the transition is going to be a painful one. Very painful.

Senator MOYNIHAN. It is going to be hideous.

Mr. HORMATS. Yes. No question about it, it is painful. Which is another strong reason for voting for this, because the reformers have stuck their necks out on the line and understand that they need to go through short-term pain for long-term gain.

We can help them get through their short-term pain by (a) giving them the kind of support which they would get if this were passed. It would be much harder politically if we turned our backs on them at this point. And (b) the investment environment is extremely important to them.

The investment environment, particularly for American companies, would be enhanced if we passed PNTR and they get into the WTO. If we do not pass PNTR, I think it would have a negative effect, at least for Americans, on the investment environment, which would be negative from the point of view of absorbing these displaced workers.

Senator MOYNIHAN. And concerns such as Senator Thompson was raising.

Mr. HORMATS. Yes, exactly. Implementation is tough. I will give you an example, Senator. You know this better than I. The Europeans have created the single market. For China, almost all the adjustment implied in this WTO agreement is to take place over 5 years, some of it is less than 5 years, in some cases two, three.

Five years is the outside, I think. The Europeans, a more sophisticated modern economy, have taken a lot longer to implement the single market that they have created. We have seen the adjustment pains there.

The Chinese are taking on a major adjustment effort and it is much more rapid than Europe, in a bigger economy with a lot more inefficient industries than Europe, so you can imagine how much transitional pain will be involved.

Senator MOYNIHAN. I would just like to say thank you for that.

I would say to Dr. Lardy, not you, sir, but somebody over at Brookings has got to start looking into this new phenomenon of the isolationism, I will be blunt, that the left has been producing and advocating in this country. I mean, Seattle was no small event. It has not stopped, and we are in a very close-run thing.

Dr. LARDY. I could not agree more. I think the forces that were represented at Seattle are certainly very isolationist and they are growing. It is a very worrisome trend.

Senator MOYNIHAN. So much for rationality.

Senator Baucus?

Senator BAUCUS. Thank you very much, Senator, for waiting. I apologize to the panel.

I would like to follow up a little bit on a point that Senator Thompson was making, namely, let us make sure we go into this with our eyes wide open. A phrase I sometimes use is, engagement without illusions.

As I was walking in after the vote, I thought I heard a bit of discussion on monitoring, compliance, and issues like that. That is what I would like to discuss with you.

As you know, we have had a hard time following up with trade agreements. We sometimes, after we sign them, have difficulty making sure that they are enforced, they are executed, and so forth. It depends partly on the degree to which the administration pushes and follows up.

We have had, over the years, many difficulties with agreements with Japan, for example. With China, there are the intellectual property rights agreements. Essentially, I am looking for ways to better assure the people in our country and the Congress that we will follow up or encourage other countries better to follow up on agreements that they make.

The American Chamber of Commerce in Japan, for example, issued a recent report evaluating all U.S.-Japanese trade agreements since 1980, and their conclusion was that 47 percent of those agreements were unsuccessful, or only partially successful. Not a very good record.

I have introduced legislation somewhat similar to the efforts that Congressman Levin is pursuing. My idea is to do what we can to better assure that China is going to live up to this agreement, and on a timely basis.

Now, I am not trying to set conditions. I do not think we should set conditions to PNTR. That is just not going to work. But I do think we need some kind of mechanism. Congressman Levin talks about an Executive/Legislative Commission on Human Rights that reports to the Congress.

My proposal is to basically have the Ways and Means Committee or Finance Committee require that USTR initiate a Section 301 investigation of Chinese practices that we believe violate WTO commitments, especially for the more egregious violations as we see them.

I believe that, without these kinds of measures, we cannot be confident that the commitments will be met. This is something I am going to vigorously pursue during the coming debate on PNTR, again, because I believe this is part and parcel of the larger solution.

I would just like your thoughts. Mr. Hornats, you have been a negotiator for many, many years. Based on your experience, I would appreciate your thoughts on the degree to which something like that is appropriate.

Mr. HORMATS. I think implementation is going to be very complicated and very difficult. Members of this panel have commented on this. Follow-up is going to be critical.

It is going to be critical to the credibility of the agreement because agreements that are not followed up on over a period of time do lose credibility, and it makes it harder to negotiate the next agreement because negotiators do not enjoy the same confidence that they would if there were good implementation.

I think, in the case of China, it is going to be very hard in some cases to get smooth implementation of many aspects of this agreement, in part, for the reasons that Nick mentioned earlier. Even now there is resistance to some of the commitments that were made. In some of the provinces, there is going to be resistance, in some of the state enterprises there is going to be resistance.

But I think one way to look at these agreements, at least I have always done it, is that even in the United States when we enact laws, compliance is not always perfect and not always immediate. It takes the bureaucracy, as you know, quite some time to do the implementation.

Senator BAUCUS. Well, what kind of compliance makes sense here? What could Congress enact that would make sense?

Mr. HORMATS. I think you are right not to link it to this particular PNTR legislation, but I do think that some kind of monitoring process does make sense. It makes sense across the board, and I think it certainly makes sense here. To have the executive branch testify periodically on the implementation certainly makes sense.

Senator BAUCUS. The bill I have in mind would require that the President submit an annual plan to Congress for monitoring Chinese compliance, and also an annual report on the results of that monitoring.

Then have the GAO supplement that information by surveying the top American firms doing business in China in various relevant areas, and get their views about the degree to which China is abiding by its commitments.

Mr. HORMATS. I do not think that is unreasonable at all. Those are reasonable suggestions. Your point, engagement without illusion, is right. Anyone who expects that implementation is going to be done immediately and smoothly, is mistaken. That does not happen, and it is not just China. Many countries do not implement quickly or smoothly.

Again, the European Union is a good example. Many of the things that have been agreed in the European Union for creating a single market have not been implemented yet because governments do not enact the proper legislation.

So China is really no different. It is going to be complicated, but I think monitoring the kinds of reports that you have suggested is a very fair way of the Congress keeping tabs on what is going on and identifying where problems emerge, and trying to figure out solutions to them during the implementation.

Senator BAUCUS. Sometimes, though, in our form of government with separation of powers, I think it is important for the Congress to keep the administration's feet to the fire. I do not believe current monitoring is sufficient.

Mr. HORMATS. I would start out with monitoring and then see if you need to go beyond that. I think the outline of what you have suggested makes a lot of sense, monitoring and having them report, and also talking to businesses who, in many cases, are closer to the problem than the government, and probably in some circumstances can give you a warning if something is not being done.

Senator BAUCUS. All right.

Sam?

Mr. GIBBONS. Can I take a crack at that?

Senator BAUCUS. Yes.

Mr. GIBBONS. I have no objection to the government monitoring these things. I think it ought to, and it ought to be vigorous. We should have no illusions about, this is going to be simple or easy, because nobody on earth has got a bigger adjustment problem, not just because there are so many China, but because they are so different than all the rest of us. They have got a tremendous amount of adjustment to make, and it is going to tend to destabilize their economy and their political system. So, we have got some rough roads ahead of us.

My suggestion is that the members of Congress just face up to the news media and say, hey, I am going to China. It is important for our country that I go to China. Just go over there and look around, all the Senators, all of the Representatives. I do not mean all go at one time, or any great show, but get over there, get there regularly, and get there often, because we are dealing with one-fifth of the people on earth. We are dealing in the most important areas.

National security is a very important problem for us, and for the Chinese, and for the world as a whole. Get the American business people over there. They will tell you the unvarnished truth about whether the Chinese are living up to the agreement.

I think we need to engage with those folks. Get the air fares down. Make it possible and not so much red tape on our side, or their side either, to permit a decent amount of travel to look and see, and examine the Chinese system, and how they are carrying out their obligations.

Senator BAUCUS. I agree with you, Sam. Frankly, I have found when I take, for example, Montana businessmen to China, and I have done it several times, it helps all the way around.

Mr. GIBBONS. Wonderful.

Senator BAUCUS. Big articles in the press of how it is a good idea and how Montana businessmen are getting some contacts. It is not immediate, of course, but it is a beginning. I know Senator Rockefeller has done this for years with West Virginians. It is something that works and is a good idea.

Dr. Lardy, I am wondering about your view on how well the people in China recognize the benefits, short-term, medium-term, long-term, of reform? There are a lot of riots, a lot of dislocations, urban and rural. How deep is the understanding, if it exists, among the people that maybe this is important?

Dr. LARDY. I think the best way of summarizing what is going on, is obviously large numbers of people do see the benefits. In this economy, exports have gone from nothing to almost \$200 billion in a relatively short period of time.

Senator BAUCUS. I am talking about the people.

Dr. LARDY. The people that have moved to Shunjian and the areas where exports have been growing rapidly, they have moved from poor, rural areas and are now living in a modern city with a level of consumption and welfare that they never dreamed of a decade or so ago, now, obviously, that is part.

On the other side, you have got people working in coal mines that are going to close down, or other industries that are not competitive that will shrink. So, I think it is very much a mixed picture of winners and losers, and I think that is why the balance that we have been discussing is very much worth watching, and I think we ought to be doing what we can to support those who are in favor of moving ahead on the reforms, even though there are the short-term costs.

I think it has trickled down. I think even people in the rural areas today understand that product prices in China are a function of what is happening in the international economy. They used to operate almost in a vacuum, where international prices had very little effect on what was going on, the government set prices for everything. Now they are following international prices quite closely.

If I could come back on your question about monitoring. I would urge that, in addition to whatever else is done, that as much as possible be made multilateral. I think a very strong trade policy review mechanism probably will be more effective in the long run than something we do unilaterally on our own. I think the human rights shows that.

I mean, the Chinese do not pay any attention to the State Department Annual Report on Human Rights. They pay very close attention to what happens in Geneva. They lobby like mad to get an outcome they want. When the international community as a whole brings pressure on them, they are much more responsive than when they feel it is a single country that perhaps, on its own, does not have a perfect record in most areas.

So I think the extent to which you can have a powerful trade policy review mechanism, that will be one of the issues negotiated in a multilateral process in the protocol and the report of the Working Party. If we can get the Europeans and other countries to support that, it will serve our long-term interests probably more effectively than something we do unilaterally on our own.

Senator BAUCUS. I appreciate that. I agree with a lot of that. But, still, I am going to push vigorously to get some kind of monitoring and compliance provision enacted in conjunction with PNTR, because I think it is better to get something started early on. We will consider the multilateral aspect at the same time. Thank you very much.

Thank you, Mr. Chairman.

Senator GRASSLEY. Senator Robb?

Senator ROBB. Thank you, Mr. Chairman.

I thank all three of you for joining us today and for your insightful testimony. I think the vast majority of the people on this committee support the conclusion that you come to and the rational that you advance for getting to that conclusion.

Nonetheless, we have a real problem, particularly, Mr. Chairman, with some of your former colleagues on the other side, and

with some of our friends and allies for those of us on this side of the aisle, in particular.

I happen to believe that this is, on balance, good for the vast majority of those who, nonetheless, oppose it. I am just wondering how you deal with, particularly some of your former colleagues on the House side, and some of the emotional arguments that are presented.

How would you, as the former chairman of the Ways and Means Committee, persuade some of your former colleagues that this is ultimately in the best interests of the people that they are representing?

How do you break through the concern that you hear so often expressed, that either we lose leverage or we are rewarding the kind of behavior that we do not want to reward, or whatever the case may be.

I frequently use the analogy that it is hard to convince one person who may have a low-paying job that might be vulnerable, that it is going to be in his or her best interests to have two out-of-work cousins get a better-paying job in terms of trade if you happen to represent the person who has a current low-paying job. That is your responsibility.

How do we get past that? How do we provide the kind of reassurance to those who feel truly threatened by some of the changes that are taking place in this global economy today? Your arguments in all three cases are good, solid, objective, intellectual responses. How do we deal with the emotion?

Mr. GIBBONS. Well, I have given that a considerable amount of thought. I think, first of all, you have to not isolate them from the mainstream of the Congress here, and you must listen to them. You must, as your distinguished father-in-law used to say, come let us reason together. Come let us reason together.

Senator ROBB. But, as you know, reasoning is sometimes more difficult when there is emotion involved.

Mr. GIBBONS. It is very difficult in a public forum. But you have got to sit down on a one-on-one basis and reason with them. I find that they respond because they feel like they are being treated as an intelligent person, and I am not sure how many of them you would convert.

I would like to convert them all, but I found in my experience as a person in politics that you do not convert them all, you just get enough. So, let us go back to what President Johnson used to say when he would face some difficulties; come on, Sam. Let us sit down and reason together. Or come on, Mr. So and So, let us sit down and reason together. Do not vilify them, do not criticize them for their views, but be respectful of them. Just have a little prayer session with them, and listen to them. Most of them will come along.

Senator ROBB. Ambassador Hormats?

Mr. HORMATS. One point I would like to make, Senator Robb, is there is a tendency to look at this like people looked at NAFTA, which is, we open our market more to Mexico and they opened their market more to the U.S. There was this notion of this giant sucking sound that Perot talked about, which really, as we know, is not happening. But the basic point here is, this really was not

a give-and-take like NAFTA. This was, essentially, we did really nothing new to open our markets.

The Chinese did a lot to open their market. I think people sort of look at this in the NAFTA context. It is quite different. The vast change that has occurred here, has been China opening up their market to a very substantial number of American manufactured goods, farm products, and services.

What we essentially committed to was what we are discussing here today, PNTR. Therefore, the job risk here, I think, is far, far less. The people talk about it—

Senator ROBB. I understand the facts, again.

Mr. HORMATS. But it seems to me that they look at it in the NAFTA context when it is really a very different thing. I really do not see so much of a threat as a result of this particular piece of legislation to American jobs. Psychologically, perhaps, but in real terms, relatively small.

Senator ROBB. Let me ask you another question, if I may. How do both Zhu Rongji and Jiang Zemin implement these changes quickly, hold on to power, and control the dissent over this unemployment that you alluded to earlier, simultaneously?

Dr. LARDY. I think, in effect, they have made a calculated gamble. If they close their economy, that things will go worse faster than if they open their economy, have more competition in the market.

They have been trying to move ahead on some of these reforms, as we know, for quite a long time, restructuring enterprises, improving the financial system. They have done a lot of good things, but I think they have come to the view that it has not been fast enough, and they need additional.

So, I think it is a calculated gamble that they will have a better chance of resuming the growth momentum and being able to sustain it under the course they are now pursuing than if they had stayed on the old course.

Quite frankly, I think there is no better way to describe it than to say it is a gamble, and it may not work, but I think their view is, to not try this course would be even more risky.

Senator ROBB. Thank you, Mr. Chairman. My time has expired. I thank all three of our witnesses.

Senator GRASSLEY. All right. Thank you all very much. We appreciate your cooperation through the votes we had and all of the problems caused with that. So, thank you all very much.

Now, I am going to call our second panel. It is made up of three outstanding witnesses. We have Ira Shapiro, who is a partner with Long, Aldridge & Norman, and a former Deputy U.S. Trade Representative. Then we have Dr. Dermot Hayes. He is the chair in Agri Business at Iowa State University by the Pioneer Hi-Bred International Corporation.

And Mr. Douglas Lowenstein is president of the Interactive Digital Software Association. So we would take Mr. Shapiro, Dr. Hayes, and Mr. Lowenstein.

STATEMENT OF HON. IRA S. SHAPIRO, PARTNER, LONG, ALDRIDGE & NORMAN, FORMER USTR AMBASSADOR AND CHIEF NEGOTIATOR FOR JAPAN AND CANADA, WASHINGTON, DC

Mr. SHAPIRO. Thank you, Mr. Chairman. I appreciate the opportunity to be here with the Finance Committee, where I spent a lot of time in 1993 and 1994 when you were taking the lead, along with Chairman Gibbons, in implementing the NAFTA and the Uruguay Round. It brings back some fond memories, and it is always an honor to be here.

Frankly, it is also an honor to follow a panel like that, because that was an extraordinary group of people who covered many of the important issues, and I will not belabor them.

Very simply, I share the view of those who have said it is critically important that China enter the WTO and that Congress votes to establish permanent NTR. Frankly, the agreement negotiated by Ambassador Barshefsky and others was a remarkable accomplishment far exceeding what we reasonably thought could have been ascertained and obtained through negotiations.

This is not a case where we have traded off anything, as Bob Hormats pointed out. This is unilateral concessions by China. Nor is it a case, I think, where we have done something for our agriculture interests but not for our high-technology interests.

We benefit across the board, from agriculture, to services, to manufacturing, to high technology. I would say, the other thing about this agreement that is very important, if that was not enough on the economics, Ambassador Barshefsky and others made sure to protect our import-sensitive industries, recognizing where China was in its evolution, that it is not a market economy yet, fully. So, we made provisions for a special methodology in the dumping area, special safeguards for our import-sensitive industries.

I, frankly, believe that the only way to explain this agreement, besides the talent and tenacity of our negotiators, was that their efforts converged with the Chinese leadership decision to reform the economy.

That is the reason you get this kind of an agreement, a fundamental choice by the Chinese leadership, taken after only fierce internal debate, and risks that are still very high, as the previous panel said. We know there is an enormous amount of restructuring and dislocation that is going to follow.

Mr. Chairman, it is understandable, I think, that we focus on the costs and the benefits for the U.S., but I do think it is important that we not miss the historic importance of this moment in China. We need a sense of history and we need a sense of empathy.

One of the things about this agreement, I think, that is important, is that the opponents have made a couple of make-weight legal arguments, very frankly, that I hope this committee and others will brush past. There is no evidence and no reason to believe that we can deny China permanent NTR and then somehow claim the benefits of the agreement. There is simply no legal basis for that.

Hanging a Sword of Damocles over China's normal trade relations status is a discrimination against China. We cannot treat all

our trading partners one way, discriminate against China, and then say we will also get the benefits. That is simply not going to happen.

Nor is it, frankly, the case that the 1979 agreement, which was a notable accomplishment at that time, a three-page agreement which did commit China on tariffs, it does not give us the full range of benefits that we are looking for here at all, services, TRIMs, intellectual property, agriculture. It is simply a make-weight argument.

Frankly, it indicates that the opponents recognize just how clear the economic benefits are, because they have tried to make arguments as to why we are really going to get the benefits even if we vote against permanent NTR.

I think that one of the real issues—as opposed to the make-weight issues—is the enforceability of the agreements. The opponents apparently believe we would be better off using Section 301, pursuing China bilaterally rather than having them in the WTO. I certainly favored Section 301 and aggressive use of it to open China's market in the past.

In 1992, we had some important agreements that Ambassador Hills negotiated on market access. We have had important intellectual property agreements. But those were tools you used to open the markets a little at a time when you weren't getting these kind of sweeping commitments.

Right now, we get the sweeping commitments under the WTO agreement and we get the right to enforce them through dispute settlement. I am not underestimating the difficulty of enforcement.

Frankly, we have difficulties enforcing our agreements against our other trading partners. But we are far better off, as our industries have indicated, going in this direction and enforcing through the multilateral system.

I do think, and I do not want to abuse my time, that former Chairman Moynihan, with his sense of history, is entirely correct that we are at a critical juncture here. I was going to say this was the most important vote of the decade, but I actually think the convergence of the economic and foreign policy implications here make this of really a different magnitude.

This vote will do much to determine our future relationship with China, and it is actually one of a historic handful of Congressional votes since the end of World War II. There is nothing that this Congress is going to do this year, or frankly any other year, that is any more important than this.

Senator GRASSLEY. He asked me, did I hear that. I did hear it, and I agree with it. It is very important.

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

Senator GRASSLEY. Now, Dr. Hayes.

STATEMENT OF DR. DERMOT J. HAYES, PIONEER HI-BRED INTERNATIONAL CHAIR IN AGRI BUSINESS, IOWA STATE UNIVERSITY, AMES, IA

Dr. HAYES. Thank you. My area of interest is in agriculture and agri business. I would like to quickly point out how important this agreement is to agriculture in the U.S., and then speak about the

framework and some issues that concern me from my knowledge of the China economy and the way that we might achieve the benefits that are potentially there.

A useful statistic for looking at the potential benefits, is that China has a disproportionate number of people as compared to land. They have about 21 percent of the world's people, and only 7 percent of the land. Some other region has to have the opposite, and that is us. We have far more land than we have people. Europe and South America have about the same proportions of people as they do land.

I have been running computer simulations of how China would evolve for us, and the way it works out is that their income grows, they have very low consumption of imported items. By the way, their official statistics are incorrect. When we do surveys over there, we find that they really do not have as much meat as the government says they have.

So, we see enormous potential growth in meat consumption. That requires feed grains to come in. Once feed grains become imported rather than exported, their meat industries are not competitive any more. In the long run, we see enormous potential meat exports into those countries.

One other issue that we have noticed in China, is that their consumers are very compatible with ours. If you take a hog carcass and divide it up, they will favor the cuts that we do not want, and we will eat the cuts that they do not want. It is kind of like Jack Sprat and his wife, and we can lick the platter clean.

We have done some estimates on that. They could add \$5 to the average value of a pork carcass simply because they will pay so much more for the cuts that are not being used in the U.S. at the moment.

So the potentials are there because of the resources they have, and also because of the type of consumption patterns they have. The obvious implication of what I have just said, is that the U.S. farmer would benefit tremendously over a long period. A rough estimate is that they are about 10 times as important as Japan.

We do not think that that would cause severe increases in world prices. In fact, it is important to let the Chinese leadership know that the world can quickly and easily meet their needs without dramatic price increases.

That seems to be one of the big fears over there, that if they began importing that it would have such a big impact on world prices that they would end up paying more for food, and that is simply not true. With a little bit of thought, they could see that that is not true. They are always better off getting cheap imports than they are trying to grow it themselves.

Now I want to turn to my second point, which is the way the markets work in China, or do not work. Their government is completely intertwined in every aspect of business. As one example, we were in a southern Chinese city. I was, as an academic, trying to find out what would be required to get some particular livestock products in.

But I was with a major U.S. business corporation, and as soon as the officials knew that this country was interested in doing business, these same officials that were in charge of the sanitation,

brought us to another office where that official had an import business.

That seems to be the way things work over there, is that the government, on one hand, is implementing regulations, and then they turn around and the same officials are actually running businesses to benefit from the way those regulations are implemented.

That would be a major concern for me, because I can see a situation where we get the agreement, which looks excellent on paper, which does not turn out to be of an real use because some of the provisions are simply countermanded by the officials who would lose their profitable markets right now under a more free trade.

I will give you one example of how badly things can go wrong. In the Philippines, we got them to agree to import 30,000 tons of pork. They should have imported it; their prices are much higher than ours.

The imports never happened, in part, because the government allocated the import licenses to the Pork Producers Association in the Philippines, and that is the kind of insights and intelligence that can be used to countermand any agreement in China as well.

So the last point I want to make, is there is a solution. I am an economist, and it is a simple solution. All we have to do, is to watch prices in the U.S., adjust them for transportation costs and tariff, and then Chinese prices should not be substantially higher than those. They cannot get around that one.

Thank you for your attention.

Senator GRASSLEY. Thank you, Dr. Hayes.

[The prepared statement of Dr. Hayes appears in the appendix.]

Senator GRASSLEY. Now, Mr. Lowenstein.

STATEMENT OF DOUGLAS LOWENSTEIN, PRESIDENT, INTERACTIVE DIGITAL SOFTWARE ASSOCIATION, WASHINGTON, DC

Mr. LOWENSTEIN. Thank you, Mr. Chairman and members of the committee. I am glad to be here to discuss the U.S. video game and computer game software industry's support of the legislation to grant permanent normal trade relations status to China and its full admission into the World Trade Organization.

Briefly, I want to tell you a little bit about our industry, since you may not be familiar with it, particularly as familiar with it as you are with some other industries in the U.S.-content community.

We did \$6.1 billion in retail sales last year in the United States alone, and \$17 billion worldwide. Many of our members now generate 40 percent or more of their revenue from foreign markets.

Between 1991 and 1999, the industry has grown more than 145 percent, which outstrips the growth rate of any entertainment sector in the world today. We employ more than 50,000 people in the United States alone, many of them in high-skilled positions.

Today's video game industry appeals to people of all ages, tastes, and interests. The average age of the computer and video game player today is 28 years old, and 43 percent are female. It is estimated now that 145 million Americans routinely play computer and video games, and that is a figure that grows every year.

Increasingly, the industry is seen as both the content provider and a high-tech industry which drives major advances in artificial

intelligence, computer hardware, 3-D graphics, silicon chip design, all of which create benefits that ripple through other parts of our economy.

I offer this background, really, just to give you a sense of our industry's growing impact on the high-tech economy. But it is important to recognize that we are a copyright industry. At heart, that is what this is all about for us. Without strong intellectual property protection around the world and on the Internet, we will not be able to sustain the growth rates that we have had this last decade.

That brings me to China. We estimate our industry loses \$1.38 billion annually due to piracy in China, and that the piracy rate there hovers around 95 percent. So the question may occur to you, what am I doing here supporting PNTR legislation?

Well, in 1992 and 1996, the U.S. and China signed a memorandum of understanding regarding intellectual property rights in China. Despite contrary claims, and we have had some discussion here this morning about implementation of trade agreements, China has complied with many of the key provisions of both of these memorandums of understanding. It has not been easy, and all is not well there, but it is indisputable that significant progress has been achieved under both the 1992 and the 1995 agreements.

Of particular note, is that China has closed down 86 production lines producing pirated optical media since 1996 alone. As a result, the volume of pirate CDs being exported out of China is significantly lower than it was 2 years ago. This is no small accomplishment, and China deserves credit for it.

Unfortunately, at the same time there is now massive illegal importation of pirate goods into China from countries like Hong Kong, Malaysia, Macaw, and Taiwan. In fact, many of the imported games we see there are pirate versions of games published by our members.

This flood of illegal imports accounts for a huge share of the domestic piracy problem I referred to earlier. In addition to illegal imports, weak domestic enforcement of IP laws in China contribute significantly to continue high piracy rates.

So back to the question, why on earth would we support PNTR? I am going to give you three reasons, very briefly.

First, as a member of WTO, China will immediately be obligated to meet the requirements of the agreement on trade-related aspects of intellectual property rights, or TRIPs. A major TRIPs obligation relates to enforcement, and will require China to take more effective action to deter further infringements, thus addressing one of the major continuing reasons for continued high piracy rates in China.

Based on China's conduct under the memorandums of understanding that I have referred to earlier, we believe WTO membership will lead to a marked improvement in the domestic enforcement environment and eventually lower piracy rates.

It is noteworthy, actually, since this agreement was struck how much more open and public the Chinese have been about acknowledging the challenges and problems they face in the domestic piracy market. We think that is very encouraging and we are seeing signs that they are really ready to take the problem seriously.

Second, the agreement negotiated between the U.S. and China governing its accession to WTO included some modest, but important, market access provisions which will be helpful to our industry. These market access gains will be lost if PNTR status is not granted.

As some other witnesses have said this morning, WTO is a valuable venue to pursue market access relief and its dispute settlement procedures give powerful levers to this government and to the private sector.

Finally, we believe membership in WTO creates a positive environment in China to complete copyright law amendments implementing the World Intellectual Property Organization's Internet treaties.

These treaties increase protection in China of digital works and would provide critical protection against the use of circumvention devices to defeat copy protection. As a leading U.S. digital industry facing a massive Internet piracy problem, I cannot emphasize how profoundly important ratification of the WIPO treaties would be.

In sum, while significant piracy problems in China remain, on balance, we believe PNTR, coupled with membership in WTO, offers the best hope for building a viable, legitimate game software market in China and realizing its potential as the next major growth market for the U.S. entertainment software industry.

Thank you.

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

Senator GRASSLEY. Since I have to stay until the end, I will defer to my Democrat colleagues, starting out with Senator Moynihan.

Senator MOYNIHAN. Well, sir, I will stay with you.

Senator GRASSLEY. All right.

Then Senator Rockefeller, go ahead.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

We are in the world of the new economy now. I have made a number of trips to the Silicon Valley, and what people often tell you there is that the new economy is very good for the United States.

Then you continue the conversation and they say, well, yes, it is probable that we will cause about 10 million jobs to be lost in this country, but we are going to create about 6 million new jobs. Then one has to weigh net plus versus an individual State and how they fare under the new economy. West Virginia struggles to deal with this problem.

Ira Shapiro, you indicated that there is generated fierce and deeply-felt opposition in our country, and since I know you very well, I know that you say that very sincerely. But always, there is behind that that we need to do this because it is a net plus for the country.

I do not dispute that. I am a U.S. Senator, but I am elected only by the people of West Virginia. In order to contemplate this, and I am thoroughly undecided as to how I am going to vote on this issue, thoroughly undecided, I have to have a sense that West Virginia is going to benefit. If I do not, then how do I justify a positive vote unless I consider myself only a U.S. Senator elected by the people of the whole country, which I am not?

China has a 5,000-year history. They have never had a single day, with either an emperor or at the highest days of Confucian order, where the country was under any kind of control. The corruption has been there always.

The order has been there always, in theory, but not in fact. The five relationships have governed that country before Communism took over, but always it sort of reduced itself to feudal warlordism.

Now it is a different situation, where people are being unleashed from state jobs, and you have a different kind of disorder. This disruption in the northeastern part of China among coal miners was very interesting to me, for one reason: they did not talk about it for a couple of months.

Second, it kind of underlines what I fear will be happening in China as they open up their market for this to pass, or not to pass on our part, and that is, a lot more disruption.

I went with President Clinton to China and I spent quite a lot of time in China. It is my observation that the new nationalists in China are not necessarily the PLA, but are the students, the young and educated people coming up. Those are the new nationalists.

Then your mind wanders down to the Spratley Islands and why it was that China felt that it had to impose itself there. That is not an important point, but I want to register that in making my question.

So it was not the generals that ordered the missile firings in 1996 during the Taiwan elections, it was young Turks within the PLA. In other words, disorder, at that time, at that level, now much more so: 120 million, 140 million people wandering the streets if they decentralize the way they want to.

They have to have 8 percent GDP growth annually in order not to have massive disruptions. They are not achieving that by any means. They used to say that it was 8 percent, not to devalue the renmenbi, but now I think it is just to keep order. They are not getting it.

So then the question comes to enforcement. How are they going to enforce it? Or let me put it a different way, Mr. Shapiro. Why would China not decide to do exactly what Japan has always done? Japan is a small island, a series of islands, in its own view, and it exports to save itself. It exports to survive.

Why would China not do that, do the same thing because they are going through this massive economic readjustment? What would I say to my people in West Virginia who produce coal, or steel, or chemicals, for the most part, that this holds out not net hope for the country, but some hope for them?

Mr. SHAPIRO. Senator, I, frankly, have some difficulty telling you anything about China, because you have spent so many years thinking about it. I am certainly reluctant to say anything about West Virginia, although we worked together on it for 3 years back in the 1980's.

I would say a couple of things. First of all, you would have to compare the West Virginia economy now to the one we had in the 1980's when you came to the Senate, when there was 17 percent unemployment in West Virginia.

You took the lead very often in advocating an openness in West Virginia to trade and investment. You championed a number of

things that, at the time, seemed to be resisted in West Virginia, whether it was investment from Japan, investment from Taiwan, and you kept at it.

Those things have become a very important part of the West Virginia economy, as I understand it. Toyota is in West Virginia because of your efforts, and any number of other things. I think the West Virginia economy has become more diverse and stronger by virtue of an openness to trade and investment that you have championed. So, I would say that, first of all.

I think the second thing is, we have the unbalanced trade relationship with China now. Our exports have barely increased into China. Our trade deficit has soared in China.

So anyone who is concerned about the WTO agreements and what we might gain ought to consider that we should not accept the status quo now, which is strongly against United States workers, companies, and farmers.

I fervently believe, actually, that this agreement can be defended on any farm in any factory or in any union hall as being in the interest of the workers of the United States and the industrial States as well.

Now, I know it is a difficult issue because there are strong and ardent opponents, but I have no doubt that we have the unacceptable relationship now and we have to change it through the WTO agreements.

Senator GRASSLEY. Thank you, Senator Rockefeller.

Senator GRASSLEY. I am going to start with Mr. Lowenstein. My first question, I think you have answered very thoroughly, so I will kind of make it as a statement. I think you made very clear that you believe that the WTO enforcement mechanism is adequate to enforce compliance with TRIP agreements and other WTO agreements.

Mr. LOWENSTEIN. Absolutely.

Senator GRASSLEY. And you sense that, even without China yet being in the WTO, that this sort of environment and the enforcement of laws, you have seen massive response to your complaints on the issue of pirating and things of that nature.

Mr. LOWENSTEIN. Yes.

Senator GRASSLEY. I think you gave us some statistics, that you were using them to demonstrate considerable progress being made.

Mr. LOWENSTEIN. Yes. I mean, I think if the Chinese did make, and have made considerable progress under the two memoranda of understandings that have been signed in 1992 and 1995, and then the action plan that followed on in 1996.

It is interesting, if you go back to 1995 and 1996, we had meetings with the Chinese who would initially deny the existence of the very factories that they eventually shut down.

So there has been a sea change, in our view, in the Chinese acknowledgement and willingness to address these issues, and we think that is very positive. We think, as you push forward in the WTO, you only get more progress and you will have enhanced tools to enforce the international trade rules.

Senator GRASSLEY. The equipment, software, hardware, and everything else that is involved in your trade with China. You see not only the relationships that are being built up as a result of that

helping bring about political reform within China, but you also see the use of those things bringing about political reform, the Internet.

Mr. LOWENSTEIN. Well, certainly. Yes. I mean, our industry, I do not want to overstate who we are. We are an entertainment business. We are not in the information business, we are not in the political business.

But my comments on the Internet refer to the broader issue of the Internet as a powerful form of distribution for content of all kinds. To the extent that China, as part of its commitment to being part of the world family of nations in the trade area, adopts and implements the WIPO treaties, I think that enhances the environment for the growth of the Internet.

Senator GRASSLEY. Do you see effective intellectual property rights enforcement in China as serving as a model so you get enforcement in other Asian countries as well, or are they not necessarily related?

Mr. LOWENSTEIN. No, I am not sure they are related. I think that the situation in different markets in the Asian region varies considerably. In some cases, you have very substantial organized crime interests, for example, that underlie the piracy problems in particular countries, so the approach does not necessarily lend itself to the same tools that we might use in a country like China.

There certainly are some deeply-rooted issues in China as well that I do not think go away simply by virtue of PNTR and WTO. We are not going to see the piracy rates in China drop precipitously overnight, but I think it is the quickest route to see progress.

Senator GRASSLEY. Yes.

Dr. Hayes, thank you for representing our land grant university very well by being here today and speaking forthrightly about the value of trade with China and this agreement.

I was very interested in your comments in your written testimony. By the way, all of your written testimonies will be included in the record, because I know you summarized. Some of you got done very quickly, and we thank you for that.

But, anyway, in your written testimony, you said that, in China right now, "the government is prepared to lose enormous amounts of money in order to achieve a policy objective."

How important is it that we get strong protocol agreements in place to curb these practices?

Dr. HAYES. I think in agriculture the situation is different than in the entertainment area, because the government officials can remember hunger, so they are very, very concerned about food self-sufficiency and they have little understanding of economics. So, as I said, they somehow believe that if they import, that will cause prices to rise rather than fall.

So I think what happened was, about 4 years ago they started importing some corn. By coincidence, world corn prices rose. That convinced them that they were correct. In the meantime, they have spent billions of dollars to go back to a situation where they do not have to import corn, to where they can rely on their own internal uses.

As an example, they stopped importing cotton, even though they were exporting the products they made with the cotton, because they did not want to be seen to be importing agricultural products. So they are enormously concerned about food self-sufficiency and food security, and it is incredible the extent that they are prepared to go to to maintain that.

My suspicion is that, with any agreement, we are going to see at the lower levels that same insecurity and they will fight implementation of the agreement. Unless we have a very secure framework that will be essentially invalid. The benefits of the framework will not come back to us. As I also said, there are ways of designing a framework so that they can do that.

One simple way, would be to say we are going to monitor your prices; you cannot have prices of pork that are four times greater than in the U.S. if you say that you are only apply a 12 percent tariff.

Senator GRASSLEY. Senator Moynihan?

Senator MOYNIHAN. Well, sir, what a joy this panel has been with their perspective and specifics. Could I just ask Dr. Hayes, you make that nice point that China has 20 percent of the world's population, but 7 percent of the arable land. What would India be?

Dr. HAYES. I think the numbers for India are proportionately about the same.

Senator MOYNIHAN. About the same. Yes. Thank God for Iowa.

Dr. HAYES. The Chinese feed five people for every acre, and in Iowa we have 10 very good acres for every person. So we can meet a lot of their needs.

Senator MOYNIHAN. This whole subject is the hardest thing to get rational economics into this discussion, is it not? It has been. As you probably know—I know Ambassador Shapiro would know—we have not had a tariff bill on the Senate floor since 1930. We learned enough about ourselves not to trust ourselves ever again. That is what the reciprocal trade agreements and so forth are all about.

We blundered into an awful decision in Smoot-Hawley. If you were going to make a short list of events that led to the second World War, Smoot-Hawley would be on it. I mean, the British went off free-trade to Imperial preferences, the Japanese went to, what was it, the Greater East Asian Co-prosperity Sphere. In 1933, with 25 percent unemployment, the Germans elected Adolph Hitler chancellor. It was not a coup.

Our Depression, and I do not know enough about these things, but I think our stock market crash would have been a correction, a price change that would not have paralyzed the economy, excepting our exports dropped by two-thirds.

One of the things that we hear, and we have had very fascinating testimony about, is how we just now are getting back to a world in which trade flows, and ideas, and people flow as easily as they did in 1914. This last century has been awful for those things.

The president of New York Life International was in here a while ago saying, in 1914 they did business in 54 countries around the world. They now have seven. In 1914, there were two countries in the world that required passports, and you can guess: Russia

and the Ottomans. But if you wanted to go anywhere, you just went.

Getting back to what was then normal is fighting against irrationality that brought it about in the first place. It is so close, but I think of all the things we have heard in these hearings, this is the last one before we get to a vote. I know the Chairman very much wished he could have been here.

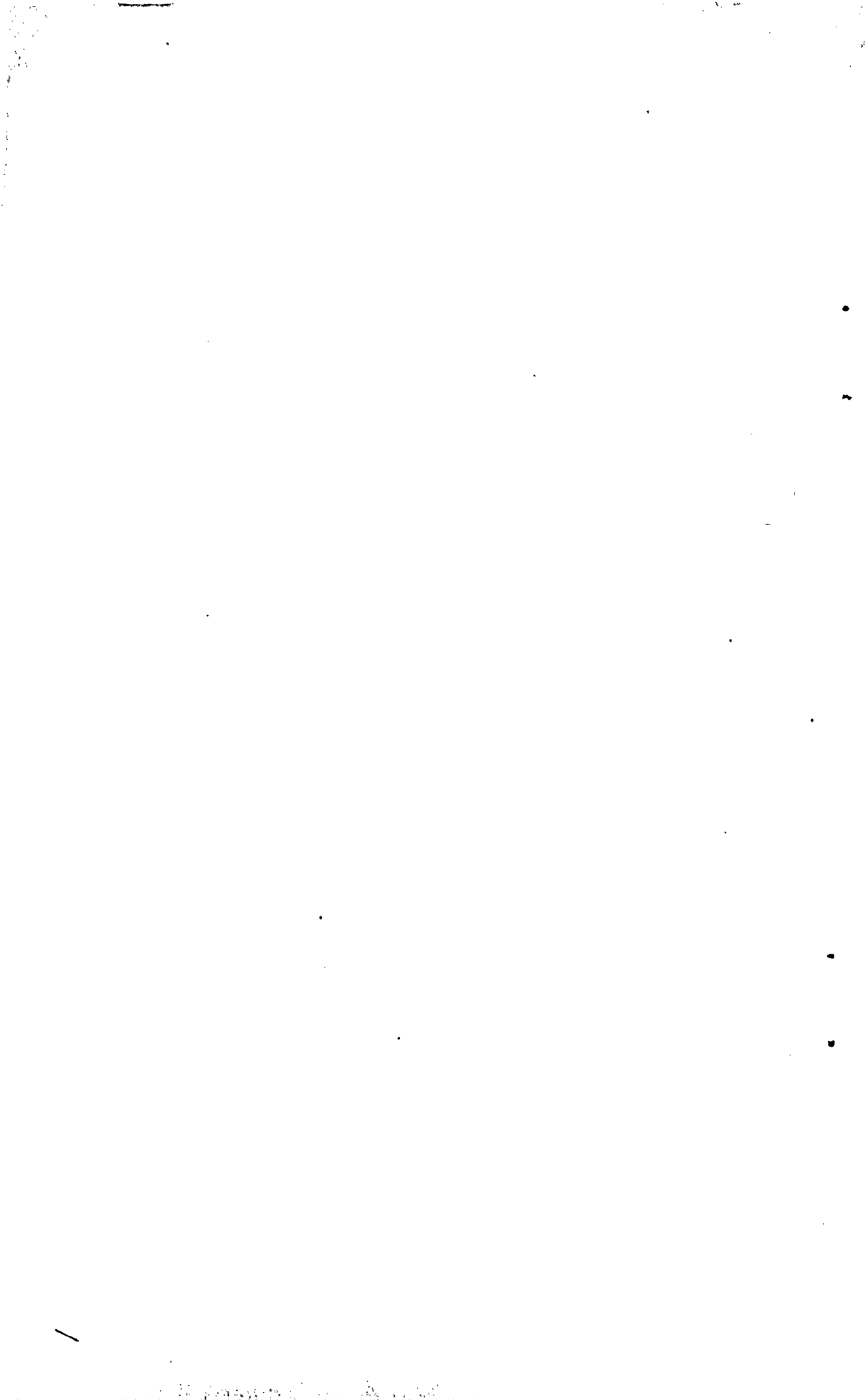
Your conclusion, Ambassador Shapiro, that "this is one of an historic handful of Congressional votes since the end of World War II. Nothing that members of Congress do this year or any other year could be more important." God save the Republic. And thank you very much, all of you, Mr. Lowenstein, Dr. Hayes, Ambassador Shapiro.

Senator GRASSLEY. I think I will conclude the hearing now. You may get questions in writing from members who could not be here, or even additional questions from members who were here. I do not know what the rules are on that, but I will have the staff inform you.

I will conclude the hearing. Thank you all very much.

Senator MOYNIHAN. Thank you so much.

[Whereupon, at 12:11 p.m., the hearing was concluded.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY

Mr. Chairman, Senator Moynihan, Members of the Committee, thank you for this opportunity to testify on one of the most important American trade policy goals in many years.

CHINA'S ONE-WAY TRADE CONCESSIONS AND BROADER STRATEGIC GOALS

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

China's WTO accession is a clear economic win for the United States. Together with permanent NTR, it will open the world's largest nation to our goods, farm products and services in a way we have not seen in the modern era. Without permanent NTR, our competitors in Asia, Latin America, Canada and Europe will reap these benefits but American farmers and businesses may well be left behind. That is the fundamental choice before us as we debate permanent NTR.

But China's WTO accession also has deeper implications. Our relationship with China, given China's size and economic weight, affects all of America's foreign policy and security goals in Asia: from broad strategic interests to regional issues in Korea, Southeast Asia and elsewhere; human rights and religious freedom; weapons proliferation; environmental issues; labor rights; crime and narcotics trafficking; and many others. We have serious differences with China in a number of these issues, and have found areas of common ground as well. And we have a fundamental responsibility to develop a stable, mutually beneficial relationship in which we act upon areas of shared benefit and mutual interest. WTO accession will allow us to do so, as it complements and supports long-standing American goals in China policy:

—By helping to open and liberalize China's economy, WTO accession will create new economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by state power and control. A number of leading Chinese and Hong Kong advocates of democracy thus endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.

—By integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. It will thus, together with our military presence in the Asia-Pacific and our regional alliances, be a factor in favor of long-term regional peace.

AMERICA AND THE TRADING SYSTEM

Let me begin my detailed review by putting the WTO accession in its historic context.

The World Trade Organization China now seeks to join has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the personal experience of President Truman and his European counterparts in Depression and War. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater

stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

But the development of the trading system has had equally important effects worldwide. As it has developed over the past fifty years, the world economy has grown six-fold; per capita income nearly tripled; and hundreds of millions of families escaped from poverty. And perhaps the best testimony to this success is that many of the new applicants to join the WTO are nations which are abandoning the post-war experiment in communist central planning.

CHINA'S ROAD: FROM REVOLUTION TO REFORM

And that brings me to China.

With the Communist revolution, China set out upon a very different road than the one President Truman and his colleagues had charted. After 1949, it shut doors it had once opened to the world. Among its new leaders' first steps were to expel foreign businesses from China and bar direct economic contact between Chinese citizens and the outside world. Inside China were similar policies: destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of the right to object to these policies.

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: Asia's largest nation had little stake in prosperity and stability—in fact, saw advantage in warfare and revolution—beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

A bipartisan American trade policy over the past thirty years has contributed to these positive trends. Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful agreements that open opportunities for Americas. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, trade agreements in the 1980s; and to a series of more recent agreements including:

—*Intellectual Property*—In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property works cost our industry hundreds of millions of dollars and led to trade confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1992 and 1995, and then won further commitments in 1996 that led China to pass world-class copyright, patent and trademark laws; close the vast majority of pirate production facilities; cease the export of pirated products and significantly improve enforcement—the principal focus of the agreements.

—*Textiles*—Likewise, textile transshipment and market access barriers have historically been a problem in our textile trade relationship with China. While problems remain, two separate agreements, in 1994 and 1997, combined with sustained enforcement efforts by the U.S. Customs Service and the Administration, as well as imposition of triple charge penalties, have helped to mitigate these problems. The 1997 agreement, in fact, committed China for the first time to significantly reduce its textile import restrictions.

—*Agriculture*—Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to unscientific sanitary and phytosanitary measures. As in the cases of intellectual property and textiles, we are holding frequent consultations with the Chinese authorities charged with implementing the agreement.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done. China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which—like Japan's—could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only \$10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

WTO accession thus represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date. As it joins the WTO, China will do much more than reduce trade barriers at the border. For the first time since the 1940s, it will:

- Permit foreigners and Chinese businesses to import and freely into China;
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services;
- Enable foreign businesses to participate in information industries such as telecommunications including the Internet; and
- Subject its decisions in all areas covered by the WTO to enforcement, including through formal dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. China's domestic reforms have moved away from a number of policies from the era of the Cultural Revolution and Great Leap Forward. Its WTO accession will go further, helping to reform policies dating to the earliest years of the communist era: absolute government control over economic contact with foreigners, nationalization of major industries, and destruction of private local commerce within China.

Altogether, this will give China's people more access to information, and weaken the ability of hardliners in government to isolate China's public from outside influences and ideas. More deeply, it reflects a judgment—although one still not universally shared within China or its leadership—that prosperity, security and international respect will not come from the static nationalism, state power and state control over the economy China adopted after the war. Rather, China is more likely to gain these from the greater integration with the world, rising economic freedom at home, and ultimately development of the rule of law inherent in the initiative President Truman began in 1948 with the founding of the GATT.

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights—Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison—see WTO accession as China's most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

WTO ACCESSION AND AMERICAN TRADE INTERESTS

It also, of course, represents the achievement of specific American economic interests. While China's principal concern is the potential of WTO accession to create jobs and foster sustainable growth through economic reform, we have sought commercially meaningful and enforceable commitments that help Americans on the farm and on the job export to China, by addressing the many layers of trade barriers and policies which limit access.

The bilateral WTO agreement builds upon and consolidates reforms obtained in all our previous negotiations, and reflects our experience with the enforcement of those agreements. Clearly, to win its full benefits we must be vigilant in monitoring and enforcing compliance. And the bilateral agreement gives us all the tools necessary to do so. Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago.

1. Overview

First, our bilateral agreement is *comprehensive*. It will reduce Chinese trade barriers across the range of goods, services and agricultural products; eliminate or sharply reduce restrictions on freedom to import and distribute goods within China; address industrial policies intended to draw jobs and technology to China; and strengthen our guarantees of fair trade practices. All these reflect the ideas, advice and guidance we have received over years of negotiations from Members of the Committee and Congress as a whole.

Second, it is *fully enforceable*. China's commitments in all areas are specific and include timetables and final dates for full implementation. These commitments are enforceable through our trade laws, WTO dispute settlement and other special mechanisms including periodic multilateral review of China's implementation and compliance. These will, of course, require vigilance and constant commitment to enforcement by the United States as well as by China's other trading partners in the WTO. We are committed to vigorous monitoring and enforcement, and are already preparing for this through a number of different means: for example, the President's budget this year requests a tripling of the Commerce Department's budget for China trade enforcement, and an additional full-time China officer at USTR.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

Let me now offer some of the details in each major sector.

2. Industry

In industrial goods, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005 and bind them at these new, lower levels. It will eliminate quotas and other numerical restrictions. And it will allow American firms to import and distribute their products freely in China. This is essential, as American companies, farmers and workers need the ability to import, export and distribute goods in China to compete effectively—rights currently denied but which will be permitted under the agreement, allowing our businesses to export to China from here at home, and to have their own distribution networks in China, rather than being forced to set up factories there to sell products through Chinese partners. Some highlights include:

Trading Rights—China will grant American companies, over a three-year phase-in period, rights to import and export most products without Chinese middlemen. Currently, the right to engage in trade (importing and exporting) is strictly limited; only companies that receive specific authorization or who import goods to be used in production have such rights. This limits not only the ability of U.S. companies to do business in China, but in particular has limited U.S. exports.

Distribution—As in the case of trading rights, the right to distribute products is critical to our ability to export successfully to China. After accession, China will allow American firms to market, wholesale, retail, repair and transport their products—whether produced in China or imported. At present, China generally prohibits companies from distributing imported products or providing related distribution services such as repair and maintenance services. China will permit enterprises to engage in the full range of distribution services over a three-year phase-in period for almost all products.

Tariffs—China will make substantial tariff cuts on accession with further cuts phased in, two thirds of which will be completed in three years and almost all of which will be completed within five years. On U.S. priority industrial items, tariffs will drop on average to 7.1%—a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these low levels. Some specific examples include:

Information Technology Agreement—China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items by 2003 in most cases and 2005 in a few others.

Autos—China will reduce tariffs on autos from rates of 80%–100% today to 25% in 2006, and on auto parts to an average of 10% from an average of over 23%.

Wood and Paper Products—China will reduce high tariffs on wood and paper to levels generally between 5% and 7.5%. As noted below, China will also implement any sectoral APEC Accelerated Tariff Liberalization initiative adopted by the WTO in this sector.

Chemicals—China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%–35% to an average rate of 6.9%. These reductions include reductions on all priority U.S. chemical exports.

Furniture—China will reduce its current average tariff rate of 22% to 0% on all furniture items covered by the Uruguay Round sectoral initiative, by 2005.

Accelerated Tariff Liberalization—China has agreed to implement the Accelerated Tariff Liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

Non-Tariff Barriers—China will eliminate all quotas and other quantitative measures upon accession for top U.S. priorities including certain fertilizers and fiber-optic cable by 2002, and by 2005 in all cases.

3. Agriculture

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time. It will adopt tariff-rate quotas that provide significant market access for bulk commodities of special importance to American farmers. It will agree to apply science-based sanitary and phytosanitary standards including in grains, meats and fruits. And it will eliminate export subsidies. Notable achievements here include:

Tariffs—China's agricultural tariffs will fall from 31% to 14% for our priority items. All cuts occur over a maximum of four years, and will be bound at the applied levels. To cite a few examples:

	Current Level	Under the Agreement
<u>Beef</u>	45%	12%
<u>Citrus</u>	40%	12%
<u>Apples</u>	30%	10%
<u>Cheese</u>	50%	12%
<u>Wine</u>	65%	20%
<u>Beer</u>	70%	0%

TRQs - China will liberalize its purchase of bulk agricultural commodities like wheat, corn, rice, cotton and so on, through tariff-rate quotas - that is, very low tariffs (1% for bulk commodities) on a set volume of commodities. We include in this portion of the agreement provisions to maximize the likelihood that these TRQs are filled. In particular, a portion of each TRQ is reserved for importation through private traders, and TRQs which have not been filled will be redistributed to other end-users with an interest in importing on a first-come, first-served basis. Some salient examples include:

	1998 Total Imports	Initial TRQ	2004 TRQ	Private Share
<u>Cotton</u>	200,000 mt	743,000 mt	894,000 mt	67%
<u>Wheat</u>	2,000,000 mt	7,300,000 mt	9,636,000 mt	10%
<u>Corn</u>	250,000 mt	4,500,000 mt	7,200,000 mt	25%, grows to 40%
<u>Rice total</u>	250,000 mt	2,660,000 mt	5,320,000 mt	----
short/med grain		1,330,000 mt	2,660,000 mt	50%
long grain		1,330,000 mt	2,660,000 mt	10%

Export Subsidies—China will eliminate agricultural export subsidies. This is an important achievement in its own right, and a step toward our goal of totally eliminating export subsidies worldwide.

Domestic Support—China has committed to cap and reduce trade-distorting domestic subsidies. China also committed to provide greater transparency to make its domestic support measures more predictable.

Sanitary & Phytosanitary Standards—China will agree to apply sanitary and phytosanitary standards based on science. Among other things, this will give us additional means of enforcing the Agreement on Agricultural Cooperation and its commitment to lift longstanding bans on American meats, citrus fruit and Pacific Northwest wheat.

4. Services

In services, China will open markets across the spectrum of distribution services, financial services, telecommunications, professional, business and computer services, motion pictures, environmental services, and other industries.

Grandfathering—China will protect the existing activities and market access of all service providers operating in China at the time of accession.

Distribution—As noted above, China now generally prohibits firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

Insurance—Currently only two U.S. insurers are operating in China's market. With WTO accession, China agrees to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued; progressively eliminate geographic limitations within three years, and permit internal branching consistent with the elimination of these restrictions; over five years expand the scope of activities for foreign insurers to include group, health and pension lines of insurance. For non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary permitted within two years from date of accession. For life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.

Banking—Currently foreign banks are not permitted to do local currency business with Chinese clients, and only a few can engage in local currency business with their foreign clients. China also imposes severe geographic restrictions on the establishment of foreign banks. With this agreement, China commits to full market access in five years for U.S. banks. China will allow internal branching and provide national treatment for all newly permitted activities. It will also allow auto financing on accession, and allow local currency business with Chinese enterprises starting two years after accession, and allow local currency business with Chinese individuals from five years after accession. Both geographic and customer restrictions will be removed in five years.

Securities—China will permit minority foreign owned joint ventures to engage in fund management on the same terms as Chinese firms. Minority joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade other securities (debt and equity). As the scope of business expands for Chinese firms, foreign joint venture securities companies will enjoy the same expansion in scope of business. China has also agreed to hold regular consultations with the U.S. Treasury Department under the auspices of our Joint Economic Commission with China. The purpose of this is to exchange information and assist the development of China's financial and capital market.

Telecommunications—China now prohibits foreign investment in telecommunications. With WTO accession, it will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services within two years, mobile and cellular within five years, and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, allowing 49% foreign investment in all services and 50% foreign ownership for value added and paging services in two years.

Audiovisual—Under the agreement, China will allow joint ventures for the distribution of video and sound recordings, majority ownership in three years for construction and ownership and operation of cinemas. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Other—Also covered is a broad range of other services—architecture, engineering, accounting, legal, travel and tourism, computer and business services, environmental services, franchising, express delivery and many more. In each, China has made specific, enforceable commitments that open markets and offer competitive American industries important new opportunities.

5. Protocol Issues

Finally, our bilateral agreement deals, appropriately, with the special and unusual characteristics of the Chinese economy. These include the high degree of state participation in the Chinese economy; a series of industrial policy measures intended to draw jobs and technology from the U.S. and other trading partners to

China, such as local content, offset and export performance requirements as well as forced technology transfer; and special measures to address import surges from China and unfair export practices like dumping.

Altogether, no agreement on WTO accession has ever contained stronger measures to strengthen guarantees of fair trade and to address practices that distort trade and investment. China's major commitments in this regard include:

Import Surge Protection—China agrees to a twelve-year product-specific safeguard provision, which ensures that the U.S. can take effective action in case of increased imports from China which cause market disruption in the United States. This applies to all industries, permits us to act based on the lowest showing of injury, and act specifically against imports from China.

Non-Market Economy Dumping Methodology—China's WTO entry will guarantee our right to continue using our current "non-market economy" methodology in anti-dumping cases for fifteen years after China's accession to the WTO.

Subsidies—Likewise, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account. Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share of those benefits, the United States could take action under our unfair trade laws. The agreement also establishes that the U.S. can determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

Investment Reforms—China will reform a large number of policies intended to draw jobs and technology away from China's trading partners. It will, for example, implement the WTO's Agreement on Trade-Related Investment Measures agreement on accession; eliminate mandated offsets, local content and export performance requirements and refuse to enforce contracts containing these requirements; and not condition investment licenses on performance requirements of any kind. All of this will make it significantly easier for Americans to export to China from home, rather than seeing companies forced to set up in China in order to sell products there.

Technology Transfer—China will abolish requirements for technology transfer for U.S. companies to export or invest in China. This will better protect our competitiveness and the results of U.S. research and development.

State-Owned and State-Invested Companies—China commits that state trading companies and state-invested enterprises will make purchases and sales solely on commercial terms, specify that purchases by these companies are not government procurements and thus are not subject to any special or different rules that could undercut the basic commitment, and provide U.S. firms the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

Textiles—Under our agreement, quotas will remain in effect for Chinese textiles as for those of other WTO members until 2005. From then until January of 2009, we will have a special safeguard enabling us to address market-disrupting import surges from China in the textile sector. This is in addition to the broader product-specific safeguard noted above.

CASE STUDY: THE AUTO INDUSTRY

To illustrate more clearly the cumulative effect of these commitments, let me offer a case study of the present situation and the changes WTO accession will make for the automobile industry.

At present, a combination of trade barriers and industrial policies adopted to draw auto investment to China makes it virtually impossible to export cars to China. Typically, we export about 600 cars a year to China, many of them used; last year, the figure was likely below 400.

This is far less than a single average U.S. auto dealership sells in a year, and fewer than the 688 motorized golf-carts we sold to China from January to November 1999. Our bilateral agreement addresses the policies which have limited our export capability as follows:

- We reduce barriers at the border: cutting tariffs from 80–100% today to 25% in 2006; forbidding discriminatory value-added taxes; and raising the current virtually prohibitive quota to \$6 billion worth of autos and then eliminating it entirely within five years.
- We commit China to open its distribution markets and grant trading rights, ensuring that firms and dealerships in China can import autos directly from the United States, and that Americans can move their products freely within China to the areas of greatest demand.

- We open up services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their products, provide repair and maintenance, and import parts.
- We abolish certain industrial policies intended to draw auto jobs, investment and technology to China: China will abandon requirements that require firms to set up factories in China in order to sell in China, and abolish local purchase requirements and forced technology transfer.
- We strengthen our guarantees that auto production and jobs in the United States will be secure. On the import side, we include in the agreement a “product-specific safeguard” available to all industries for 12 years—in this case, a guarantee that if auto imports from China should rise so as to cause market disruption, we can impose emergency limits; and a guarantee we will be able to employ special “non-market economy” methods of calculating and counteracting dumping for fifteen years.
- And we have enforcement mechanisms for all of these separate and overlapping commitments. This includes our own American trade laws and the WTO’s dispute settlement mechanism.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, although specific features differ, in every industry of significant concern to the U.S. economy.

ENFORCEMENT

Of course, trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China, and our trading partners in general. And with China’s WTO membership, we will gain a number of advantages in enforcement we do not now enjoy.

First is the WTO dispute mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment and ultimately imposition of sanctions if necessary.

Second, of course, is our continued right to use the full range of American trade laws, including Section 301, Special 301, and our countervailing duty and anti-dumping laws.

Third, we gain substantial new leverage by creating the product-specific safeguard, as well as guaranteeing our right to use non-market economy antidumping methodologies. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China’s implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 135 WTO members, significantly diminishing China’s ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 134 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China’s commitments.

Fifth, the specificity of China’s commitments in this bilateral agreement will help us ensure that China complies. Experience shows that agreements with China are enforced most satisfactorily when obligations are concrete, specific, and open to monitoring. Our bilateral agreement therefore includes highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor China’s compliance and present clear evidence of failure to comply.

Finally, however, enforcement as in any agreement depends on U.S. commitment. We are already preparing for the monitoring and enforcement effort this will require through President Clinton’s request for new enforcement and compliance resources at the USTR, the Commerce Department, USDA and other branches of government with enforcement responsibilities. The President is requesting resources for the largest monitoring and enforcement effort for any agreement ever, covering China’s obligations in the WTO and also import administration issues such as dumping and countervailing duties.

NEXT STEPS

As comprehensive as this bilateral agreement is, China’s work to join the WTO is not yet done.

First, it must reach bilateral market access agreements with other WTO members. While it has finished such agreements with approximately 15 WTO members including Japan, Brazil, Canada and other major trading partners, it must still complete talks with the EU, India, Mexico and others. China must also complete a multilateral negotiation at the WTO, principally covering commitments on a range of WTO rules. Each of these steps is proceeding, and upon completion, should strengthen the already very strong accession agreement we negotiated.

PERMANENT NORMAL TRADE RELATIONS

By contrast to this comprehensive set of enforceable one-way concessions on China's part, the U.S. commitment is merely to continue our present policies. Thus, the U.S.:

- Makes no changes in our current market access policies.
- Preserves our right to withdraw market access for China in the event of a national security emergency.
- Requires no changes in our laws controlling the export of sensitive technology.
- Amends none of our fair trade laws.

But we do have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin, Canadian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

WTO ACCESSION AND AMERICAN STRATEGIC INTERESTS

From the perspective of trade policy, then, this choice is absolutely clear. China offers a set of one-way, enforceable trade concessions. In return, we are asked only to confirm the normal trade status we already grant to China; and if we do not, we run a substantial risk of permanently disadvantaging hundreds of American industries and their American workers.

From the perspective of reform and liberalization in China, the choice is equally clear. As it implements these commitments, China will become a country which is more open to the world, whose people enjoy more choices in daily life and more contacts with the outside world, and whose government in a number of important fields is more responsive to the rule of law than it is today.

But we must also look to a still deeper issue. China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21st century, and in this regard WTO accession offers us a great deal.

Our relationship with China today is free neither of deep-seated policy disagreements nor moments of tension. These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. Such a relationship, however, poses profound questions for future peace and stability across much of the earth.

We should not, of course, imagine that a trade agreement will cure all our disagreements. Rather, as the President has said, when we disagree with China we must act with candor and a firm assertion of our interests and values. But as we do so, we must also recognize how important a stable and peaceful relationship with China is—for the world, the Chinese, and ourselves. And thus we have a fundamental responsibility to find and act upon areas of shared interest and benefit.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the search for stability in the Taiwan Strait; the environmental problems of the Asia-Pacific. And we have seen it in trade for over a quarter century.

American trade initiatives in China stretch from the end of the trade embargo in 1972 through our Commercial Agreement; the renewal of NTR for the past 20 years; more specific trade agreements in the 1980s; our support for China's participation in APEC; and the market access, textile and intellectual property rights agreements of the 1990s. Each step had a foundation in concrete American interests; but each also helped to promote reform and the rule of law within China, integrate China

in the Pacific economy, and strengthen China's stake in prosperity and stability throughout Asia.

As such, together with our network of alliances and military commitments, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession will be the most significant step in this process for many years.

CONCLUSION

That is the fundamental meaning of this WTO accession.

It will create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy, which offers practical, concrete benefits to cities and rural areas throughout America: stronger guarantees of fairness for our working people, farmers and businesses; new export opportunities that mean jobs and growth for Americans.

It will promote deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And it will offer the prospect of a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us; and it is one our country must not miss. I thus ask for the Committee's support as we seek permanent normal trade relations with China and its accession to the World Trade Organization.

Thank you, Mr. Chairman and Members of the Committee.

RESPONSES TO QUESTIONS FROM SENATOR BAUCUS

Question 1: The history of trade negotiations with many of our Asian trading partners demonstrates pretty clearly that trade agreements are not necessarily self-executing. We have seen over and over that persistent attention to monitoring of compliance and enforcement of obligations is absolutely necessary. That requires a Congress and an Administration fully committed to pursue our trade goals in these agreements. Yet, we have all too often seen, over the last twenty years, in both Democratic and Republican Administrations and in both Democratic and Republican Congresses, inadequate attention to enforcement. Our businesses, our workers, and our farmers have suffered. And our country's credibility has suffered. How can this Congress and this Administration ensure that future Congresses and future Administrations will take the necessary actions to enforce Chinese obligations? I believe there need to be new institutionalized mechanisms to make this happen. I would appreciate your comments.

Answer 1:

- While we agree that ensuring that China and our other Asian trading partners fully implement their commitments is critical, we believe that this Administration has a track record of doing just that, in particular with respect to China. Most importantly, however, is that China's accession to the World Trade Organization (WTO) will provide additional monitoring and enforcement tools in the international arena, while preserving access to U.S. trade laws.
- Our November bilateral Agreement with China has detailed, specific commitments so that China's implementation efforts can be objectively evaluated, thus enhancing our ability to monitor and enforce the commitments we negotiated.
- China's membership in the WTO means that for the first time, China will have its laws, regulations and actions subject to impartial, international review through the WTO dispute settlement mechanism, and, potentially multilaterally approved trade sanctions.
- We are also working with our WTO trading partners to ensure that appropriate arrangements are put in place for multilateral monitoring of China's implementation of its commitments. China would thus be subject to continuing oversight and pressure from all 136 WTO members to comply with its WTO commitments.
- Domestic monitoring of China's implementation is equally important. The President in his FY2001 budget has requested additional funds and personnel dedicated to monitoring China's implementation of its commitments and enforcement of U.S. rights under the WTO agreement and accession package.
- In addition to these enforcement tools, U.S. trade laws—buttressed by the anti-import surge mechanism and continued use of non-market economy methodology in antidumping investigations—will be available to ensure that trade with China does not injure U.S. industries in any sector.

- Thus, we believe that this combination of domestic and international monitoring and enforcement mechanisms will provide a sound basis for enforcing our rights under this significant agreement.

Question 2: The Agricultural Co-operation Agreement went into effect when the Chinese language version was initialed in December in Seattle. Since then, a technical citrus team has visited the United States. This week and next, a wheat buying mission is here. Two weeks ago, I initiated a letter to President Jiang Zemin, signed by 53 Senators, insisting that immediate implementation of that agreement was critically important to the PNTR effort. We defined implementation not as technical investigations but as the commercial purchase of wheat, meat and citrus. What is the Administration doing to further this important goal?

Answer 2: The Administration has raised this issue at the highest levels in China at every opportunity, indicating our position that China not only make appropriate administrative changes to implement the agreement on citrus, wheat and meat, but that they also import all three commodities to demonstrate that the new import regimes are in place and effective. China has done both. On March 22, 2000 China announced final rules for the implementation of our bilateral agreement on agricultural cooperation as it relates to exports of citrus, wheat and meat. Since then, China has imported both U.S. citrus and meat according to the new rules, and has purchased U.S. wheat from the Pacific Northwest. Plans for the cooperative initiatives specified in the agreement for the study of TCK in grain from the PNW and medfly in U.S. citrus are also under discussion.

RESPONSES TO QUESTIONS FROM SENATOR HATCH

Question: An important part of the process for new country admission to the WTO is to ensure that the candidate has reposed with the WTO the regulatory and statutory reforms necessary to bring the candidate into conformance with WTO standards. As lawmakers, we are quite naturally concerned with this aspect of the process. Moreover, these reforms demonstrate the ability of the applicant country to implement its commitments in the critically important areas of national treatment market access, intellectual property protections and other trade sectors.

Is there some good reason that China has yet to present its proposed regulatory reforms to the WTO? Also, when can we expect to see their proposals?

Answer:

- We share your concerns about ensuring that China fully implements its WTO commitments and that we know as much as possible about China's plans on implementation prior to accession.
- Chinese officials are now engaged in identifying various laws and regulations that will need to be amended to comply with its WTO obligations. Given the magnitude of the reforms China must undertake to meet their obligations under our bilateral agreement and more generally under the WTO Agreement, this will be a complex and formidable task—and one to which we will be paying close attention.
- We have already consulted with the relevant officials in areas, such as customs valuation and intellectual property, and proposed specific changes to China's current provisions. We expect China to provide updated information to the WTO on its current laws and needed changes, in the near future. We anticipate more intensive exchanges with Chinese officials in the coming months and we will be seeking additional information, as appropriate, in the Working Party on China's accession.
- It is important to note that China has already informed us and other members of the Working Party that under China's legal system, a ratified international agreement supercedes inconsistent domestic legislation. This situation is common to several countries with "civil law" systems. Thus, if this agreement is ratified by its National People's Congress, the commitments contained therein must be implemented and are fully enforceable.

RESPONSES TO QUESTIONS FROM SENATOR GRAHAM

Question: During April 1999, the U.S. and China signed an agricultural cooperation agreement as part of the U.S.-China WTO accession negotiations. As part of the implementation process, between January 15 and January 20, 2000, Chinese inspectors toured U.S. citrus production areas in Florida, Texas, Arizona, and California.

Based on the progress of the implementation process, when can U.S. growers anticipate exporting their first shipments of citrus to China?

Answer: China completed its assessment of the data collected during their inspection tour of citrus-producing regions in the United States and issued final rules on

March 22, 2000, notifying the public and relevant government agencies that imports of U.S. citrus would be permitted under the terms of our bilateral agreement. Since then, there have been several shipments of U.S. citrus from both Florida and California. The arrival of U.S. citrus in China generated significant attention from the local and international press, which should give a U.S. marketing efforts in China a good head-start.

Question: High tariffs will continue to be an impediment to U.S. citrus gaining significant market share in China over the next few years. Are you working to accelerate a reduction in Chinese tariffs on U.S. citrus imports beyond the schedule agreed upon during the April 1999 negotiations?

Answer: China agreed in our November 15, 1999 bilateral agreement to reduce tariffs on imports of U.S. citrus from the current rate of 40% to 12% by January 1, 2004. Duties on orange and grapefruit juice will drop from 35% to 15% over the same time period. These reductions will be made in equal annual installments. It is possible that other WTO members that have not yet concluded bilateral agreements with China could improve on these access commitments for citrus and citrus products.

RESPONSES TO QUESTIONS FROM SENATOR MOYNIHAN

Question: And I guess this began in Corning, New York, and in the general area photon research and optical development. And we understand that the Chinese government—China's major market for our exports—we understand that the Chinese government has recently directed cable manufacturers and telephone companies to stop importing optical fiber and instead purchase it from local suppliers.

Do you know where this matter stands? And if you don't, will you find out?

Answer:

1. Our bilateral WTO accession agreement, when it becomes effective, would require China to eliminate and cease to enforce local content requirements, such as the one you describe, in its laws, regulations and other measures and to cease enforcing contracts containing such requirements.

2. China has also agreed that its state-owned and state-invested enterprises will make purchases and sales based solely on commercial considerations and that U.S. firms will have an adequate opportunity to compete for sales to these enterprises on non discriminatory terms and conditions. Moreover, China has agreed that the government will not influence, directly or indirectly, commercial decisions on the part of state-owned or state-invested enterprises, in particular with respect to the country of origin of products.

3. Finally, China's laws, regulations and other measures that relate to procurement of goods and services by a state-owned or state-invested enterprise for commercial sale or the production of goods for commercial sale or for non-governmental purposes must comply with the national treatment and NTR/MFN requirements of the WTO.

4. Thus, we will have a means to address the "buy local" issue for enterprises that are engaged in commercial activities.

RESPONSES TO QUESTIONS FROM SENATOR ROBB

Question: It has been suggested that fertilizer trading rights might be covered by the EU-China bilateral, which is currently being negotiated. If it is covered by the EU-China bilateral, would that resolve the issue from the standpoint of the U.S. fertilizer interests?

Answer: We reached agreement with the Chinese that will effectively provide market access for U.S. fertilizer. The agreement sets up a TRQ system for fertilizer products of priority interest to the United States similar to the system agreed for sensitive agricultural products.

PREPARED STATEMENT OF HON. MAX BAUCUS

(MARCH 23, 2000)

I appreciate Chairman Roth's calling this hearing to discuss some of the non-trade aspects of our relations with China and the complex triangular relationship among Washington, Beijing, and Taiwan. Before I comment on that, I want to make sure that everyone understands why we are here.

The issue that will come before the Senate and before this committee is not whether China will be allowed to join the WTO. That will happen sometime this

year. The issue is not whether we approve of China's human rights abuses, or its missile proliferation policies, or its approach to Taiwan.

The issue that Congress will determine is whether we will grant permanent Normal Trade Relations status to China so that American farmers, workers, and businesses can take advantage of these new opportunities in the Chinese market.

If we don't grant China PNTR status, we will not be able to benefit from most of China's trade concessions. The result would be that our Japanese and European competitors get full access to China's markets, while Americans would be left outside.

As I speak to groups in Washington and around the country, I have been surprised by how few people understand this. Many continue to believe that the issue is whether the United States will allow China to join the WTO. The issue is about benefits we receive.

That said, let me talk about the situation across the Taiwan Strait. I am particularly concerned about a growing number of press reports indicating that this Senate may consider the Taiwan Security Enhancement Act, or try to attach it to the debate over PNTR. That would be a tremendous mistake.

On February 21, Beijing issued a very troubling White Paper that linked time and the possible use of force for reunification. This was a big step backwards. That action, combined with outgoing Taiwan President Lee Teng-hui's talk about state-to-state relations and Chen Shui-bian's victory last weekend in the Presidential election, adds to the uncertainty and danger.

I am pleased that the Clinton Administration immediately dispatched senior envoys to Beijing and Taipei to stress that the United States continues to favor a peaceful resolution across the Taiwan Strait, to caution both sides against taking any precipitous action, and to encourage renewal of the cross Strait dialogue. But I am quite concerned that, because of the White Paper and the Taiwan Presidential elections, there may be increased interest in the Taiwan Security Enhancement Act.

I share the concern that proponents of this bill have with maintaining the security and stability of Taiwan. But, as a good friend and long-time supporter of Taiwan, I believe this is the wrong approach at the wrong time. I said that last summer when I testified before the Senate Foreign Relations Committee. And I am even more worried today about the likely results if this becomes law.

In the wake of Taiwan's recent elections, restraint and caution must remain the watchwords for the day, both on our part and for China and Taiwan. I am encouraged that, so far, Taipei and Beijing are addressing their concerns through constructive means.

But a change in leadership in Taiwan does not, and should not, constitute a change in US policy toward the region. The Taiwan Relations Act has guided us well through the better part of two decades. It has enjoyed the support of Republican and Democratic administrations, I see no need for an immediate change. And there is certainly no need to bring such legislation into the debate over a landmark trade deal for the United States.

Our message to Beijing and Taipei has always been that they must negotiate together to resolve their differences; settlement must be found by peaceful means; and there should be no unilateral steps taken to change the situation. What is needed now is dialogue across the Taiwan Strait—dialogue without Taiwan attempting to change the framework unilaterally, dialogue without the PRC's belligerent threats to taking military action, and dialogue without the United States passing provocative and unnecessary legislation.

The Taiwan Security Enhancement Act does not give the President or the Pentagon any authority or capability that they do not now have. The Commander in Chief of our Pacific Forces has said that he sees no need for this legislation. It would add to the level of tension and rhetoric across the Taiwan Strait and hamper our efforts to pass PNTR for China. Above all, I believe it would diminish the likelihood of a peaceful resolution between China and Taiwan.

We are a Pacific power. We fought three wars in Asia in the last 60 years. We are not, and cannot, walk away from this problem across the Strait. But this legislation is not the answer. And injecting it into the debate over permanent Normal Trade Relations with China would be inappropriate.

PREPARED STATEMENT OF HON. MAX BAUCUS

(APRIL 6, 2000)

Over the years, we have had serious compliance problems with trade agreements with China, Japan, the EU, and others. When the Congress and the Administration are resolutely committed to monitoring and enforcement, trade agreements bring re-

sults. Inattention leads to inaction and to a failure to achieve market opening objectives. We have seen this happen over and over again. Trade agreements are simply not self-executing.

The American Chamber of Commerce in Japan just issued a comprehensive report evaluating all US-Japan trade agreements reached since 1980. Their conclusion was that 47 percent of those agreements were unsuccessful or only partially successful. What a shameful indictment!

I recently introduced a bill designed to ensure that we don't have a similar experience with China. My bill requires continuing monitoring of China's WTO commitments. It creates new procedures in the Congress and in the Executive Branch to make sure that China complies with those commitments.

I'm not trying to set conditions for PNTR. But, many of us in Congress are concerned with China's spotty record in the past. We need to be confident that China will meet its WTO commitments. And that just won't happen by itself.

My proposal has several elements. It requires that the President submit an annual plan to Congress for monitoring Chinese compliance and an annual report on the results of that monitoring. The GAO will supplement that information by surveying the top American firms doing business with China. They will get the companies' views about whether China is abiding by its commitments and detailed information about problems.

Under my proposal, the Finance Committee or Ways and Means can require that USTR initiate a Section 301 investigation of Chinese practices that we believe violate WTO commitments. If the violation is particularly egregious, the Committees could require the immediate initiation of dispute settlement at the WTO.

The Administration must secure agreement at the WTO for a comprehensive annual review of Chinese compliance. And, finally, we have to recognize that China needs help in building the institutions to carry out fully its WTO obligations. My bill requires the President to submit a plan on such institution-building.

Without these kinds of measures, I don't know how we can be confident that Chinese commitments will be met. I plan to pursue this vigorously during the coming PNTR debate.

PREPARED STATEMENT OF DOUG ELLIS

Mr. Chairman, members of the committee. My name is Doug Ellis. I am Chairman and CEO of Southern Mills in Atlanta, Georgia. I am here before you today as President of the American Textile Manufacturers Institute. ATMI is the national trade association for the U.S. textile industry, with member company facilities in approximately 30 states. The entire textile complex, including fiber and apparel manufacturers, employs approximately 1.3 million workers throughout all fifty states.

We applaud the committee for your good work on the Caribbean Basin and Sub-Saharan Africa bills. ATMI strongly supports the Senate versions of these measures. We believe they will create a thriving economic partnership between those two regions and our industry, and we urge you to maintain your position in conference.

Let me emphasize, ATMI is not opposed to fair and open trade—we support your versions of CBI and Africa, and we supported NAFTA. But we do have serious concerns about China.

By way of background, the U.S. textile industry has seen difficult times of late. Not long ago, in 1997, we had a record year in terms of shipments and fiber consumed. However, despite our use of state-of-the-art technology to become the most productive and high-tech textile industry in the world, we have been badly hurt by the Asian financial crisis. Devaluation of Asian currencies and reduced demand in the Far East led those nations to begin flooding world markets with textile products. As a result, the U.S. textile industry has seen a sharp downturn, leading to numerous plant layoffs and shutdowns.

With enactment of your versions of the CBI and Africa bills, we would have a chance to regain our competitive footing. However, this could all be negated by allowing China to enter the WTO under the terms agreed to last November and the granting of permanent normal trade relations status to that nation. In fact, not only would the U.S. textile industry be harmed, but the potential benefits to the nations of Africa and the Caribbean would be lost as well.

In theory, the world might be better off if China joined the WTO because, theoretically, that would mean that China would open its markets to our exports and play by WTO's rules of fair trade. Our experience has shown, however, that this is highly unlikely. Just look at China's behavior between 1995–2000. During that time, China:

Kept its textile and apparel market essentially closed;
 Illegally transhipped billions of dollars worth of textile and apparel products annually through other countries to avoid quotas;
 Illegally copied textile designs in violation of the U.S./China intellectual property agreement; and
 Subsidized its textile and apparel exports, thereby increasing the economic damage to U.S. producers and workers.

We also note that over the past 16 years:
 China has signed six textile and apparel bilaterals with the U.S.—and broken every one of them.

It has signed four intellectual property rights (IPR) agreements—and intellectual property theft in China still remains rampant. In fact, the most recent National Trade Estimates report compiled by the U.S. Trade Representative's Office notes that "U.S. industry estimates of intellectual property losses in China due to counterfeiting, piracy, and exports to third countries have exceeded USD 2 billion."¹

Make no mistake about it—American textile companies and our employees will be hurt by the China WTO accession package and the enactment of permanent normal trade relations. This agreement will give China preferential access to the U.S. market for its vast subsidized textile and apparel sector while U.S. textile and apparel access into the Chinese market will very likely remain seriously impaired. In particular, the agreement gives China an accelerated five-year quota phase-out that no other WTO country has enjoyed, and does so at the expense of thousands of U.S. workers in the textile sector.

A 1999 U.S. International Trade Commission study on China's accession² determined that this agreement would cause the overall U.S. trade deficit with China to actually worsen and that the Chinese share of apparel imports into the U.S. would more than triple under a year 2005 phase-out of quotas. The ITC study also reveals that the effect of the Chinese quota phase-out on other regions, particularly on the nations of the Caribbean nations and Mexico, will be severe. These countries' growing apparel sectors, which exist almost entirely to service U.S. markets, will be decimated by an early Chinese phase-out.

While the ITC study did not assess the economic impact of the tripling of China's share of imports to the United States, a study by Nathan and Associates does (see Exhibit A). It reveals that early removal of quotas imposed on Chinese textile and apparel imports will cost the U.S. textile and apparel sector 154,500 jobs. It also found that U.S. textile shipments will decline by \$4 billion and U.S. apparel shipments will drop by \$7.6 billion. Thus, the shorter quota phase-out for China is not only wrong, unjustified and unfair, it is also bad trade policy because it puts the livelihoods of more than 150,000 U.S. textile and apparel workers at risk.

And while this agreement appears to some to be a magic ticket into the growing Chinese market, ATMI feels obligated to point out that the road to real market access in China will be a long and bumpy one. As the U.S. textile industry well knows—and as the U.S. government knows as well—as noted above, China is not known for keeping its agreements.

So while much is being made about new Chinese "commitments" to do away with fraudulent customs activity, eliminate local content laws, institute the rule of law regarding commerce and trade and so on, ATMI wishes to note that "practice" should speak louder than words and that all concerned should take China's avowals of a "new China" with a grain of salt.

During the WTO negotiations, our government insisted that the U.S. textile industry needed ten years to adjust to the phase-out of quotas for WTO members. With the Chinese accession agreement, we now have the prospect of the world's largest textile and apparel exporter, which has the greatest power to wreak havoc on the domestic industry, getting a phase-out of only five years.

Some say there is nothing unfair about the shorter phase-out because China's textile and apparel imports were under quota control for the 1995-2000 period. This ignores the fact that China decided not to join the WTO in 1995. China decided it preferred to keep its own market closed. China decided not to face the rules and disciplines of WTO membership until now. So why should China be rewarded by the U.S. for five years of operating outside of WTO rules by granting them a better deal in textiles than other WTO members received in 1995?

¹ 1999 National Trade Estimate Report on Foreign Trade Barrier, Office of the U.S. Trade Representative, p. 60

² Assessment of the Economic Effects on the U.S. of China's Accession to the WTO, Investigation 332-403 (Publication 3229; September 1999)

In addition, we note that perhaps the most damaging of all China's behaviors—its vast subsidization of its textile and apparel sector—remains apparently untouched by this agreement. Any U.S. industry and its workers must be concerned about the lack of any provision in the bilateral agreement to deal with China's export subsidies on manufactured products.

It is indisputable that China uses many different government programs to subsidize its exports of industrial goods. In fact, Chinese economists have identified ten new subsidy programs to promote Chinese textile and apparel exports alone (see Exhibit B). Yet, for some strange reason, the U.S./China WTO accession agreement is silent about any commitments on China's part to curb its industrial subsidies.

ATMI has inquired of the Administration and we were not told why, only that "the WTO rules will apply." That may be the case, but that answer provides little comfort to our industry or any other industry in the U.S. worried about subsidized Chinese exports of manufactured products. To rely on WTO rules implies two assumptions. First, that the WTO rules on export subsidies can be effectively used. And, second, that the U.S. will act to use those rules and that it can resort to its own countervailing duty laws and regulations in addition to, or in place of, the WTO rules.

In fact, neither assumption is valid. The WTO rules, including those that cover subsidies, let countries "self-elect" whether to be considered developing or not. While the U.S. may intend to treat China as a "developed" country, it will likely discover that many WTO remedies are out of reach as long as China elects itself to be developing. In regards to export subsidies, preferential treatment is given to the offending country even when export subsidies are found to be actionable—and the WTO itself acknowledges that reaching a finding is a long, difficult and intensive process. To make matters more difficult, developing countries are demanding that the timetable for ending developing country export subsidies be extended still further as a condition for their supporting future WTO negotiations.

In addition, under the current WTO rules, non-export subsidies, which can be just as harmful as export subsidies, are de facto permitted unless they can first be proven to have caused injury to a member country. Thus production subsidies are permitted pending the finding of a causal link between that subsidy and injury of another member—an almost impossible task given the length of time most of these subsidies have already been in place.

But more importantly, under current practice, the U.S. countervailing duty (CVD) laws cannot be applied to China. To repeat, U.S. countervailing duty laws do not apply to China. Why? Because, over a decade ago, the U.S. announced that CVD rules would not apply to non-market economies. Why was this seemingly preposterous decision taken by the Department of Commerce? The reasoning was something like this: because China and other non-market economies, by definition, subsidize nearly every aspect of their economies—everything is subsidized—therefore the true impact of a particular subsidy cannot be known. And Commerce has stuck to this startling conclusion ever since. Of course, the fact that some industries were preparing to file massive CVD petitions against China at the time of the decision may have also had some impact.

Thus, the agreement contains no effective mechanism against Chinese export subsidies. There is no commitment by China not to subsidize its industrial exports (as it has agreed with its agricultural exports); more importantly, there is no remedy under U.S. countervailing duty law. This crucial failure to deal with these subsidies is reason enough to oppose the U.S./Chinese accession agreement.

Also, while much has been made of the notion of bringing China into a "rule-based" WTO system, the Uruguay Round agreements are, in a number of vital areas, sadly deficient in terms of preventing trade-blocking behavior. These include IPR enforcement, Customs valuation, standards, pre-shipment inspection and marking rules, among others. Simply having China within this system is no guarantee that Chinese trade barriers will suddenly or even eventually disappear.

Indeed, having China as a full-fledged WTO member makes the prospects for closing these loopholes even more unlikely in the years ahead as China is sure to seek ways within the system to slow down or derail any initiatives in these areas. Also, the United States will lose the leverage that the annual NTR vote in Congress has provided. Other developing countries without China's geopolitical clout have already defied their WTO commitments and are, in Geneva, seeking extensions regarding compliance with their WTO commitments in many areas. China can be expected to do the same, but with an even greater likelihood of success.

With regard to market access, it has been five years since implementation of the Uruguay Round agreement with all its hoopla about "open markets." In these five years, an analysis by ATMI has found that no significant new market access for U.S. textile and apparel products has occurred as a result of the agreements. In fact,

those markets that were closed at the end of the Round are still just as tightly closed today. India, Argentina and Brazil are among the many countries that have raised new barriers to U.S. textile and apparel exports.

In the interim, the United States has complied with the Uruguay Round agreement and let in billions of dollars worth of additional textile and apparel imports from these countries at the cost of thousands of U.S. textile and apparel jobs. Now the United States is poised to make the same mistake with China—to open our market to a flood of Chinese imports with no certainty that we will get any real market access in return. History virtually guarantees that more U.S. workers will lose their jobs and that, in the next round of WTO deliberations, real free trade issues will be forced to take a back seat.

Finally, the recent WTO meetings in Seattle introduced two other factors to consider is evaluating whether China plays by the rule of fair trade—human rights and the environment. In the United States, the textile industry provides fair and safe employment to our associates. We pay our workers far more than the minimum wage, we provide them with overtime pay as required by federal law, we comply with EPA and OSHA rules on the environment and workplace safety, and in fact we encourage companies to go even beyond what those agencies require. But these efforts and programs cost a lot of money, and that makes it difficult for us to compete against foreign manufacturers that do not meet such standards. Since we all breathe the same air and drink the same water in our global ecosystem, the U.S. must insist that our trading partners, including China, must also meet minimum environmental and human rights standards. Such standards should become part of the WTO's requirements and China should agree to abide by them. Until this happens, we should not grant Normal Trade Relations status to China or admit China into the WTO.

In conclusion, ATMI does not believe that the United States should give China the kind of extraordinary preferential access to our market that this accession package envisions. China has not warranted such favoritism, nor do U.S. textile workers and companies deserve to face a huge onslaught of subsidized imports from China. China's past practices should, if anything, teach us not to award China any benefits until it has proven that it can keep its word. We urge the Committee to reject permanent NTR with China and send this agreement back to be renegotiated on terms more equitable to U.S. textile firms and U.S. workers.

PREPARED STATEMENT OF CHRISTOPHER B. GALVIN

Mr. Chairman, Senator Moynihan, Members of the Committee, thank you for this opportunity to testify on the issue of China's accession to the World Trade Organization and what it means for Motorola. On behalf of Motorola's 140,000 employees, I urge your swift approval of Permanent Normal Trade Relations (PNTR) status with China. In considering this important step, Congress has the opportunity to reaffirm a trade relationship that has existed for 20 years and open the door to untold benefits for American farmers, American workers and American companies.

The bilateral agreement reached between the U.S. and China last November is comprehensive in its scope, providing substantially greater market access for U.S. goods, and services, lower tariffs, and broad trading and distribution rights, for nearly every sector of the U.S. economy. This agreement opens enormous possibilities in China for U.S. high technology companies. In fact, no issue currently before Congress will have a greater impact on the high tech community, and America's ability to compete in the New Economy than China's accession to the WTO and the market opening that brings.

I note that Motorola is a member of the U.S. High-Tech Industry Coalition on China. The coalition is comprised of eleven trade associations representing U.S. manufacturers of semiconductors and semiconductor equipment and materials, computers, electronics, software and telecommunications equipment, as well as U.S. internet companies. A list of coalition members is attached (Attachment 1). The coalition wholeheartedly encourages Congress to quickly move to grant PNTR for China.

China's accession to the WTO, as much as any other issue, illustrates the challenges and opportunities we face in today's global economy. Our ability as American companies to successfully compete in this international arena depends on the existence of a common set of trading rules. That need for an established and enforceable regime for global trade compels Congress to act soon and affirmatively on PNTR status for China.

Contrary to what some have suggested, extending NTR to China on a permanent basis does not confer preferential treatment on China or ignore the fact that the

U.S.-China relationship is a complicated one—fraught with controversies and requiring constant attention. We must acknowledge the problems and recognize China's accession to WTO membership as one of the ways we can address and resolve them.

In short, PNTR status is not a reward to China or a blanket endorsement of its policies. On the contrary, it is the right thing to do for America's economic and security interests. It is one of the best tools we have at our disposal to influence developments inside China by supporting a more open and market-based system.

Motorola's History in China

Motorola's presence in China dates back to the mid-1980s. In 1986, after considerable research, my father and I joined a team of other Motorola executives traveled to China for an extended visit. We met with Chinese leaders and they communicated to us their commitment to move their country from a centrally planned economy to a market economy. Given China's size, we knew it would take time, and based on their promises and conviction, my father committed \$100 million to a partnership with the country of China. Make no mistake: We have pursued our engagement in China with "eyes wide open." Our experience as the leading U.S. investor in China has not been without its challenges, whether related to China's transition to a market-oriented economy or the ups and downs of our governments' bilateral relations. But I can report to you today that our decision years ago to engage with China has been an unqualified success for Motorola, our employees and the many American companies that support our operations there.

Motorola operates the largest wholly foreign-owned subsidiary in China, and we have another seven joint ventures in the country. We export approximately \$500 million of products from our U.S. operations per year, and our total sales in China are an estimated \$3 billion annually, or approximately 10% of our overall sales.

I also can report that Motorola is contributing to the process that is reforming and transforming China. Through our presence in the country, we set an important example of the American way. Through uncompromising integrity and best practices in the conduct of our business, Motorola demonstrates how China can cope with various contemporary challenges: creating a work environment that promotes creativity and harmony; balancing individual or corporate interests against the interests of society; and seeking efficiency while providing employees with an ever better standard of living.

In setting an example, Motorola does not mean to take on a missionary role. But in China as throughout the world, we work to assure that our business activities reflect concern for all our stakeholders, and that they maintain the highest standards in respect for the individual, responsibility to the consumer, protection of the environment, and support for open and fair markets.

The product of this commitment to core principles are evident:

- We contribute to a more open and accountable government, through our steadfast policies forbidding conflicts of interest and improper influence over bureaucratic regulators.
- We promote a cleaner environment by consistently exceeding PRC environmental requirements.
- Through constant training from the top to the bottom of the corporation, we enable our employees to exercise their own judgment and to be innovative in their work.
- We promote personal responsibility by standing behind our products in the marketplace and providing unconditional guarantees to the customers.
- By providing a work environment with standards of cleanliness, performance, remuneration, and fairness well beyond those offered by almost any Chinese company, we have helped raise the expectations of our Chinese employees, who then become more assertive as employees and, perhaps, as citizens.

China is changing. There is lively, open debate about capitalism, market reforms, police brutality, the rights of the accused, and the role of human rights in a socialist economy. Problems remain, but I have witnessed laudable advances that can be further encouraged only through continued economic engagement governed by established rules of global trade. Motorola's activities in China have been guided by the firm belief that our role is not to render judgment of China's policies from the sidelines, but to be an active participant in the complicated process of modernization and hope we can bring the best of what we have learned at home to our operations overseas.

I am attaching for the record (Attachment 2), an article that was published in the Wall Street Journal by Michael Santoro, a professor of business ethics at Rutgers University. Professor Santoro concludes that fostering further economic and political liberalization within China is most effectively achieved not through campaigning for

human rights, but as a by-product of exporting our good business practices through responsible commercial engagement.

Over the years, I have seen progress by China in removing various impediments common to global commerce. China has fostered protection for intellectual property, the reduction in tariff and non-tariff barriers to trade, and the expansion of a legal and regulatory regime that governs commercial activity. We know as well as anyone that problems remain and continued progress in trade liberalization and market reform must be made. Fortunately, Congress has the ability to contribute to that process. The bilateral WTO marketopening agreement reached between the U.S. and China last fall holds untold benefits that will be realized only if Congress acts as soon as possible on PNTR.

It is nothing short of essential that the world's most populous nation be brought under the umbrella of the organization that sets and enforces the rules of global trade. Congress can decide whether that happens with the participation of the U.S. or without it. And we should be clear that this is the choice. China will join the WTO, but American firms and workers will get the full benefit of China's market opening only if Congress approves PNTR and we agree to treat China no worse than we treat any other WTO member.

Securing the bilateral agreement reached last fall by approving PNTR status for China is good for America, good for China, and good for the future health and growth of the global economy.

Needless to say, the deal is also good for Motorola. Charlene Barshefsky, Robert Cassidy, and the entire U.S. negotiating team should be commended for negotiating perhaps the most comprehensive and transformative trade agreement ever concluded. I will allude to a few notable highlights that are further described in a statement I will attach for the record (Attachment 3).

- **Enhanced market access:** Accomplished through the application of national treatment to imported goods, tariff reductions, the phase-out of non-tariff trade barriers—such as import licensing and quotas—and the extension of trading and distribution rights to all foreign and domestic firms. Tariff rates on information technology equipment such as cellular phones (currently 12 percent) and batteries (18 percent) will fall to zero. Existing import quotas and licensing requirements currently applied to telecom equipment will be phased out, and the right to engage in importing and exporting will be extended to all foreign and Chinese enterprises.
- **Investment in telecommunications services:** Rules permitting increased foreign investment and management of telecom services in China will accelerate the development of one of the world's largest and fastest-growing telecom markets, creating new opportunities for equipment manufacturers and service providers.
- **Greater transparency:** Reduced uncertainty in U.S.-China trade, through greater clarity in government regulation, the formal binding of China's tariff schedule, and creation of a process for effective multilateral dispute resolution.
- **Accelerated transformation to a market economy:** Locking in and promoting further reforms that will accelerate China's transformation from a non-market to a market economy.

The risks of inaction are clear. I stress again what this vote means. China will enter the WTO with or without our support this year. The key point is that American companies and American workers will enjoy the benefits of China's accession only if Congress approves PNTR status. Without that important step, America will be left behind as our foreign competitors exploit new opportunities available to them but denied to us as China enters the WTO. A vote against PNTR does not stop China's entry, but it does give European and Japanese companies an advantage in the market place that will be immediate, hobbling American exports for years to come.

Having sounded that note of concern about the consequences of inaction, I would add that I am heartened by the signs of bipartisan support that I have seen to date. I look forward to further bipartisan agreement to lock in commitments that will bolster American exports, extend China's economic reforms and strengthen the rules for more fair and open global trade. By taking this step, Congress can help paint a brighter future for American companies and workers—and maintain American competitiveness around the world.

U.S. HIGH-TECH INDUSTRY COALITION ON CHINA
 - AMERICAN ELECTRONICS ASSOCIATION - BUSINESS SOFTWARE ALLIANCE -
 - COMPUTER SYSTEMS POLICY PROJECT - COMPUTING TECHNOLOGY INDUSTRY ASSOCIATION -
 - ELECTRONIC INDUSTRIES ALLIANCE - INFORMATION TECHNOLOGY INDUSTRY COUNCIL -
 - SEMICONDUCTOR INDUSTRY ASSOCIATION - SEMICONDUCTOR EQUIPMENT & MATERIALS INTERNATIONAL -
 - SOFTWARE & INFORMATION INDUSTRY ASSOCIATION - TELECOMMUNICATIONS INDUSTRY ASSOCIATION -
 - UNITED STATES INFORMATION TECHNOLOGY OFFICE -

AMERICAN ELECTRONICS ASSOCIATION - AEA is the nation's largest high-tech trade group, representing more than 3,000 U.S.-based technology companies. Membership spans the industry product and service spectrum, from semiconductors and software to computers, Internet and telecommunications systems and services. With 18 regional U.S. councils and offices in Brussels, Tokyo and Beijing, AEA offers a unique global policy grassroots capability and a wide portfolio of valuable business services and products for the high-tech industry. For 56 years, AEA has been the accepted voice of the U.S. technology community.

URL: www.aeanet.org

BUSINESS SOFTWARE ALLIANCE - Since 1988, BSA has been the voice of the world's leading software developers before governments and consumers in the international marketplace. Its members represent the fastest growing industry in the world. BSA educates computer users on software copyrights, advocates public policy that fosters innovation and expands trade opportunities, and fights software piracy.

URL: www.bsa.org

COMPUTER SYSTEMS POLICY PROJECT - CSPP advocates public policy positions on important trade and technology issues. CSPP is chaired by the Chief Executive Officers of leading American computer systems companies, including: Louis V. Gerstner, Jr., Chairman and CEO of IBM Corp. and Chairman of CSPP; Robert Bishop, Chairman and CEO of SGI; Michael Capellas, President and CEO of Compaq Computer Corporation; John T. Chambers, President and CEO of Cisco Systems, Inc.; Michael S. Dell, Chairman and CEO of Dell Computer Corporation; Carly Fiorina, President and CEO of Hewlett-Packard Company; Andrew S. Grove, Chairman of Intel Corporation; Richard A. McGinn, Chairman and CEO of Lucent Technologies; Scott G. McNealy, Chairman and CEO of Sun Microsystems, Inc.; Lars Nyberg, Chairman and CEO of NCI Corporation; Lawrence A. Weinbach, Chairman, President and CEO of Unisys Corporation.

URL: www.cspp.org

COMPUTING TECHNOLOGY INDUSTRY ASSOCIATION - CompTIA is a 17-year-old association representing over 7,500 computer hardware and software manufacturers, distributors, retailers, resellers, VARs, system integrators, training, service, telecommunications and Internet companies. In addition to providing a unified voice for the industry in the areas of public policy, workforce development and electronic commerce standards, CompTIA certifies information technology and service professionals with its widely-adopted and vendor-neutral certification programs.

URL: www.comptia.org

ELECTRONIC INDUSTRIES ALLIANCE - EIA is a federation of associations and sectors operating in one of the most competitive and innovative industries in the world. We are committed to promoting business opportunities for our industries. Comprised of over 2100 members, EIA represents 80% of the \$550 billion U.S. electronics industry. Our member and sector associations represent telecommunications, consumer electronics, components, government electronics, semiconductor standards, as well as other vital areas of the U.S. electronics industry.

URL: www.eia.org

INFORMATION TECHNOLOGY INDUSTRY COUNCIL – ITI is a small, highly focused association that represents the leading US information technology companies. Our members had worldwide revenues exceeding \$460 billion in 1999 and employed more than 1.5 million people in the United States. Believing that free trade is key to our industry's long-term success, we support policies that open markets and break down barriers to trade.

URL: www.itic.org

SEMICONDUCTOR INDUSTRY ASSOCIATION – SIA is the leading trade association representing the computer chip industry. The mission of the SIA is to provide leadership for U.S. chip manufacturers on the critical issues of trade, technology, environmental protection and worker safety and health. With the assistance of our members, we strive to achieve: free and open markets worldwide, U.S. leadership in technology, and state-of-the-art programs to protect the environment and provide safe working conditions.

URL: www.semichips.org

SEMICONDUCTOR EQUIPMENT AND MATERIALS INTERNATIONAL – Based in Mountain View, CA, SEMI is an international trade association serving more than 2,300 companies participating in the \$65 billion semi-conductor and flat panel display equipment and materials markets. In North America, over 1330 SEMI member companies provide 46,000 jobs for the U.S. economy, while 750 member companies have less than \$5 millions in sales.

URL: www.semi.org

SOFTWARE & INFORMATION INDUSTRY ASSOCIATION – SIIA is the principal trade association for the software and digital content industry. SIIA provides global services in government relations, business development, corporate education and intellectual property protection to the leading companies that are setting the pace for the digital age.

URL: www.sii.net

TELECOMMUNICATIONS INDUSTRY ASSOCIATION – TIA is a full-service national trade organization with membership of 1,000 large and small companies that provide communications and information technology products, materials, systems, distribution services and professional services in the United States and around the world.

URL: www.tiaonline.org

UNITED STATES INFORMATION TECHNOLOGY OFFICE - USITO is a trade organization designed to promote trade and cooperation in the information technology industries of the United States and China. It is committed to increasing the market share of U.S. companies in China's burgeoning information technology sector. USITO is a consortium formed by: the American Electronics Association, the Semiconductor Industry Association, the Software and Information Industries Association, and the Telecommunications Industry Association.

URL: www.usito.org

Manager's Journal:
Promoting Human Rights in China Is Good Business
 By Michael A. Santoro

06/29/1998
 The Wall Street Journal
 Page A18

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Contrary to what you may have heard, multinationals doing business in China can help foster democracy and human rights there indeed, by pursuing their own self-interests effectively, companies help the people of China. In fact, it is the best-run and most successful companies that make the biggest impact.

The most obvious contribution foreign companies make is economic. Generally speaking, they pay better than domestic companies, helping to reduce poverty and create a middle class with power and interests independent of the state.

But there are other, more subtle ways in which companies can help improve China's situation. According to research I've conducted with foreign managers and Chinese workers, foreign enterprises impart a wealth of formal and informal learning about values and behavior that can help to build and sustain democracy and foster support for individual rights.

One way foreign companies make a decisive difference is simply by pursuing a policy that all good firms should be practicing at home anyway -- namely hiring and promoting on the basis of merit. In Chinese companies, the best jobs typically go to those with the best *guanxi*, or connections. A typical anecdote: A Chinese woman working for an American investment bank in Shanghai told me that when she graduated from university she had wanted to work for a Chinese commercial bank, but her parents didn't have powerful connections. Now she is happy that her promotions will be based upon her performance.

The reasons why foreign managers generally hire and fire on merit is obvious to Westerners. They must answer to owners who care first and foremost about the bottom line. By doing so, they foster what in China is a radical notion -- that individual merit should be rewarded. This sense of the value of the individual and of fairness is intrinsic to capitalism. It is, at the same time, an essential characteristic of a culture that respects human rights. In other words, by simply doing what comes naturally, well-run firms can foster human rights.

Another modern corporate practice that helps China's development is teamwork. Companies like Wall's, the ice cream subsidiary of Britain's Unilever PLC, understand that their commercial success depends upon teamwork, initiative and the sharing of information. Wall's general manager for China, Duncan Garood, is concerned about market share and profits, not politics. Recently he dispatched a team to cut the costs of a particular product. To accomplish this, the workers had to put their heads together and think creatively. Again teamwork, initiative and the sharing of information are hallmarks of a democratic culture. By teaching these skills, foreign companies are helping put in place values and practices that in the long run help foster democracy.

The companies with the deepest commitment to China have set up elaborate training programs for their workers. One U.S.-based manufacturing company with more than 750 workers in Asia sends each of its employees through a training program coordinated from Hong Kong but conducted by locals in the local language. Listening to the company's regional director of training and education explain the training program, one can grasp right away how the training can have a political dimension: "We change a lot and we change very quickly. We don't do things the same every time. We improve. We're not focused on the past. We value open and direct communication." Open communication and receptivity to change are ideas that can't be confined to the workplace once they're out there.

The German-based chemical giant BASF, which employs more than 2,000 people in China, has set up a management development center at Shanghai's elite Jiao Tong University. Seeking to teach "leadership and communication," the BASF program calls for its local executives to "share their thoughts, insights and experiences in a distinctly proactive way." This emphasis on leadership and communication is in marked contrast to the management style prevailing in Chinese state-owned enterprises, where, as the old Chinese proverb goes, the nail that sticks up will be hammered down.

Such training does not take place only in China. Many foreign companies send their top employees on tours of their headquarters to develop better communication, or for MBA training at top schools.

One must be careful not to overstate the impact that foreign companies can have on the development of democracy in China. It will be interesting to see, for example, whether state-owned enterprises will adopt state-of-the-art management techniques successfully to meet foreign competition. The spill-over effects of business activity on political and social change in China are limited initially to the people who work for multinationals and those who associate with them. Still, the potential is great. As Ken Grant of Hong Kong-based Market Access puts it: "Who's to say what the impact will be when a couple of guys are talking over beer after work and comparing their experiences of working in a state-owned company with those in a foreign company?"

Mr. Santoro is an assistant professor at the Rutgers Graduate School of Management, where he teaches business ethics.

Doing Good While Doing Well in China

By Michael A. Santoro

05/12/1998

The Wall Street Journal Europe

Page 8

(Copyright (c) 1998, Dow Jones & Company, Inc.)

Contrary to what you may have heard, multinationals doing business in China can help foster democracy and human rights. But here is the best part: It is by pursuing their own self-interests effectively that companies do good. In fact, it is the best-run and most successful companies that make the biggest impact.

The most obvious contribution foreign companies make is purely economic, of course. Generally speaking, they pay better than domestic companies, helping to create a middle class with power and interests independent of the state. The reduction of poverty alone is a step in the right direction in terms of human rights.

But there are other, more subtle ways in which companies can help improve China's situation. According to research I've conducted with foreign managers and Chinese workers, there is a wealth of formal and informal learning at foreign enterprises about values and behaviors that can help to build and sustain democracy, and foster support for the rights of the individual.

One way foreign companies make a decisive difference is simply by pursuing a policy that all good firms should be practicing at home anyway, namely hiring and promoting on the basis of merit. Sadly, among Chinese companies, this is seldom the case; the best jobs often go to those with the best connections, or *guanxi*. In a typical anecdote, a Chinese woman working for an American investment bank in Shanghai told me that when she graduated from university she had wanted to work for a Chinese commercial bank, but her parents "didn't have powerful connections." Now she is happy that her promotions will be based upon her abilities rather than how well she gets along with her boss.

The reasons why foreign firms generally tend to hire and fire on merit is that they must answer to owners who care first and foremost about the bottom line, so they simply cannot afford such a personal style. If they don't pay for performance, they will soon go out of business. By doing so, they foster the radical notion — radical at least in China and some other places around the globe — that individual merit matters and should be rewarded.

This sense of the value of the individual and of fairness is intrinsic to capitalism. It is, at the same time, an essential characteristic of a culture which respects human rights. In other words, by simply doing what comes naturally, well-run firms can make a positive human-rights contribution.

Another modern corporate practice that helps China's development is teamwork. Companies like Walls, the ice cream subsidiary of U.K.-based Unilever, well understand that their commercial success depends upon teamwork, information-sharing, and initiative.

Wall's general manager for China, Duncan Garrod, is a businessman concerned about market share and profits, not politics. Recently he dispatched a cross-functional team to cut the costs of a particular product whose costs, he thought, were getting out of line. He was rewarded with a 10% cost reduction without loss of quality.

To accomplish Mr. Garrod's assignment, Wall's workers had to put their heads together and think creatively about re-engineering the product. These are, of course, the trendiest ideas in modern management science. Any firm not practicing them isn't likely to be competitive for very long. Again, though, teamwork, information-sharing and initiative are also the hallmarks of a democratic culture. By teaching these skills, foreign companies are helping to put in place values and practices which in the long run help to sustain a democracy.

The firms with the deepest commitment to China, in fact, have set up elaborate training programs for their workers. One U.S.-based manufacturing company with more than 750 workers in Asia sends each of its employees through a training program coordinated from Hong Kong but conducted by local trainers in the local language. Listening to the company's regional director of training and education explain the training program, one can grasp right away how the training can have a political dimension. "We change a lot and we change very quickly. We don't do things the same every time. We improve. We're not focused on the past. We value open and direct communication." Open communication and receptivity to change are ideas that can't be confined to the workplace once they're out there. Not for too long, anyway.

German-based chemical giant BASF, which employs over 2,000 people in China, has set up a Management Development Center at Shanghai's elite Jiao Tong University. Seeking, among other things, to teach "leadership and communication," the BASF program calls for its local executives to "share their thoughts, insights and experiences in a distinctly proactive way." This emphasis on leadership and proactive communication is, again, in marked contrast to the management style prevailing in Chinese state-owned enterprises where, as the old Chinese proverb goes, the nail that sticks up will be hammered down. The training, incidentally, does not take place only in China. Many foreign companies send their top employees on tours of headquarters to develop better communication, or for MBA training at top schools.

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Doing Good While Doing Well In China
By Michael A. Santoro

06/01/1998

The Asian Wall Street Journal

Page 12

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Contrary to what you may have heard, multinationals doing business in China can help foster democracy and human rights. But here is the best part: It is by pursuing their own self-interests effectively that companies do good. In fact, it is the best-run and most successful companies that make the biggest impact.

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(See related letter: "Letters to the Editor: Against the Ceiling" -- AWSJ June 12, 1998)



**Motorola Statement
On
China's Accession to the WTO and PNTR**

January, 2000

China's accession to the World Trade Organization is good for the United States, the world, China, and Motorola.

- **The U.S. benefits** by gaining better access to China's markets for American manufactured goods, services, and agricultural products.
- **The world benefits** by applying the rules and obligations to one of the largest trading nations.
- **China benefits** by promoting and implementing economic, legal, and regulatory reforms necessary to sustain and promote further economic growth.
- **Motorola benefits** through expanded market opportunities in China.

Specific benefits to Motorola are:

- **Enhanced market access:** Accomplished through the application of national treatment to imported goods, tariff reductions, the phase-out of non-tariff trade barriers -- such as import licensing and quotas -- and the extension of trading and distribution rights to all foreign and domestic firms. Tariff rates on information technology equipment such as cellular phones (currently 12 percent) and batteries (18 percent) will fall to zero. Existing import quotas applied to telecom equipment will be phased out, and the right to engage in importing and exporting will be extended to all foreign and Chinese enterprises.
- **Investment in telecommunications services:** Rules permitting increased foreign investment and management of telecom services in China will accelerate the development of one of the world's largest and fastest-growing telecom markets, creating new opportunities for equipment manufacturers and service providers.
- **Greater transparency:** Reduced uncertainty in U.S.-China trade, through greater clarity in government regulation, the formal binding of China's tariff schedule, and creation of a process for effective multilateral dispute resolution.
- **Accelerated transformation to a market economy:** Locking in and promoting further reforms that will accelerate China's transformation from a non-market to a market economy.

Unconditional MFN is a cornerstone of the WTO. To secure the benefits of China's WTO commitments, the United States must recognize China as a full WTO Member by extending Permanent Normal Trade Relations (PNTR). If the United States withholds PNTR, the benefits of China's market-opening may go to our competitors in Europe and Japan, while U.S. products and services are excluded.

Attachment 3

**SCORECARD ON MOTOROLA'S
PRIORITY WTO ISSUES**

(January, 2000)

ISSUE	OBJECTIVE	CURRENT STATUS	ASSESSMENT
Tariff Reduction	Reduce and bind industrial tariffs. Accession to Information Technology Agreement (ITA) upon WTO accession.	China has agreed to reduce and bind industrial tariffs at an average rate of 9.4% (7.1% for priority products). China has further agreed to ITA with tariff reductions commencing upon WTO accession. Most ITA tariffs will be eliminated by 2003, and all by 2005.	Very good in terms of scope, rates, and timing. ITA commitments will assist in sales of Motorola telecom and semiconductor equipment. Motorola currently faces PRC tariffs of 20% for pagers, 18% for batteries, and 12% for cell phones. All will fall to zero.
Trading and Distribution Rights	The right to import and sell the full range of Motorola products in China (not just products we make in China). To date, China has granted trading rights to a limited number of PRC firms. Foreign invested enterprises have the right to import, but only the inputs necessary for their manufacturing in country, and to export only those products they make in China.	China has committed to grant universal trading and distribution rights to all foreign and domestic firms within 3 years of WTO accession. China has accepted a broad definition of distribution rights to cover all forms of distribution, including retail and wholesale, transportation, logistics, and after-sale service.	Very good. Will promote Motorola's ability to sell the full family of Motorola products and provide after-sales service with a ready supply of imported components.
National treatment for foreign goods and services	Removal of "buy local" requirements and other import substitution policies applied on purchases of telecom equipment. Imports currently subject to separate inspection regimes than same products made in China	National treatment is a non-negotiable WTO principle	Good. Will help deal with "buy local" policies used for cellular equipment, and to standardize safety inspections and standards criteria.
Transparency	Increased transparency in rules and regulatory structures, and consistency in the enforcement of rules	China has committed to enforce only those rules that have been published, and to establish procedures for public comment. China has further committed to establish procedures for judicial review of administrative actions that implement the WTO agreement.	Good, but expect continued problems at local and provincial level.

Removal of non-tariff measures	Immediate disclosure of all licensing, quota, tendering and other import controls and provision of a prompt timetable for their elimination.	China has submitted schedule to phase out most NTMs by 2002, and all by 2005. All existing quotas will grow at 15% annually until phase-out.	Very good. Mobile communications is a controlled industry in China for purposes of import licensing; i.e. the Ministry of Information Industry, State Development and Planning Commission, and Ministry of Foreign Trade and Economic Cooperation issue licenses to import fixed amounts of pagers, cell phones, and components.
Intellectual Property Protection	Full implementation of the "Trade Related Intellectual Property (TRIPs) provisions	China has committed to full implementation upon accession.	Good. China will continue to have problems in implementation, but Motorola has good track record of working cooperatively with PRC IPR authorities. For example, authorities shut down and prosecuted operators of plant in Guangdong that was pirating our batteries.
Telecom Services	Liberalization to permit foreign participation in telecom services, and to avoid less-secure "China-China-Foreign" deals designed to end-run current prohibitions on foreign ownership in telecom services.	China will permit 49% foreign ownership in telecom services and a 50% stake in paging services in 2 years. China has fully adopted the reference paper on pro-competitive telecom principles embodied in the Basic Telecom Agreement (including cost-based pricing, interconnection rights, and independent regulatory authority).	Very good. Should promote investment in rapidly growing industry, and accelerate pace of introduction of new technology creating opportunities for Motorola and other equipment suppliers.
Removal of investment restrictions	Implementation of Trade related investment measures (TRIMS) which prohibits the application of investment conditions such as export requirements, local content obligations, and foreign exchange balancing.	China has committed to "TRIMS-plus" upon accession. Will eliminate and cease enforcing trade and foreign exchange balancing and local content requirements, and will not enforce pre-existing contracts imposing these requirements. Further, will only impose or enforce laws or other provisions relating to tech transfer if in accordance with WTO. China further agreed not to condition investment approvals, import licenses, or any other import approval process on performance requirements of any kind.	Very good. Our wholly foreign-owned plant in Tianjin - Motorola China Electronics Limited - faces a 50% export requirement, which is due to increase to 70% in 2000. This factory was built to sell to Asian market. Failure to meet export targets will adversely affect import licenses/access to quota, and thus could harm overall production volume.

PREPARED STATEMENT OF MERLE GOLDMAN

Below are two statements from China's most prominent and respected human rights advocates. The first statement is by Wang Dan, a leader of the demonstrations in Tiananmen Square, who was imprisoned after the military crackdown on the demonstrators on June 4, 1989. The second statement is from Wang Juntao, who was sentenced to 13 years in prison for being the supposed "Black Hand" behind the demonstrations. Both men were released from prison due to U.S. and international pressure. Wang Juntao and his co-partner Chen Ziming were released in 1994 as a condition for President Clinton's delinking of MFN from human rights. Wang Dan was released six months after Jiang Zemin's visit to the U.S. in fall 1997 and before President Clinton's visit to China in 1998.

STATEMENT BY WANG DAN

I support China's entry into the WTO. I feel that this will be beneficial for the long-term future of China because China will thus be required to abide by rules and regulations of the international community. Furthermore, it will allow space for further development within China. However, entry into the WTO will be harmful for the human rights situation in China for the short term because the international community will lose its annual chance to pressure the Chinese government to im-

prove its human rights record. I think the only way to balance this dilemma is to create a new way to put pressure on the Chinese government. I suggest two things. One, the American government should seek to establish a bilateral unofficial dialogue committee with China to discuss the human rights issue on a yearly basis. Second, the Chinese government should be encouraged to sign more international human rights covenants, such as those that give the Chinese people the right to sue the Chinese government in international organizations.

STATEMENT BY WANG JUNTAO

Regarding China's entry into the WTO, I would like to submit the following points:

1. I find that there is no perfect answer to the question of whether or not China should be admitted. Without the friendly relations between the two countries, China would never had made such progress during the past twenty years. On the other hand, international pressure has also been an effective means for making improvements in China.

2. But if one needs to choose between whether or not China should be admitted, I prefer to choose "Yes." I base this opinion on three facts:

(a) Both fundamental change in the human rights situation and democratization in China will mainly come from efforts by Chinese within China. The more the relationship between the two countries expands, the more space there will be for independent forces to grow in China. In an international environment, independent forces will be more competitive than the state-owned enterprises. Such independent forces will eventually push China toward democracy.

(b) The current Chinese government is still pursuing its reform policy. As the economic situation improves, China will be able to carry out reform more aggressively and more deeply. Although such reform does not necessarily imply that there will be an immediate and direct political reform, it definitely will produce certain conditions that will be conducive to ultimate democratization.

(c) Since presently most Chinese are mainly interested in material benefits, they will find any policy that damages their economic interests to be offensive. An overemphasis on economic sanctions will contribute to the growth of nationalism and anti-westernism in China. This will limit both the influence of the U.S. as well as that of the democracy movement in China.

3. Although I basically support China's entry into the WTO, I still respect those Americans who favor sanctions in the hopes of improving the human rights situation in China.

The following are my comments in support of these two statements:

I agree with Wang Dan and Wang Juntao that China should become a member of WTO and the issue of human rights should be delinked from economic sanctions. We believe that the U.S. threat of economic sanctions is counter-productive because it arouses the antagonism of ordinary Chinese people toward the U.S. and fuels increasing nationalism in China, which ultimately hurts the cause of human rights in China. Even when the threat of economic sanctions in the past led to China's release of a number of famous political prisoners, it did not in anyway change the Chinese government's view of human rights nor did the Chinese government end its abuse of rights.

Nevertheless, China's views on human rights have been changing ever so slowly in the post Mao Zedong era primarily because of China's move to the market and participation in the international community. During the Mao era (1949-1976) when China was isolated from the rest of the world, China's government did not care about human rights and international pressure. But as China opened up to the outside world politically as well as economically during the Deng Xiaoping period (1978-1997) and during that of his successor Jiang Zemin (1989-), China began to care about how it was viewed. It wants to be considered a respected, responsible member of the world community. Therefore, it has accepted the concept of universal human rights in the UN Declaration on Human Rights and has signed the Covenant on Economic, Social and Cultural Rights and the Covenant on Civil and Political Rights. Though these covenants have not been ratified by China's "parliament," the National People's Congress, and therefore, are not yet operable, they have inspired human rights activists in China. Those trying to establish an opposition party, the China Democracy Party, and various religious groups, as well as the Falun Gong and other meditation groups, cite the covenants in their efforts to win official recognition. Human rights abuses continue and in fact, increased in 1999, but com-

pared with the Mao era when millions were imprisoned and silenced, the numbers in the post-Mao era are in the thousands.

Therefore, the more that China participates in international organizations, the more likely it will in time play by the rules of those organizations. In fact, China's acceptance of universal standards of human rights came in part because of its participation in the UN Commission on Human Rights. Rather than continuing the yearly denunciations of China's human rights behavior at the time of Congressional passage of MFN or NTR, the U.S. might be able to exert more effective pressure on human rights in the long run by giving more attention to China's abuses at the yearly sessions of the UN Commission on Human Rights. When the U.S. works with our allies at the UN Commission on Human Rights, it has more success than working by itself. In this period of intensifying nationalism in China, the Chinese government is more receptive to multi-national pressure than to pressure from the U.S. alone. It was pressure from our allies in the UN Commission on Human Rights that made China sign the two covenants. Now we should use similar international pressure on China's National People's Congress to ratify the covenants.

Similarly, though membership in WTO is not directly related to human rights, participation in that organization also requires norms of behavior. These include transparency and legal procedures in doing business and access to China's markets of the new information technology, that indirectly foster the cause of human rights in China. The new technologies—computers, the Internet, faxes, cellular phones, and pagers—have already made it more difficult than in the past to suppress groups attempting to assert their rights. One reason why the Chinese government has had such difficulty in suppressing the Falun Gong, which it calls "an evil cult," has been because its members have used these new technologies to organize protests, spread information and maintain contacts with their colleagues abroad. WTO will make available to those seeking human rights in China even more advanced technologies and more access to the outside world.

Criticism of China's human rights abuses that accompanies the renewal of China's NTR each year can be replaced, as has been suggested by Senator Carl Levin, with yearly Congressional hearings, prepared by a special committee, on the various human rights reports on China issued during the course of the year by the State Department, various commissions, and NGOS. In that way the focus will be specifically on human rights and will direct attention to the numerous reports on China's abuses, which usually get lost in the media. In addition, all kinds of bilateral contacts between U.S. and China through official and congressional visits, "NGOS," religious groups, scholars and lawyers working on human rights issues should be encouraged.

CONCLUSION

Improvement in China's human rights regime will come by integrating China into the world community rather than by isolating it. In fact, when China is isolated and its relationship with the U.S. is strained, human rights conditions in China worsen. True, in a period of accelerating contact with the outside world in 1999, China's human rights conditions have deteriorated. Its government has arrested hundreds of Roman Catholics and Protestants engaged in unofficial house worship services, virtually all the leaders of the China Democracy Party and thousands of followers of the Falun Gong, other qigong societies, Tibetan monks and nuns and Moslem separatists. But if one compares China of the Mao era, China is a relatively freer place today than it was twenty five years ago.

Progress on human rights does not go in a straight line, as was also true in the Soviet Union. The Helsinki accords that the Soviets signed in 1978 encouraged Soviet and East European dissidents and led to an undermining of the Leninist regimes in the Soviet Union and Eastern Europe, but the progress was erratic and not clearly discernible at the time. It wasn't until the Gorbachev era in the late 1980s that there was any definite improvement in human rights conditions. It may take even longer in China, because of deeply embedded traditions, but already we see that the international human rights regime is slowly having an impact on Chinese views of human rights and activating forces for change, both in society and from advisers to the leadership. True human rights, however, will not come until China introduces democratic political and legal institutions that can protect the freedoms of expression, association and religion, as stipulated in the Chinese constitution. China's entrance into the WTO will act as another international influence that will help lead China eventually toward democracy.

* Merle Goldman is a Professor of Chinese History at Boston University and is the coauthor with John K. Fairbank of the enlarged edition of *China: A New History*.

(SUBMITTED BY SENATOR GRAHAM)

United States Senate

WASHINGTON, D.C. 20510

February 16, 2000

The Honorable Trent Lott
Majority Leader, United States Senate
S-230
Washington, DC 20510

The Honorable Thomas A. Daschle
Minority Leader, United States Senate
S-221
Washington, DC 20510

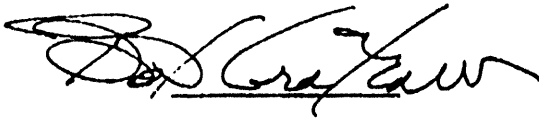
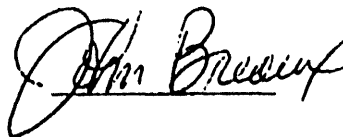
Dear Leaders:

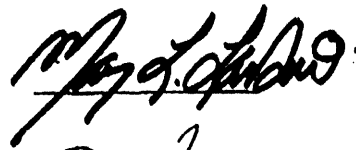
We urge you to bring legislation to the floor granting permanent Normal Trade Relations (NTR) status to the Peoples Republic of China at the earliest possible opportunity. The Senate should debate and pass this critical legislation.

With the U.S.-China bilateral accession agreement now complete, China's accession to the World Trading Organization is now certain to be finalized before the end of this calendar year. It is imperative that Congress move quickly to grant permanent NTR status so that U.S. workers and companies can take advantage of the market access provisions and other benefits provided for in the bilateral agreement.

Passage of this legislation will require presidential leadership, private sector support, and a strong bipartisan effort in both the Senate and the House. We want to work with you to forge a bipartisan coalition that can lead this effort. Nothing less than the continued strength of the U.S. economy and our leadership in the world is at stake.

Sincerely,





PREPARED STATEMENT OF NELSON E. GRAHAM

U.S.-CHINA TRADE RELATIONS AND THE IMPACT ON RELIGIOUS ACTIVITY IN THE PRC

Mr. Chairman, Senator Moynihan, Members of the Committee, thank you for this opportunity to testify today on the critical issue of U.S. trade relations with China and its impact on religious activity in the PRC.

INTRODUCTION

I am Ned Graham, President of East Gates International, a religious non-profit corporation, located in Washington State, whose primary purpose is to have a positive impact on China's religious history. East Gates has sought to accomplish this through developing relationships at all levels of Chinese society and through engaging those responsible for establishing and implementing religious policy. We have sought to help the leadership of China better understand that spiritual values are not Western or imperialistic, but core to being human and that religious practitioners who live by these values can only serve to help and strengthen the growth and development of China.

Because of this engagement, we have been able to legally distribute over two and one-half million Bibles (both Catholic and Protestant) to non-registered, religious practitioners since 1992. We have also been able to publish and distribute biographical, historical and cultural religious literature. For example, we recently signed a letter of agreement to publish a compilation of 160 of my father, Dr. Billy Graham's sermons. In addition, we are also involved in religious training programs in both the registered and unregistered religious communities.

Although East Gates advocates free trade and engagement with the PRC and is therefore, seemingly aligned with business interests in China, we do not receive funding nor benefits from any profitmaking corporations or businesses. We receive our funding exclusively through the support of individuals. In other words, our position on MFN, NTR and now PNTR has remained constant and grows out of our experiences in working on the ground in the PRC with indigenous religious practitioners.

THE IMPACT OF CHINA'S TRADE RELATIONS WITH THE WEST ON RELIGIOUS ACTIVITY IN THE PRC

This being said, I would like to address the question before us today:

"Will granting China PNTR and China's accession into the WTO benefit or harm religious practitioners in China and the U.S. based religious organizations seeking to serve them?"

I can only answer this question through our experience working in China.

When we first started traveling extensively to China in early 1990, less than a year after the Tiananmen Square incident, Western missionary activity was almost completely underground.

Today, ten years later, there are hundreds of different missions groups either working or attempting to work openly and legally in China. They are involved in education, service sector training and re-training programs, publishing, media, humanitarian assistance, medical and dental work, animal husbandry, agriculture and many other creative endeavors; all of which help the growth and development of Chinese society.

Ten years ago, there was almost no information exchange technology available to the average Chinese citizen. If we wanted to contact friends or co-workers in China, we had to do it by post unless the individual had a private phone, which was extremely rare, especially in the inland provinces. In addition, no one outside of large corporations or government offices had access to computers, modems, faxes or cell phones and even usage of those technologies was tightly controlled and monitored. Ten years ago, people could not travel freely, choose where to live, have a say in what type of education they wanted, pursue a career of their choice or start a business.

Today, despite occasional difficulties, much of this has changed. We routinely communicate with friends and co-workers all over China via fax, cell phones and e-mail. This proliferation of information exchange technology has allowed us to be much more effective in developing and organizing our work in the PRC.

The economic reforms of the past ten years and China's expanded trade relationships with the West have dramatically increased the personal freedoms experienced by indigenous religious practitioners in China. Now our friends and co-workers in China can travel anywhere they wish by whatever means they can afford. They can choose a career or start a business and even place their children in private schools. This sea change in the PRC has greatly benefited organizations such as East Gates.

It is important to note, however, that even though East Gates is a religious organization, we confront many of the same challenges that businesses face while working in China: leviathan bureaucracy, nepotism, the use of poorly defined laws, policies and regulations to obtain competitive advantages or outright control, bribery, and opaque decision making processes, to list just a few.

We have been in an ongoing struggle to get our business partners, especially in the area of publishing, to become more transparent and to conform to internation-

ally accepted standards of business practice. Over the years as our relationships have deepened, we have seen improvements in this area but there still needs to be greater consistency in how business is conducted in China from city to city and province to province. This is also true for the implementation of religious policy.

IMPORTANCE OF GRANTING CHINA PNTR

I look forward to the U.S. granting PNTR to China and China's accession into WTO because it will: (1) Encourage China's adherence to international law and a rules based trading system, (2) facilitate China's civil society in developing its internal rule of law, and (3) expand personal freedoms for its population. I believe that these continued changes will have a positive impact on China's religious policies and stimulate China's overall growth and development.

Having traveled to China over 40 times, I am increasingly concerned by the level of suspicion and often-negative perceptions of the U.S. government. These perceptions are held, not only by many top leaders, but also by many average Chinese citizens. Negative perceptions exist on this side of the Pacific Rim as well. These negative perceptions have increased dramatically over the past two to three years especially since the unfortunate bombing of the Chinese embassy in Belgrade, the campaign finance accusations and the alleged PRC's acquisition of U.S. nuclear technology. If the growing misperceptions are allowed to grow unchecked, they could ultimately lead to disaster.

In 1971 in his book *Nations in Darkness* Dr. John G. Stoessinger wrote:

"International relations are often what people think they are, or, to put it in other words, that under certain conditions, men respond not to realities but to fictions that they have themselves created. To say that there are no objective problems in Sino-American relations would, of course, be folly. But the stage of world politics lends itself all too easily to the development of wide gaps between what reality is and the way it is perceived. Because of this fact, perception probably plays almost as important a role in international relations as does objective reality itself.

Misperceptions among nations may have disastrous effects on policy decisions. Stereotyped images on one side may illicit similar ones on the other, compounding the distortion. Even worse, if one believes a stereotype long enough, it may become reality by setting in motion the mechanism of selffulfilling prophecy. Thus, if a nation believes that another is its implacable enemy and reiterates this often enough, making it the guideline of its national policy, it will eventually be right."

If the U.S. does not grant China PNTR before China's accession into WTO, it will not only hinder U.S. businesses and organizations such as East Gates who are seeking to serve the religious population in the PRC, but will only reinforce negative perceptions held on both sides of the Pacific Rim.

I believe that granting China PNTR before China's accession into WTO will not only benefit U.S. businesses and U.S.-based religious organizations but will be one further step towards bettering the relationship between our two countries.

OTHER POINTS OF LEVERAGE NEEDED

Having said this however, I believe we need other "points of leverage" to replace the annual MFN/NTR debate. Whatever mechanisms are established, they should not be "paper tigers" but tangible, verifiable and effective in advancing greater freedoms for all non-political religious practitioners in the PRC. They should not be blunt instruments that only serve to deepen the misperceptions that already exist.

A worthy goal in the area of religious freedom would be to encourage China to fully define and publish all policies, laws and rules governing religion, from the governmental level, all the way down to the township level. China can be encouraged to publish and clarify all internal directives concerning Article 36 of its Constitution. China should also clarify (by written rule) exactly how it expects all officials (whether it is the State Religious Affairs Administration, the Public Security Bureau or local village officials) to interpret and implement these religious policies. It would also be helpful if there were either a set penalty for officials who violated these religious policies or a procedure for forcing their accountability and providing redress for individuals whose rights are violated.

CONCLUSION

In summary, I believe that granting China PNTR and China's succession into the WTO will only encourage China's continued engagement with the global village, increase the availability of information exchange technology to its citizens, accelerate its development of the rule of law and allow for increased contact between U.S. and

Chinese citizens and will ultimately lead to positive changes in China's implementation of its religious policy. This will inevitably serve to benefit China's religious practitioners and the Western organizations seeking to serve them. Most importantly it is my belief that granting China PNTR before China's accession into WTO will help diminish the negative perceptions that exist between our two great countries.

The futures of the U.S. and China are ultimately intertwined and this relationship will be perhaps the most important of this century.

Thank you, Mr. Chairman and Members of the Committee. I will be happy to try to answer any questions you may have.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

(FEBRUARY 23, 2000)

Mr. Chairman, I appreciate your leadership in holding today's hearing on China's WTO application. This hearing, in concert with that of February 10, 2000, on US trade policy, is the best organized approach I have yet seen in preparing for the trade agenda that we face in this final session as well as the next term of Congress. And China is at the top of everyone's worry list.

BEGIN WITH PNTR

If I had my choice, I'd begin right off with hearings on Permanent Normal Trade Relations. We have all seen the trade agreement with China, and we've seen the terrific work that Ambassador Barshefsky and her team have done. I'd like to extend a little bit of credit to my colleagues, as well. I'm sure that Ambassador Barshefsky would admit to being "helped along" by the many forms of unsolicited advice that she got from us.

Returning to NTR: we ought to do it for two reasons, the first of which is that WTO rules require unconditional and immediate NTR/MFN; and secondly, the deal we have before us with China warrants it. We cannot afford to forego the protections under the WTO agreement by not granting permanent NTR. If we place conditions on NTR, such as an annual rather than permanent grant, we can lose the benefit of the China deal. This is because we cannot avail ourselves of the WTO dispute settlement mechanisms that we all know we will need to make the China agreement work.

Worse, denying permanent NTR will allow our competitors to benefit from the very gains that we have so painstakingly negotiated. For these reasons, I am urging the Senate and the House to think of the economic benefits we stand to lose.

THE CHINA AGREEMENT IS A GOOD DEAL

More compelling still in my mind is the substance of the agreement. It is not at all a bad deal, and I haven't heard a lot of opposition arguments to it that are based on good economic sense. Look at some of the more notable accomplishments.

—The Chinese made concessions in every major sector: agriculture, technology, telecommunications, and broader market access.

—High-priority agriculture tariffs are cut in half . . . beef, pork, poultry, rice, wheat and other major US farm products will have new market opportunities. In my state of Utah, the beef and pork producers soundly endorse the deal. In addition, we have kept in place the domestic trade laws that keep us, the world's largest import market, by far, from being overrun with imports that could shut down our productive capacity.

—The Chinese have agreed to the type of "product-specific safeguards" under sec. 201 of our Trade Act of 1974 that will provide temporary assurances against import surges, like the injury faced by our steel manufacturers which just won a major sec. 201 safeguard case against Korea, Japan and the European Union.

—And, China will face strong US anti-dumping enforcements for the next 15 years with penalties calculated under the more rigorous non-market economy (NME) methodologies.

A TRADE AGREEMENT THAT CAN BRING POLITICAL STABILITY

China needs to be treated as the special case that it is. I understand the resistance to NPTR and to the China agreement itself by many of my well-intentioned colleagues. As I recently learned, there are many Americans who are very savvy about the political as well as economic effects of trade agreements. But aside from

the internal market reforms that the China agreement will cause. . . and many Chinese businesses are already studying ways to make themselves more competitive in the face of its implementation. . . the political reforms that the agreement promises cannot be shunted aside. For example, the telecommunications provisions will open China faster and more thoroughly than we can imagine. Government intrusiveness is certain to be resisted. The requirement that China make its regulations more transparent will make the rule of law more meaningful to the average Chinese as well as to nations doing business in China.

A PRECAUTIONARY NOTE

As good as all this may sound, and look on paper, the proof of the China agreement's value will be in its implementation. I, for one, would invite the Administration to press China for a list of the rules, regulations and laws that the country must change to implement the agreement, along with a timetable for each. I would also encourage continuing pressure on China to enforce more fully its anti-counterfeiting and other intellectual property protections. But, in the past decade, I have seen movement in China which I never believed could have happened. And, I'm optimistic. But, like the rest of my colleagues, I want to see steady progress as the cost for China of access to our valuable consumer and industrial marketplace.

I thank the chair.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

(MARCH 23, 2000)

Mr. Chairman, I want to join the enthusiastic welcome of our panelists, many of whom have been my longtime friends.

Let me open by saying that I happen to believe that China will evolve into a reliable trading partner, and even a democracy through increased commercialization. But I also understand and accept Professor Wu's misgivings that it will take more than trade to transform China into a democracy.

I would answer Professor Wu by pointing, first, to his own admission that foreign commerce and especially "economic reform and openness" have already changed China and, second, by restating our determination that, if we endorse China's admission to the World Trade Organization, China will not have a free ride.

Rather, I suspect China will learn very quickly why the U.S. insisted that the Uruguay Round put in place a much improved dispute settlement process. China will also learn that it will have to abide by its commitments, such as those that:

- call for expanded market access,
- extend national treatment to foreign nationals, and
- require acceptance of U.S. safeguards against import surges into the United States,

There are many other commitments found in the body of WTO law, and in the U.S. China Bilateral Agreement. If China balks in adopting them, they will be the target of aggressive, quick and enduring trade-related complaints before the WTO, and in the domestic legal systems of the WTO member countries, including China itself. In some instances, the disputes will end in the application of sanctions.

I hasten to add that even the threat of sanctions against China worked in 1996, when we ended up getting much progress in reducing intellectual property piracy and counterfeiting, although the issue is far from settled.

My point is that China's accession to international institutions with enforced standards of conduct can produce desirable results, such as internal democratic reforms. But even that remark causes me to think twice. And I am drawn to the caveat found in Bob Kagan's work that while all this increased attention and activity may help, there is no necessary correlation between economic modernization and political liberalization. Well, I would say the correlation is not perfect. But, I would also respond in more academic terms by admitting that even the highest level of covariation does not conclusively or necessarily suggest that one variable, like economic reform, causes an outcome like democratization. But the correlation is very close in history. In the case of China, the compelling lure of economic betterment among its people may surprise all of us. I, for one, hope so.

With these comments, Mr. Chairman, I would like to hear more from our panelists.

PREPARED STATEMENT OF DERMOT HAYES

Good Morning, Thank you for the opportunity to make this presentation. I have been involved in the analysis of market opportunities for Midwestern Agricultural products in China for the past five years. I have visited China five times in that period and have worked with several U.S. agribusiness firms with interests in China, and with farm commodity organizations.

I wish to make two key points. The first has to do with the enormous export potential in that market, and with the benefits these exports would bring to U.S. farmers. The second point relates to differences in the way market forces work (or do not work) in China. Here I wish to emphasize that any trade agreement should incorporate a framework that restricts the degree to which Chinese officials can circumvent the provisions of the agreement.

POTENTIAL FOR AGRICULTURAL EXPORTS TO CHINA

A useful statistic for comparing agricultural trade potential across countries is to calculate the proportion of the world's population that lives in each country and compare population to that country's share of the world's arable land. Both the EU and South America have land shares that are approximately equal to their population shares (9% and 7% respectively). However, China has about 6% of the world's land and about 21% of the population. If China is out of balance, then some other country or region must compensate, and most of this missing land can be found in North America, which has about 5% of the people and 17% of the land. In a sense, China is our natural trading partner.

In an ideal world China would purchase land (and capital) intensive products from the U.S., and export labor intensive products in return. To date China has begun to take advantage of a comparative advantage in labor intensive products because our markets have been open. However our agricultural exports to China have been severely limited by a wide variety of Chinese trade restrictions. This situation reminds me of a card game called "old maid" where one player ends up without a partner. In this analogy, U.S. agriculture is the player without a partner, and so long as China restricts land intensive imports, U.S. agriculture will not achieve its long-run potential.

HOW U.S.-CHINA TRADE WOULD EVOLVE UNDER AN AGREEMENT

Most macroeconomic projections show continued strong growth in Chinese incomes. As incomes grow, so too will consumption of land intensive products such as meat, dairy products, and alcohol. Our recent research has shown that official Chinese per capita consumption of these items has been inflated by a factor of two because officials have had the incentive to inflate production statistics. This means that the upside potential for consumption growth in China is still enormous. Our research has also suggested that Chinese farmers would move land out of grain production if the government permitted this. The combination of reduced supply and increased demand means that China would soon become a major net importer of feed grains. Once this occurs, then China's domestic prices for grains will rise to world prices plus transportation costs. Many of the industries that use grains would be unable to compete with imported products. In the initial period U.S. exports of grains will rise, and this will be followed by a surge in meat exports.

When we use computer models to examine how this market would evolve under free trade, the numbers are enormous.

COMPATIBILITY OF CONSUMER TASTES IN THE U.S. AND CHINA

One of the most striking things about Chinese consumption habits is that the parts of the animal least favored by U.S. consumers are those which are most in demand by Chinese consumers. For example, chicken feet sell for more than chicken breasts, and the internal and reproductive organs of pigs and beef animals sell for more than the muscles. This is why most of the pork and beef imports smuggled into China today are feet, stomachs, kidneys, hearts, tongues ears, and bungs. Like Jack Sprat and his wife, we could skin the animal and leave the platter clean.

The important point here is that the U.S. can add value to existing animal carcasses without increasing muscle meat prices for the U.S. consumer. I have calculated that the Chinese market, if fully opened to U.S. pork variety meats, would add about \$5 per head to each of the 100 million hogs that we slaughter each year.

IMPACT OF A CHINA TRADE AGREEMENT ON U.S. AGRICULTURE

As we discovered during the Asian financial crisis, the prosperity of U.S. agriculture is linked in part to the strength of Asian markets for our products. A grad-

ual liberalization of the Chinese market would quite easily absorb current surpluses and return prices to profitable levels. However, the capacity of world agriculture to expand is enormous, and so long as the liberalization is gradual we should not experience any shortages nor should we experience high food prices.

One of the most difficult points to get across to Chinese policy makers is that their consumers would be much better off under free trade because prices would be much lower under free trade than under self sufficiency. The leaders I have met with are obsessively concerned with food self sufficiency, and have become convinced that Chinese imports would drive world prices up to an unaffordable level.

THE INTERNAL WORKINGS OF CHINESE AGRICULTURAL MARKETS

I mentioned earlier that our computer-based projections show enormous Chinese imports under liberalization. In fact the numbers are so large that we view them as unrealistic. The problem we encounter in our computer work is that the computer models assume that markets function in a rational way. From my personal experiences in China, nothing could be further from the truth. Here are some examples of how markets actually operate.

In 1996 I visited the offices of the government officials who allocated the import licenses and imposed sanitary controls in a city in Southern China. Along with me were individuals representing a large U.S. meat packer. They were interested in doing business. Once the officials realized that this was a business meeting they invited us upstairs to an importing company that was owned by the same officials. We discovered that the officials had given this new company a license to import for hotels only. But when we visited the local marketplace, we discovered that many of the imported products were being sold in their U.S. boxes in the open market.

On that same trip I discovered that China was exporting pork to Russia even though pork prices in China were higher than in Russia. I also discovered that because the government runs the packing sector, it was possible to have retail prices below wholesale prices because the packing sector was prepared to lose money on each animal.

In my most recent visit last year, I discovered that China was exporting corn even though the prices the government was paying farmers for corn was 30% higher than the world market price. China tends to buy corn when world corn prices are high, and to release corn when world prices are low. This does not make any sense from an economic perspective, and is probably driven by their overriding desire for food security.

Another example of an officially sanctioned market distortion is the enormous quantity of variety meat imports currently moving through a small port on the Pearl River Delta called Panyu. These imports come in without any official duty and are technically illegal. However, the existence of these imports is widely known and the products show up in markets throughout China.

All of these market distortions were created by the interplay between government and the private sector. In some cases the government was prepared to lose enormous amounts of money to achieve a policy objective. In others the officials involved had discovered profitable opportunities and were taking advantage of these opportunities. The officials I spoke with had a very different training in economics from that which we provide in the U.S., and often did not realize the distortions they were creating. Nor did they see anything wrong with officials profiting from the way they implemented the rules.

THE IMPORTANCE OF A TRANSPARENT FRAMEWORK

So far I have argued that an agreement to open Chinese markets will create enormous opportunities for U.S. agriculture. I have also argued that the officials who control agricultural markets will probably work to disrupt these imports. Some of this opposition will be an honest (but misguided) attempt to protect Chinese consumers and producers from imports, and some will be an attempt to protect profitable niche markets that have evolved due to the distortions that are in place. Unless the trade agreement framework is very well written, this opposition will slow the growth in imports.

Here is an example of how badly things can go wrong. When the Philippines joined the WTO they agreed to import 30,000 tons of pork per year, and because the price of pork is so high inside the country I fully expected that these imports would occur. However, in order to restrict imports to only 30,000 tons, the Government created pork import licenses for the desired amount. These licenses were then given to an organization representing the interests of Philippine pork producers. This organization had little interest in taking advantage of the opportunity to create competition for its members and the imports did not occur.

ONE POSSIBLE SOLUTION

Under the market circumstances described above, it will be very difficult to craft legal language to guard against a circumvention of any agreement. Also it will be difficult to create agreed upon trade targets because the underlying market forces will change from year to year.

A natural solution would be to use prices as a monitoring tool. For example, the agreement might state that the price of U.S. pork products in China should not be greater than the U.S. price plus transportation costs, adjusted for the legal tariff and a margin for the importer. The agreement might also state that China should not export when internal Chinese prices are greater than those in the export destination.

PREPARED STATEMENT OF ROBERT D. HORMATS

Mr. Chairman and Members of the Finance Committee

I am pleased and honored to have been invited back before this committee to discuss one of the most important subjects the Congress will have to consider this year—whether or not to extend Permanent Normal Trade Relation status to China. The subject is important not only because it will directly affect the jobs of large numbers of American workers, the export prospects of many American farmers and the trade and investment opportunities for numerous American companies. It is also important because it will have a significant impact on reforms that affect the lives of many millions of Chinese citizens and a profound effect on the relationship between the United States and China this year and for the foreseeable future.

The November 1999 Sino-American WTO agreement and China's membership in the WTO are important breakthroughs that can greatly increase American trade with and investment in China. But in the longer run the impact will be even deeper and broader. The most significant consequences will be that WTO membership will reinforce the process of economic reform and strengthen the rule of law in China. Compliance with provisions of the WTO will require reform in many areas of the Chinese economy and new laws and procedures to bring China into compliance with WTO rules. Such measures are in China's long-term interests and those of the US as well.

China's leaders are under no illusion that this process will be smooth or easy. After all it has taken Europe a lot longer than the five year transition period to which China is committed to implement the key provisions of the Single Market. Reformers in China have assumed enormous risks in committing to the terms of the WTO. We should be supporting them, not taking actions that would weaken them—which denial of PNTR would do.

To give you some sense of these risks, accession to the WTO will subject the Chinese economy to enormous competitive pressures. The planned reduction in tariffs on agricultural and manufactured products (particularly cars), elimination of non-tariff barriers in areas such as financial services and the increase in foreign ownership in banking and telecoms will open large portions of China's now highly protected marketplace to intense foreign competition.

This big increase in competitive pressures over time should improve growth and efficiency in the Chinese economy, but in the short-term it will force rapid adjustments on many sectors of the economy; that, in turn, will force some uncompetitive, loss-making or highly subsidized state enterprises into bankruptcy, sharp downsizing or wholesale mergers. As the result, unemployment could rise for a transitional period. And weak banks will be subject to growing foreign competition. As this process works its way through the economy, China will achieve higher growth by more efficiently utilizing its financial and human resources—but the process will involve painful adjustments for parts of China's economy and society.

China can cope with such pressures if its reforms are phased in properly and accompanied by a positive growth environment, particularly in those parts of the economy in which there is growing private investment. In these sectors significant private sector jobs can absorb workers laid off from state enterprises. That is why foreign private investment is especially important now. Time is also required to allow Chinese authorities to build the legal and financial infrastructure needed for a robust market economy and a social security system to assist those who become unemployed.

Given the importance of the reform process in China, and to the Sino-American relationship, it is greatly in the interest of the US to support it, WTO membership plus PNTR which reinforce it.

I am keenly aware that there are deeply held views on both sides of the PNTR issue—as there have been on many aspects of the US policy toward China for most of the last hundred years. Since I became involved with US-China policy in the early 1970s, as economic advisor to Henry Kissinger on the National Security Council staff, I have regarded building closer economic and political ties with China as vitally important to American economic, political and security interests. But I have also been acutely conscious of the fact that there are those in the Congress and in the country at large who do not see this issue in the same light. I recognize that in our democracy there are those whose concerns about certain aspects of China's policies lead them to oppose close relations between the two countries and to favor a more confrontational approach.

Yet it is hard for me to see how the objectives of even the harshest critics will be served by defeating legislation to provide Permanent Normal Trade Relation status to China. Rather, such an outcome would serve to put American workers, farmers and businesses at a great disadvantage in the fastest growing major economy in the world. It also would deal a serious setback to China's reformers, whose policies since 1978 are responsible for enormous improvements in the living standards, education, health, and personal freedoms of hundreds of millions of Chinese citizens and who favor the rule of law and closer ties with the US.

My concern is that so many misperceptions have crept into the debate that large numbers of Americans who have not followed this issue closely will be persuaded that defeat of PNTR is in the US interest. I strongly believe that it is not—and indeed that defeat of PNTR would be seriously harmful to America's interests and to the future of millions of Chinese as well.

MISPERCEPTION ONE: DEFEAT OF THIS LEGISLATION WILL PREVENT CHINA FROM BECOMING A MEMBER OF THE WTO

As this Committee is well aware, defeat of PNTR legislation will not block China's membership in the WTO. China is likely to become a member this year whatever the result of this vote—even though lack of agreement with the EU is likely to slow down the process.

No major nation wants to block Chinese membership. The US Administration has already agreed to support it on the basis of Beijing's extensive commitments to trade and investment liberalization in the November, 1999 Sino-American WTO deal.

Defeat will, however, deny American workers, farmers, factories and financial institutions benefits of the wider access to China's market that other countries will receive when China joins the WTO. The reason is that the Congressional practice, contained in Title IV of the Trade Act of 1974, of annually voting on the renewal of terms for China's access to the US market is inconsistent with this country's WTO obligations to China. Those obligations, contained in Article I of the GATT, call for extension of "unconditional" most favored nation (now called NTR) status. If Congress continues the annual approval practice, China would withhold WTO market opening benefits from the US. As the result, the goods, services and investments of Europe, Japan and other countries that do extend PNTR to China (i.e. do not subject China's access to their market to the uncertainties of an annual vote) would enjoy increased market access to China when that country joins the WTO. Many US goods, services and investments would not.

The cost would be high. Were the US to enjoy full benefits of China's WTO-related market opening, our annual exports to that country would likely grow by between eight and ten billion dollars by 2005. China's tariffs on US industrial products would drop from roughly 25 percent to below 10 percent and tariffs on US farm products would drop from 32 percent to 15 percent. For the first time American companies would be able to make direct sales and enjoy full distribution rights in China. Telecommunications, banking, insurance, movie and other industries would obtain greatly increased access. Tens of thousands of jobs in America's factories and on our farms, as well in many services industries, would be gained. If the US fails to implement its end of the WTO bargain, however, those potential gains would be squandered.

MISPERCEPTION TWO: POSTPONING A VOTE UNTIL NEXT YEAR WILL ENABLE US NEGOTIATORS TO REACH A BETTER DEAL IN 2001

This is wishful, unrealistic thinking. In the November, 1999 WTO agreement, which was a remarkable achievement by Ambassador Barshefsky and her team, China committed to sweeping liberalization in virtually every sector. Apart from commitment to legislation to provide permanent normal trade status, US negotiators made no new commitments to liberalize access to the American market; in

fact they strengthened defenses against import-surges and dumping of Chinese goods. It is hard to imagine China making additional concessions next year, when it will be in the WTO and US leverage will be less.

Indeed future negotiations probably would be more difficult. Having just returned from China last week and had the opportunity to meet with a number of the country's leaders, I can report to you my strong conclusion that delay or defeat of this bill now would greatly strengthen the hand of critics of reform in China. Many of them have argued already that Beijing's negotiators gave too much in November. On grounds that the US had failed to live up to its end of the WTO deal, they would oppose additional concessions. So too would many leading reformers, who already feel vulnerable to criticism at home and now must use their political capital to take on the enormous challenge of implementing the sweeping liberalization measures they have agreed to.

During this period, when the US would not have fulfilled its WTO obligations to China, the benefits of China's WTO liberalization would accrue only to foreign competitors. They would obtain preferred access to billions of dollars of contracts as China develops its ports, roads, telecommunications, Internet, power plants and airports. Because Chinese companies would become increasingly familiar with the products and services of foreign business during this period, those businesses would obtain a leg up for future sales. Even in the unlikely event that a new agreement could be negotiated sometime in the future, the cost of the delay to the US could be measured in billions of dollars and countless jobs. Sideline American companies and workers would be disadvantaged for years to come.

MISCONCEPTION THREE: VOTING DOWN PNTR WOULD IMPROVE HUMAN RIGHTS, THE TREATMENT OF WORKERS AND ENVIRONMENTAL STANDARDS IN CHINA

The opposite is more likely to be true. Over the last two decades, hundreds of millions of Chinese citizens have seen dramatic improvements in health, nutrition, education, longevity, incomes and personal freedoms. Even China's toughest critics cannot deny this fact. For those of us who have visited China frequently since the mid-1970s the progress has been truly remarkable. This progress is due largely to reforms begun by Deng Xiao Peng and continued by President Jiang Zemin, Premier Zhu Rongji and their teams of private enterprise-oriented men and women. They and their supporters have championed less government intervention in the economy and more openness to foreign goods, investment and ideas. They favor greater use of the Internet, large numbers of Chinese students studying abroad, and greater scope for dissent in China on economic and other issues. They see WTO membership and stronger ties with US businesses, universities, and officials as strengthening these reforms, creating productive new jobs, fostering a more open domestic environment and promoting greater emphasis on the rule of law.

The WTO deal has subject Chinese reformers to domestic criticism for opening the economy too much and too rapidly. Some of China's concessions were justified at home as important to obtain a US commitment to permanent normal trade relations. By repudiating its part of the deal, the US would weaken China's reformers further while strengthening their critics. It is hard to see how this outcome advances any of the social goals advocated by critics of China.

Many leading Chinese dissidents and human rights advocates share this view. They do not agree with the notion that denying PNTR will improve human rights in China or achieve other social objectives. In fact, they have argued quite forcefully that WTO membership and improved Sino-American engagement would strengthen the reform process and China's reformers.

In addition, many leading Taiwanese, who are otherwise critical of the government in Beijing, also agree on the desirability of passing PNTR legislation. They see these ties as improving rather than harming cross-Straight relations. In fact one of the first statements by Chen Shui Bian after his election was to support direct cross-Straight trade and closer economic contacts. Those who oppose PNTR on grounds of solidarity with Taiwan should bear in mind that many of Taiwan's leaders do not share that view and in fact favor PNTR.

Foreign investment is one good example of where increased Chinese interaction with the US and other major market economies—which would be strengthened by WTO membership and PNTR—has helped to improve conditions in China. Foreign investment already has increased economic opportunity, wages and work place standards for five to six million Chinese who work for foreign-invested companies. Most investment from the west pays more than state enterprises in China and incorporates higher workplace and environmental standards—so it has been a positive factor for Chinese workers.

WTO membership and closer ties with US business resulting from a positive PNTR vote will reinforce this trend. Additional private investment is especially vital now, because China will be forced to close or downsize many inefficient, heavily subsidized state factories this year and for years to come with a loss of between eight and ten million jobs annually. And it also must find jobs for the countless millions of people who will come from rural areas seeking jobs in the cities this year. The government of China is seeking ways to provide employment for such people and to establish a social security system for displaced workers. A defeat of PNTR would weaken prospects for US private investment and thus for job creation in China. It is hard to see how those who want to improve prospects for China's workers can at the same time advocate defeat of legislation that would increase the investment on which future job prospects of tens of thousands Chinese workers depend.

MISCONCEPTION FOUR: GIVING UP THE ANNUAL CONGRESSIONAL VOTE ON THE TERMS OF CHINA'S MARKET ACCESS WOULD ELIMINATE A STRONG SOURCE OF LEVERAGE TO FORCE CHINA TO IMPROVE ITS HUMAN RIGHTS, LABOR OR ENVIRONMENTAL POLICIES

The record has demonstrated that this is incorrect. Where is the evidence that this annual legislative ritual does anything other than irritate relations between the two countries? Cold War legislation intended to force a country that no longer exists, the Soviet Union, to allow more emigration has proved ineffective and inappropriate in persuading China to alter its domestic policies. Every president and every congress since 1979 has determined, in my view correctly, that a positive annual vote on renewal of normal trade status was in the US national interest. Congress has voted to extend it 19 consecutive times—so the threat of non-approval is not credible as a point of leverage. If this is the case, PNTR is merely confirming a nineteen-year-old practice—giving up nothing but improving economic prospects for many Americans and Chinese.

Virtually every other country in the world has concluded that the most effective way to address labor standards, human rights, the environment and other issues with China is in a framework of international cooperation. Unilateral pressure using the threat of withdrawal of access of Chinese products to the US market on terms comparable to those of other nations has not been an effective option. Dealing with China today is not like dealing with the Soviet Union during the Cold War. There is no prospect of mobilizing a coalition to isolate China or threaten Beijing with sanctions to change internal policies. If the US tries to isolate China, we merely isolate ourselves. The most productive course of action to address concerns about China's internal policies is to support the process of continued reform and liberalization in China—which has led to genuine social improvements in many areas.

MISCONCEPTION FIVE: IF THE CONGRESS DOES NOT APPROVE PNTR THE US CAN CONDUCT PRODUCTIVE TRADE RELATIONS WITH CHINA ON A BILATERAL BASIS OUTSIDE THE CONTEXT OF THE WTO

The trouble with this strategy is that China is not going to provide the US with additional access to its market, which it will provide other countries. As noted above, if the US continues to subject China to annual reviews of terms of its access to the US market in violation of its WTO commitment to China, no additional access will be given to the US by China.

But this bilateral strategy misses a bigger point. If the US and China exchange WTO obligations, Americans will not only obtain increased market access they also will have the full weight of the WTO and its membership behind them to ensure that China complies with the terms of its WTO obligations. If China violates market opening commitments in the November WTO deal, it would face not only American pressures but also pressure from over one hundred other WTO member-countries who have a similar interest in China's market opening. If China is out of compliance, it is out of compliance with an international agreement, and multinational pressures will be applied. As the largest foreign exporters to China of many products, that will be a big advantage to countless American companies. If the US and China only operate on a bilateral basis, the WTO compliance system will not be available to us.

In summary, defeat of PNTR legislation will not deny China membership in the WTO. It will deny American workers and American companies the benefit of an enormous and rapidly growing market. It will not win the US respect in China or strengthen America's moral leadership; it will simply prevent millions of Chinese and Americans from having more contacts and weaken reformers who want to open China further to foreign goods and ideas. It will not support human rights or improved workplace standards in China; it will set them back. It will not advance US foreign policy or national security; it will undermine them, for years to come. And

it will not put a wall around China, but around us, as the US surrenders influence and leadership to our competitors elsewhere in the world.

PREPARED STATEMENT OF ROBERT KAGAN

Relations between China and the United States in the 21st century call for a prudent strategy, one that is capable of responding to both optimistic and pessimistic scenarios for Chinese behavior in the future. As we look ahead to try to guess the direction China takes over the coming years, the least prudent thing we could do is to shape our foreign and defense policies around the most optimistic expectations about China's political and economic development. Yet the present strategy of commercial engagement, as articulated by administration officials and outside supporters, seems to me to err in just this way. More specifically, the assumption that trading with China provides the best answer to the strategic and moral challenges raised by the present government in Beijing seems to me to be based more on hopes and wishful thinking than on hard-headed analysis.

THE THEORY OF COMMERCIAL ENGAGEMENT

We have been told that China is in the midst of a sweeping transition from totalitarian communism to a market economy with greater political openness and even, at some point in the not-too-distant future, the increasing likelihood of an evolution toward democratic governance. One respected analyst, Henry Rowen, has predicted that China will be a democracy by 2015. Others are more reluctant to give such a precise date, but they express confidence that economic forces unleashed as a result of Deng Xiaoping's early-1980s reforms must eventually lead to a consequent unleashing of political forces, that economic modernization must go hand in hand with political liberalization. Some have even gone so far as to declare this an "iron law."

Our present policy of commercial engagement with China has been justified as a spur to this modernization process. The policy's supporters argue that the way to promote freedom and democracy in China is to promote China's economic development by increasing foreign, and especially American, trade and investment. The former chairman of the Council of Economic Advisers, Laura D'Andrea Tyson, has insisted that "the best way to encourage reform and democratization is to strengthen China's trade and investment with the rest of the world." The bulk of American imports from China comes from the "private or quasi-private sectors," she has argued. And it is upon the success of these sectors that "a developing Chinese middle class and China's continued evolution toward a more democratic system depends." Following this logic of economic determinism, President Clinton himself has declared it "inevitable" that political change in China will follow economic growth. With this assumption as a backdrop, the goal of the Clinton administration's policy has been to try and integrate China ever more fully into the international community as a means of hastening the inevitable.

It is entirely understandable that Americans, who place great faith in the powers of the market and who believe in the indissoluble link between economic and political liberty, should assume that China's economic liberalization must lead eventually to political liberalization. The historical record, however, is not as clear on this point as many seem to suggest. To take one commonly cited example, the Soviet Union, it was not the case that an economic opening preceded the political opening of the Gorbachev years, and it was certainly not the case that American trade played any role in the transformation of Soviet society. Quite the contrary. Gorbachev initiated a political opening first, as a tactic for defeating the entrenched bureaucracy that stood in the way of economic reform. American trade with the Soviet Union was negligible in the latter decades of the Cold War. Nor can the revolutions in Eastern Europe be attributed to economic modernization. In Poland, it was the Catholic Church and Solidarity which applied the pressure for political change. In East Germany and throughout the Warsaw Pact, it was the loss of backing from Moscow which spelled the end of the most rigidly totalitarian regimes.

But even if one did accept as a general principle that there is a correlation between economic modernization and political liberalization, is there any way of knowing how long it might take for such a correlation to manifest itself in the form of genuine political change? In the case of China, will political change come in a decade, two decades, or in fifty years or a hundred? No one can plausibly claim to be able to answer this question. And yet it is an especially urgent question for the United States in its relations with China. For it is very likely the case that the United States and China may find themselves on the edge of conflict within the next five years, over Taiwan, and may clash on broader questions of the East Asian re-

gional balance within the next ten or twenty years. If that is the case, then the question of whether or not China becomes a democracy by 2015 or 2025 may be moot.

There is an interesting historical analogy to be drawn on this point. Germany began rapid industrialization and economic modernization in the late 19th century. By the middle of the 20th century, Germany was a fully functioning liberal democracy. The only problem was the two world wars that Germany started in the intervening half-century.

This analysis does not necessarily argue against trading with China. But it does compel American leaders to think not only about the day when China eventually becomes a democracy, but to consider how to deal with the China that exists today and for the coming decade at least. Our trade relationship with China must be considered in light of what we know about China's strategic intentions and capabilities.

And we know a fair amount. We know enough to question many of the premises on which the present strategy of engagement rests.

The integration of China into the international community is a worthy goal, for instance, but it too rests on a set of optimistic assumptions about China's future course. The strategy of "integration through engagement" assumes that China can be guided peacefully toward playing a full and responsible role in the existing international order; that Chinese leaders desire to be part of that order or at least can be persuaded to see its interest in becoming part of it; that China's ambitions at home and abroad need not be incompatible with the broad interests of the United States; and that, therefore, the best way to guide China toward peaceful integration in the international order is through patience, forbearance, and active efforts at accommodation and cooperation, not through pressure and confrontation.

Do these optimistic assumptions about China reflect anything more than wishful thinking? To judge from the analyses of most prominent China scholars, even those who generally incline toward a sympathetic view of China, the answer would seem to be "no." Most Sinologists agree that China is not currently on a course toward democratic governance. And most are skeptical that the present Chinese leadership want to be integrated into an international order dominated by the United States and its allies, unless the Chinese can rewrite the rules of the game to suit their own interests.

A DEMOCRACY BY 2015? NOT LIKELY

There is little reason to believe that the current clique of powerful Chinese leaders is any less hostile to political pluralism than Deng himself was. Even before the upheavals of the late 1980s, Deng's reforms aimed at achieving the maximum economic growth with the minimum of political liberalization. Maintaining the unchallenged supremacy of the Communist Party hierarchy, even as communism itself faded as the guiding ideology, has been the consistent policy of Chinese leaders. Deng sacked the two party leaders he had once chosen to succeed him, Hu Yaobang and Zhao Ziyang, because they apparently strayed too far toward political liberalism. After the 1989 Tiananmen Square massacre, Deng declared that any effort to challenge the Communist Party leadership and the primacy of "Marxism, Leninism, and Mao Zedong Thought" had to be crushed, along with any effort to introduce "the American system of the separation of the three powers."

The current leadership in China is the product of this history. If there have been two camps in the Chinese reform movement since the death of Mao, a "moderate" wing and a "radical" wing, the latter, which was always associated with the drive for political liberalization, would not seem to have a strong foothold in the present structure of leadership. As many scholars have pointed out, the dramatic events of 1989, when communist rule crumbled in the Soviet Union and Eastern Europe, and when liberalization in China helped unleash unrest in the heart of Beijing, have powerfully shaped the Chinese leadership's worldview. As China scholar, David Shambaugh, has written, the events of 1989, the "mass demonstrations, massacre, international isolation, and the collapse of Communist Party rule elsewhere . . . left an indelible mark on the psyche of these elites." Chinese leaders are perfectly aware of the risks that economic liberalization will lead to political pressures for reform—and they seem bent on resisting those pressures. The extinguishing of all domestic dissent over the past three years is obviously aimed at forestalling any future political liberalization.

This is not to say that pressures for greater political freedoms will not persist in China. In China, as in some other East Asian countries, much of the talk about the "Asian Way" is really nothing more than the elaborate self-defense of worried dictators. And many Western observers have taken it far too seriously. The Democracy movement crushed in 1989 was, as America's premier China scholar, Jonathan D.

Spence, has written, "a movement with profound historical echoes, echoes carried forward by the recurrent determination of educated Chinese to insist on their obligation to criticize the shortcomings of their, even in the face of that government's implacable insistence on preventing them from doing so." The history of China, Spence points out, has been one in which "again and again, ordinary Chinese people with little or no education and no particular guiding ideology had risen against those who oppressed or exploited them."

Nor is it even the case that Chinese rulers are immune to the tug of Western ideals. Communism, after all, including Chinese communism, is an eminently Western creation, containing within it notions of egalitarianism and people's rights that, even though they may be ignored, have a tendency to erode dictatorial authority, as they did in the Soviet Union. And if the Chinese have abandoned communism for capitalism, another Western import, this hardly lessens the pressure for individual liberties. Meanwhile, just as the Soviet Union once did, the Chinese government has long rested on a pretense of liberal constitutionalism. Chinese leaders feel the need to use the word "democracy" and practice the hollow, and sometimes not-so-hollow, forms of democracy, to the point where the National People's Congress shows occasional signs of obstreperousness. Some China scholars, like Andrew Nathan, believe that at some point in China's future there could well be a "constitutional" alternative to today's centralized authoritarianism. Whether or not that is realistic, the Chinese leadership is far more vulnerable to the kinds of internal contradictions and pressures which helped destroy Soviet Communism than they would like us to believe.

Nevertheless, precisely because Chinese leaders are aware of the dangers, and have the cautionary example of Mikhail Gorbachev always before them, they are likely to fight political liberalization with all their might. And that might is increasing. China's economic boom may create pressures for political reform, but it also gives the government resources to contain those pressures, both internal and external. It is worth recalling that, according to the theory of political and economic modernization, pressures for change are usually greatest when rising expectations of increasing prosperity are frustrated. It was Deng's view that the best way to avoid pressures for political reform was to keep the economy growing at such a fast rate that the burgeoning entrepreneurial class would be more interested in making money than in making trouble for the government. Thus China's economic success puts off the day when the leadership must face the apparent contradiction between tyrannical government and a more open economy. China's growth as a global economic giant also gives it strength to repel foreign pressures for political change.

These are some of the reasons why most Sinologists predict China will be characterized not by political liberalization but by what has been variously called "bureaucratic capitalism," "cadre capitalism," rule by capitalist "princelings," etc.—in other words, continuing control at the top by communist party cadres closely tied to or directly involved with profit-making enterprises. The main question for most China watchers is whether this bureaucratic, authoritarian style of government will be more or less decentralized, whether the center of power in Beijing will continue to lose influence relative to the provincial baronies of Shanghai and Guangdong, for instance, or whether that influence can be restored to the communist party hierarchy. Some scholars expect the current trend toward the decentralization of power to continue, though without bringing anything like political pluralism. Others expect a "neo-conservative" attempt to bring power back to the center. Among the more optimistic scenarios, painted by Kenneth Lieberthal, is for a more open, more decentralized, but yet more militarily powerful China. Even Lieberthal, however, expects the Chinese leadership to "employ a range of strategies to fend off challenges from a developing society."

Few scholars would go as far as Samuel P. Huntington has in arguing that Chinese leaders have discovered a new model of modern society in which economic modernization and authoritarian rule are compatible. Most believe that, in the long run, China must become either more democratic or less economically viable. The problem is, no one knows if the "long run" is going to be twenty, fifty, or a hundred years. It would certainly seem to be a mistake to base U.S. policy over the next five or ten years on the assumption of China's "inevitable" transformation into a more liberal society.

CAN CHINA'S LEADERSHIP BE DOMESTICATED?

It is equally imprudent to base American strategy on the assumption that Chinese international behavior can be tamed merely through "integration" into the international economic order. The fact is, while Chinese leaders do want to reap the benefits of full membership in the international economic system, they hope to do so

without paying the kind of price in political and strategic terms that Western advocates of Chinese "integration" insist upon. Chinese leaders don't want to play by the rules; they want to change the rules to suit the needs of their peculiar form of capitalist authoritarianism. As much as we would like to see China caught in the web of the international system, Chinese leaders hope precisely to avoid that fate. They would like to grab the bait without springing the trap.

Even Sinologists devoted to the policy of "integration through engagement" do not conceal the fact that China has little interest in playing by the rules of the international game. Thomas J. Christensen, who spent several months interviewing Chinese military and civilian government analysts, has written that Chinese strategic thinkers tend to "view international organizations and their universal norms as fronts for other powers." They participate in international conferences on economic, environmental, non-proliferation, and regional security issues in order "to avoid losing face and influence," but they have no intention of letting the decisions of the organizations constrain their behavior on matters of importance. According to Christensen, they consider "complaints about China's violations of international norms" to be part of "an integrated Western strategy, led by Washington, to prevent China from becoming a great power." As Kenneth Lieberthal admits, China is not willing to enter the international system without changing it. "China wants the world to accept its 'Chinese characteristics' as part of the price of having the country join international councils. Though a new player, China wants to be a rule setter and not just a rule acceptor."

The present Chinese leadership saw what happened to Mikhail Gorbachev and a seventy-year-old communist party dynasty when he tried to "integrate" the Soviet Union peacefully into the Western system. It is not surprising, given this recent history, as well as China's hundred-year-old history of subjugation to Western "rules," that the post-Deng Chinese leadership will look to evade the system rather than be integrated into it. As one China scholar, David Shambaugh, has pointed out, Chinese elites are "wary of multilateralism, internationalism, and interdependence. . . . China will cooperate only when it is in its specific national interests to do so; not because of a commitment to international behavioral norms."

This raises a difficult obstacle to any strategy of "integration through engagement." How can China be brought into the international system through a policy of engagement, when the international system itself is viewed by the present Chinese leadership as a U.S.-designed system of hostile containment? This problem arises not only on general questions of international behavior, but also on specific matters that are of the greatest importance to Chinese leaders, like the future of Taiwan and the ability of China to exercise a measure of hegemony in East Asia commensurate with its growing power. As Shambaugh has explained, "Because of its domestic politics, China cannot and will not reciprocate the Western policy of 'engagement' because, on the one hand, the regime views it as a policy of subversion and, on the other, the costs of adapting to international rules and norms are too high."

THE RISE OF NATIONALISM AND INTERNATIONAL BELLIGERENCE

In fact, trends which began to be visible in 1989, and which have persisted until the present, have suggested that the present crop of Chinese leaders are more than ever inclined to resist what they regard as Western entrapment. In response to both internal and external pressures, they have resorted to a common tactic of governments in such perilous times. They have appealed to a fervent Chinese nationalism, based on resentment at their past century of subjugation at the hands of the West and on a conviction that their new economic and military power entitles them to a bigger place on the world stage.

Much of the appeal to nationalism has been a necessary antidote to the dangerous ideological vacuum created by economic reform. As domestic changes have "undermined faith in communism," Kenneth Lieberthal points out, China's leaders have turned to nationalism "to tighten discipline and maintain support." And there are signs that this strategy works, at least up to a point. Many ordinary Chinese seem to have been genuinely stirred up by anti-American or anti-Japanese campaigns in the Chinese media, and especially on specific issues like Taiwan. As Thomas Christensen reports, "continuing economic reforms and exposure of the Chinese people to Western ideas and international news [have] cut ever more deeply into CCP legitimacy," and there are "few issues left that do not trigger debate and exacerbate tensions between the state and society. Yet in all sectors of politically aware Chinese society a consensus remains on the legitimacy of using force, if necessary, to prevent Taiwan's independence."

Advocates of engagement in the United States often warn that a failure to accommodate the Chinese will somehow spark a dangerous nationalist backlash. But the sources of the new Chinese nationalism are chiefly internal, driven by the leaders' need to replace communism with some other unifying ideology. The Chinese, in other words, need an external enemy.

But nationalist ambitions are also the outgrowth of increasing Chinese power and the perception of Chinese leaders that others mean to constrain China's emergence as a superpower. Lieberthal has warned that "should the People's Republic hold together and continue its economic development, yet still perceive major threats to its security and internal stability, it will more likely become a nationalistic bully on the regional level and an obstructionist on global issues." Unfortunately, it will be very difficult, if not impossible, for the United States to convince China that it is not an obstructionist. After all, even the advocates of engagement hope that integration of China into the international system will tame Chinese ambitions, not fulfill them. Insofar as Chinese ambitions include reacquisition of Taiwan, regardless of the wishes of the Taiwanese people, and by force if necessary, then it certainly is the case that the United States will be an obstacle. This is also true of China's ambitions to control the South China Sea. David Shambaugh holds out little hope that Chinese nationalism can be softened by American behavior. "The stronger China becomes," Shambaugh writes, "the more virulently nationalistic will be its external posture. It is unlikely that increased strength will produce a quiet confidence and moderate behavior; rather, it is likely to result in increased defensiveness and assertiveness."

The current tendency toward international assertiveness is most pronounced in the Chinese military. In 1993 the Chinese government, prodded by the military, adopted a far more aggressive foreign and defense policy aimed specifically at what senior military leaders for the first time officially designated as China's main enemy: the United States. The collapse of China's most dangerous adversary, the Soviet Union, and the startling performance of the U.S. military in the Gulf War combined with Chinese leaders' fears about internal stability after the Tiananmen Square demonstrations and massacre to stir up a new belligerence in military circles. In April 1993, 116 high-ranking officers of the People's Liberation Army wrote Deng and Jiang Zemin demanding an end to Deng's policy of "tolerance, forbearance, and compromise toward the United States." In November a meeting of top foreign and military specialists produced a report describing the U.S. as China's "international archenemy." The report argued that "From the present stage to the beginning of the next century, the major target of American hegemonism and power politics is China . . . Its strategy toward China is, through economic activities and trade, to control and sanction China and force China to change the course of its ideology and make it incline toward the West."

The great belligerence, and paranoia, of Chinese military leaders could be seen shaping Chinese policy toward Taiwan at the end of 1995 and in the spring of 1996, and more recently during the lead-up to the Taiwanese elections this month. It manifested itself in the Chinese seizure of Mischief Reef in the Spratly Islands. It is reflected in increases in the defense budget and attempts to acquire more modern weapons systems, including increased capabilities for force projection.

It is difficult to see why, in the years to come, the Chinese military should alter its perception of the world and the requirements for Chinese security. And it is also hard to see why the military's influence now should be any less than when Deng was alive. For although Jiang Zemin appears to have consolidated his position as *primus inter pares* within the ruling oligarchy, there can be little doubt that China is still in the midst of a period of succession. And it is clear that in periods of succession, the influence of the military, without whom no leader can hope to gain or maintain power, is great. To quote David Shambaugh once more, "Under conditions of succession politics, foreign and national security policy 'become sensitive barometers of political maneuvering among the elite.' At such times as the present, 'No Chinese politician can afford to appear soft on 'hegemony' or 'imperialism' and expect to stay in power. Relatively little leeway has been available to civilian Party leaders on litmus-test issues like Hong Kong, Taiwan, the South China Sea, and pressure from the United States because the military High Command has defined the parameters of policy options by defining these issues as core to national sovereignty.'" Shambaugh points to Chinese belligerence over Taiwan in 1995/96 as a case in point. In times of succession, like the present, leaders have to operate in a "supercharged nationalistic atmosphere." This obviously reduces severely any flexibility they might have in responding to the entreaties of other nations like the United States.

Few advocates of engagement have honestly confronted the core problem, which is that the conflict between the United States and China stems not from misunder-

standing but from genuine and probably irreconcilable differences. One confidential assessment of the situation by the Chinese military in 1993 summed up the situation bluntly, and almost certainly correctly: "Because China and the United States have long-standing conflicts over their different ideologies, social systems, and foreign policies, it will prove impossible to fundamentally improve Sino-U.S. relations." Samuel P. Huntington has similarly argued that "The underlying cause of conflict between America and China is their basic difference over what should be the future balance of power in East Asia China is unwilling to accept American leadership or hegemony in the world; the United States is unwilling to accept Chinese leadership or hegemony in Asia." This a sobering statement-but it is difficult to refute. The question is, what can be done about it.

PREPARING FOR MORE THAN ONE CHINESE FUTURE

The beginning of preparedness for what is at best an uncertain future in Chinese internal and external behavior is frankness about the possibility that such behavior will not conform to U.S. hopes and about what the U.S. might do in such circumstances. But frankness about China has been in short supply in recent years. One of the peculiar qualities of the engagement strategy is that its advocates do not permit themselves to say that things could go wrong in China, or that the Chinese might choose an unhelpful path in international affairs, because to say as much would offend the Chinese and cast doubt on American goodwill. Much less has it been acceptable to set forth what the U.S. might do in response to Chinese behavior that threatens American interests and violates our principles. It is a sign of this American self-censorship that the hardest question for an administration official to answer is: Are there any circumstances, any at all, under which you would consider revoking NTR or would consider even a tougher approach to China? Administration officials, and their supporters in Congress, cannot answer such a question because merely to answer it would undermine the strategy of treating China as a friend.

But this is not a strategy. It is an un-strategy. Any strategy for dealing with another great power like China ought to tell you what you might do if things go well in that country and what you might do if they do not. In the case of Russia, the United States is openly taking steps to hedge against what could, someday, perhaps twenty or thirty years from now, be a resurgence of Russian power and ambition in Europe. American officials welcome positive developments in Russia, maintain a close working relationship with Russian leaders, and yet manage to speak openly about their concerns about Russia's future. By contrast, the engagement strategy toward China seems to require speaking only about the good news, never about the bad.

I don't believe we can prepare ourselves to meet the kinds of challenges that China may pose in the future so long as we refuse to say candidly what those challenges might be. And I don't believe we can build the necessary flexibility into our strategy toward China so long as we are unwilling to declare a willingness to contain Chinese ambitions if and when they manifest themselves.

Today "containment" is a dirty word, indeed a forbidden word, when applied to China. It shouldn't be. Any sensible strategy toward China, indeed, any prudent strategy, must have elements of containment in it. Chinese leaders need to know not only what we are prepared to offer them to entice them toward good behavior, but how we intend to respond when they behave badly. A policy that offers carrots only, and that does not even admit the possibility of sticks, can only tempt Chinese leaders to try and get away with as much as they can.

Nor is it the case, as some claim, that a containment strategy amounts to a policy of isolating China. The truth is, the strategies of engagement and containment are entirely compatible. The United States engaged the Soviet Union even as we were containing it. Containment during the Cold War included summits, constant communication between Russian and American diplomats, constant negotiations, numerous joint agreements, and even cooperation in many troubled spots of the world. Containment of the Soviet Union did not obscure the many areas of common interests shared by the two superpowers. A strategy that blended engagement and containment of China would similarly allow for such cooperation, consultation, and negotiation.

But by making clear that the United States also had the ability and the will to confront China over international misbehavior and domestic repression, such a policy would be more effective in shaping the direction China takes in the coming years. Insofar as China is in the midst of a succession now and for the foreseeable future, the best way to influence the course of that succession is not through carrots alone. For, if it is true that there are both hard-line and soft-line impulses within the Chinese leadership, we should not make the mistake of assuming that the best

way to aid the softer line is to try and accommodate all China's desires. As Richard Bernstein and Ross Munro have noted, "The hard-line nationalists, ignoring Deng Xiaoping's advice, believed that China could have it two ways—both preparing to confront the United States militarily and politically and at the same time benefiting from trade and investment ties with the Americans." The soft-liners, on the other hand, have argued that a more open and accommodating approach is essential to avoid international isolation and economic calamity. To the degree that we bend in China's favor on every issue, we strengthen the hard-liners. It may seem paradoxical to some, but it is nevertheless true that the best way to help moderates in the Chinese government is to make very clear the price that China will pay, both economically and strategically, for pursuing aggressive policies at home and abroad.

The goal of a containment strategy would be to steer China away from hegemonic pretensions, much as we are now trying to steer Russia away from any lingering hegemonic pretensions in Europe. We should not be afraid that incorporating elements of containment into our present strategy is too risky. It is worth recalling that, in the long Cold War between the United States and the Soviet Union, the years from 1981 through 1984 were a time of the most intense confrontation. At the time, opponents of the Reagan administration's hard line clamored for accommodation, for ending the arms buildup, for a "nuclear freeze," for more summits, for "engagement." But the four years of tensions and confrontation were immediately followed by the most fruitful period of amicable relations in the history of the Cold War. The changes in both the external and internal behavior of the Soviet Union in the late 1980s were due at least in part to an American strategy that might in retrospect be called "integration through containment and pressure for change."

Employing a successful strategy toward China, one that can respond effectively no matter which course China takes, requires a few simple but important steps. It means beefing up our military capabilities in the region, strengthening our security ties with friends and allies, and making clear that we will respond, with force if necessary, when China seeks to use military intimidation or aggression to achieve its regional ambitions. It also means not selling weapons to the P.L.A. or doing business with firms they own or operate. And it means imposing stiff sanctions when we catch the Chinese engaging in proliferation of dangerous weapons. Above all, it means increasing, not decreasing, our overall defense capabilities.

Today, the perception of our military decline is already shaping Chinese calculations. An internal Chinese government document in 1992 complained that "since becoming the sole superpower, the United States has been grasping wildly for a new hegemonism and power politics," but that "its strength is in relative decline and that there are limits to what it can do." This perception is dangerous and needs to be dispelled as quickly as possible.

Our strategy toward China must also go beyond containment to seek a change in the nature of the Beijing regime, for only a more liberal government in China can truly be integrated into our liberal world order. We should seek an improvement in China's human rights behavior not only because it is in accord with our principles, but because it is really the only way out of the looming prospect of endless confrontation. That means we need to have the tool of economic sanctions available as a way of putting pressure on Chinese leaders to open their system. Can the threat or use of trade sanctions be an effective policy?

The common assumption is that a vote against permanent NTR would be a disaster for Sino-American relations. Lobbyists for American business warn of a destructive trade war and the displacement of American firms by their European and Japanese competitors. China experts warn of a new Cold War, an irreversible slide toward mutual hostility and conflict. They insist China will make no concessions if threatened by American economic sanctions.

Recent history tells another story, however. In the years following the June 1989 massacre of pro-democracy demonstrators in Tiananmen Square, Congress voted several times to impose significant economic sanctions against China, including a cut-off of most-favored-nation status. Each time, the famously pragmatic Chinese have responded as one might expect: pragmatically. If the past is any guide, then, a congressional vote against permanent NTR would not bring catastrophe but a more balanced and reciprocal U.S.-China relationship. It could even gain the kinds of concessions from the Chinese government that the Clinton administration's "engagement" policies have so far failed to win.

The historical record is clear. In the summer of 1989, Congress overwhelmingly approved a "comprehensive sanctions amendment" which cut off Chinese access to advanced technology, halted lending from international financial institutions, ended investment guarantees, and suspended military cooperation and scientific exchanges. According to Sinologist Harry Harding, those votes in Congress set off an "intense debate" in Beijing between moderates and hard-liners in the Chinese lead-

ership. The hard-liners argued for a reorientation of Chinese policy away from cooperation with the U.S. The moderates, however, insisted that confrontation with the United States would be an economic and strategic disaster for China. And the moderates won.

What strengthened the moderates' hand during these internal debates was the punitive American policy and the perception that this tougher stance would persist until the Chinese government took steps to satisfy some of Washington's demands. According to Harding's account of these deliberations (in his 1992 study, *A Fragile Relationship: The United States and China Since 1972*), the moderates argued that China desperately needed good relations with the United States. The U.S. was a "crucial source of markets, technology, and capital;" it could "retard or facilitate China's purchase of advanced equipment from other Western nations;" and it held the key to concessional loans from the leading international financial institutions. To preserve access to these essential resources, the moderates "were prepared to make concessions to help normalize Sino-American relations." At the beginning of 1990, therefore, the Chinese government released about 600 people arrested after the Tiananmen Square demonstrations and took other steps to try to patch up Sino-American relations.

Congressional pressure produced more Chinese concessions the following year. When Congress moved toward revoking China's most-favored-nation status in the spring and summer of 1990, the very real possibility of trade sanctions once again concentrated minds in Beijing. Chinese foreign affairs and economics experts consulted by the leadership warned, according to Harding, that "China had relatively few cards to play in negotiations with the United States." With the Soviet empire collapsing, they figured, China needed the U.S. more than the U.S. needed China. The Chinese Ministry of Foreign Economic Relations and Trade calculated that China would lose \$10 billion in export revenues if denied most-favored-nation trading status. Representatives of industries and regions dependent on U.S. trade, investment, and technology called for accommodation with Washington. The foreign affairs experts advised the Beijing leadership to release more political prisoners as a way of blunting the anti-NTR offensive in Congress.

Sure enough, in May 1990 Chinese leaders announced the release of another 211 dissidents. Ninety-seven more were released in June, and then, in a decision of enormous symbolic importance, Beijing agreed to let one of China's most prominent dissidents, Fang Lizhi, depart the country.

This pattern of congressional pressure followed by Chinese concessions was repeated again and again from 1989 to 1991. Each year, Congress voted for trade sanctions, and "each year," according to Harding, "Peking made concessions on human rights and on economic issues by releasing political prisoners, lifting martial law, and boosting imports of American goods."

There is an important lesson here for U.S. policy-makers. Appeasement and accommodation generally strengthen the hard-liners. A trip to Beijing by Brent Scowcroft and Lawrence Eagleburger at the end of 1989 was intended to reassure Chinese leaders of the Bush administration's commitment to close relations. But, as Harding points out, "The fact that Scowcroft emphasized the strategic importance of China to the United States, just as this issue was being intensely debated in Peking, unintentionally reinforced the position of those Chinese analysts who had argued that Peking did not need to do that much to restore Sino-American relations." The Clinton administration's "engagement" policy, which has included lavish Washington receptions for China's hard-line defense minister and a meeting in Beijing between Vice President Gore and hard-line Politburo member, Li Peng, has, not surprisingly, done nothing to improve Chinese behavior at home or abroad. Paradoxical though it may seem to some, the best way to foster moderate tendencies in China is to take a firm and, at times, even confrontational stand in defense of our interests and principles.

There is no mistaking the cause and effect. As China scholar Andrew J. Nathan has pointed out, "the vigor of Chinese rhetoric and lobbying against NTR withdrawal and the timing of major Chinese concessions show that the NTR threat has been the single most important element in the effectiveness of Western policy."

Professor Robert S. Ross, writing in a paper commissioned by the Council on Foreign Relations this year, acknowledged that strong domestic pressures in the United States, manifesting itself in an autonomous drive in Congress to revoke NTR, can provide leverage in seeking Chinese concessions on human rights. Results of his study indicated that threatened sanctions usually did not work to shape Chinese behavior. But the notable exception was when what Ross terms "U.S. domestic instability"—meaning an independent-minded Congress—"has enhanced U.S. credibility."

Any sound policy toward China must have sticks as well as carrots. A congressional vote against permanent NTR this year can actually improve Sino-American

relations by strengthening an American hand that the administration has kept deliberately weak. Even the Bush administration's ambassador to Beijing, James Lilley, recently acknowledged that from 1989 to 1991 the "bad cops" in Congress gave "good cops" like him more leverage with the Chinese. A couple of years ago, then-Treasury Secretary Robert Rubin used growing anti-NTR pressures in Congress to warn his Chinese counterpart that China had better improve its human rights policies and preserve Hong Kong's political autonomy. This is called linkage. Congress can help preserve this linkage, and some balance to an American policy toward China that so far has been all concessions and no penalties.

Contrary to the prevailing wisdom, this is the only prudent strategy for dealing with a China whose future course is unpredictable but may be antithetical to American interests. Today, the American people are being told that everything will work out, and that there are no tests ahead of them. This is not only misleading; it is also dangerous because it almost guarantees that we will be unprepared for problems in the future. At the very least, we owe ourselves an honest and open debate about China.

PREPARED STATEMENT OF NICHOLAS R. LARDY

CHINA'S DOMESTIC ECONOMIC CHALLENGES

China faces a major challenge in sustaining the rapid economic growth that has been the hallmark of its transition from plan to market since 1978. Economic growth, as reflected in the official data, was 7.1 percent in 1999, the seventh consecutive year in which growth was slower than the previous year. The official Chinese government forecast for 2000 is 7.0 percent, which would continue the growth slowdown yet one more year.

The challenge the leadership faces is actually much greater than these numbers suggest. The official data overstate the pace of economic expansion and the gains in real economic welfare that the economy generates, if for no other reason that over the past decade there has been an extraordinary build up of unsold and unsaleable inventories. While these inventories are counted as part of output and thus contribute to the growth of China's gross domestic product, they are not utilized for either consumption or fixed investment. The real resources that have gone into the production of these goods has been largely wasted. From 1990 through 1998 additions to inventories averaged 5.7 percent of gross domestic product. In the United States the comparable figure was 0.4 percent. On average in 1990-98 annual additions to inventories in China absorbed 42 percent of incremental output. While some increase in inventories is needed to support higher levels of output, the disproportionately large inventory build up in China reflects the continued production of low quality goods for which there is little or no demand. Chinese society would have been much better off if the goods had never been produced at all. China's Premier, Zhu Rongji, in his annual address to the National People's Congress last month acknowledged that inventory build up was an ongoing problem and that China must "limit the production of non-marketable products." Of course, if China's banks were operating on a commercial basis they would have cut off the flow of additional working capital loans to foundering companies, automatically limiting the build-up of inventories.

Whatever the precise rate of economic growth, there is little doubt that the economy has slowed significantly in recent years, despite a massive program of increased government expenditures and lending by state-owned banks through which the leadership has sought to prop up economic growth via increased outlays for investment.

There are several other indicators, in addition to the growth slowdown, of the challenges that China's leadership faces in the wake of the Asian financial crisis. Export growth has slowed dramatically over the past two years. Between 1987 and 1997 exports surged from under US\$40 billion to more than \$183 billion, an average annual rate of expansion of 16.5 percent. In the past two years export growth has been far more modest, averaging only a little over 3 percent annually. Similarly after watching foreign direct investment inflows soar from a range of from US\$3 billion to US\$4 billion annually in the late 1980s to \$45 billion in 1997, the leadership saw foreign direct investment growth evaporate in 1998 and then witnessed a significant shrinkage of foreign direct investment in 1999. This significant shrinkage, the first ever in the reform period, has continued in the early months of 2000. Similarly, year after year foreign banks were willing to extend larger and larger amounts of foreign currency loans to China. But in 1998 lending to China began to decline and in 1999, in the wake of the bankruptcy of the Guangdong International Trust and Investment Company in January that year, turned sharply lower

for the first time in more than a decade. By the end of the third quarter of 1999 total foreign currency lending to China by banks was down by US\$20 billion or about one-fourth compared to year-end 1997. Finally, for the first time in three decades China's leadership is grappling with the problem of price deflation. The underlying problem has been over investment in many sectors, leading to excess capacity and a tendency for manufacturers to cut prices in an effort to sell enough product to cover the cost of their labor and other variable inputs. Thus price deflation in China for some critical products, such as steel, long predates the Asian financial crisis. But the crisis significantly deepened the deflationary trend since China's fixed exchange rate vis a vis the U.S. dollar meant that the deflation elsewhere in the region was imported into China. But now, because of a brisk recovery, deflation is over in most of Asia. But in China deflation not only persists but accelerated in 1999.

THE SEARCH FOR A NEW GROWTH PARADIGM

China's sweeping bilateral agreement with the United States on the terms of its accession to the World Trade Organization, concluded last fall, reflects the search of the leadership for a new growth paradigm. There is a widespread recognition that repeated short-term fiscal stimuli are no more than a temporary expedient. They may prevent a complete collapse of economic growth but can not be the source of sustained economic growth in the long run. The leadership has come to the belief that sustaining growth in the long run depends critically on allocating resources more efficiently rather than simply maintaining the highest rate of investment of any country in the world, as has been the case for most of the reform era. The leadership sees efficiency gains as stemming in part from reducing the restrictions that have previously constrained the private sector of the economy and in part from the increased international competition that will follow from opening up China more fully to the global economy. To increase competition and stimulate productivity gains the leadership has agreed to continue to reduce both tariff and nontariff barriers and, more importantly, more fully open its service sector to increased foreign ownership. All of these steps will increase competition, thus placing significant additional pressure on domestic firms to lower their cost structures in order to survive. Membership in the World Trade Organization in effect is being used as a lever to achieve fundamental changes in state-owned enterprises and state-owned banks that the leadership has long sought but which have been somewhat elusive.

There can be little doubt that the leadership fully appreciates the risks of the course on which they have embarked. Already tens of millions of urban workers have lost their jobs in state and collective factories as China accelerates domestic economic restructuring in preparation for increased international competition that inevitably will follow its membership in the World Trade Organization. Many of those that have been laid off have found new jobs in the competitive portions of the economy—the rapidly growing private, foreign-funded, and export oriented sectors. But those that lack the skills or live in cities long dominated by state-owned factories have little prospect for finding new jobs locally. Rising levels of urban unemployment, compounded by delays in the distribution of both living allowances due laid off workers and pensions due those already retired from failing state-owned companies, have led to widespread urban violence. In rural areas too the prospect is for substantial dislocation as China reduces its subsidies for basic staple commodities, again in anticipation of increased inflows of lower priced foreign products. The willingness of the leadership to incur these substantial short-term economic and political costs in the pursuit of long-term economic gains is a measure of the depth of their commitment to further reforms.

U.S. INTERESTS

Granting permanent normal trade relations is strongly in the U.S. national interest for several reasons. First, denying China permanent normal trade relations would require the United States to invoke Article XIII of the Final Act of the Uruguay Round, meaning that we would not apply the World Trade Organization Agreement with respect to China, even after it became a member of the organization. The notice to non-apply would have to be delivered prior to the time the General Council of the World Trade Organization meets to approve the terms and conditions of China's membership. China, in turn, would then almost certainly invoke Article XIII with respect to the United States, meaning that U.S. firms would not benefit from most of the sweeping market opening measures to which China agreed in the November 1999 bilateral agreement. Although the United States could subsequently reverse its non-application, during the intervening period firms from Europe, Japan,

Canada, Australia, and elsewhere would gain a decisive advantage over U.S. firms, particularly in the service sectors that China has agreed to open more fully.

Second, and even more importantly, the failure of the U.S. Congress to grant permanent normal trade relations to China would undermine the position of reformers in China. They have overcome intense domestic opposition to membership in the World Trade Organization, in part by arguing that it was the only means of avoiding the process of annual renewal of their most-favored-nation status in their largest export market—the United States. The United States should embrace the commitment of the Chinese leadership to integrate China more fully in the world economy, to much greater reliance on market forces to allocate resources within China, to the further liberalization of the flow of information on which the market depends, and to allow a much larger role for the private sector. Over a period of time these commitments will have profoundly transforming effects. The most effective way for the Congress to signal support for these developments is to pass legislation authorizing the President to extend permanent normal trade relations status to China when it enters the World Trade Organization. Failure to do so plays into the hands of conservative elements in China that seek to constrain the role of the private sector, to limit the role of the market, and to control more tightly the flow of information.

Finally, the failure of the U.S. Congress to grant permanent normal trade relations to China would significantly undermine the position of our negotiators in the final stage of China's entry to the World Trade Organization—the drafting of the protocol of accession and the report of the working party. These two documents, which will be negotiated in a multilateral setting in Geneva after China has concluded all of its bilateral negotiations, will spell out in detail China's commitments on all WTO rules. While some of these already have been specified in the November 1999 bilateral agreement between China and the United States, several critical commitments remain to be set forth and clarified at the multilateral stage. While not all of these remaining issues have been publicly identified, at a minimum they include the details of its commitment to eliminate agricultural export subsidies, which are not set forth in the bilateral agreement between China and the United States; China's commitment to comply with both the Uruguay Round Agreement on Technical Barriers to Trade and the Understanding on the Interpretation of Article XVII of GATT 1994, which covers the activities of state trading enterprises; and the details of the trade policy review process that will track China's compliance with its terms of accession once it has become a member. While not wishing in any way to detract from the strength of the bilateral agreement reached between the United States and China, given the importance of the issues that remain to be addressed, it is strongly in our interest that the voice of U.S. negotiators be just as strong in the multilateral negotiations as it was in the bilateral negotiations that led to the November 1999 agreement. The best way to assure this is to provide the President with the authority to extend permanent normal trade relations to China.

PREPARED STATEMENT OF JAMES R. LILLEY

"There is a tide in the affairs of men which taken on the flood leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries. On such a full sea are we now a float and we must take the current when it serves or loses our ventures"—Shakespeare's *Julius Caesar*

"Only when you cease to harass them, they will cease to be harassed of you"

"If a great country can lower itself before a small country, it will win over the small country"—Laozi- *Dao de Jing*

"The trade off is Taiwan can and has compromised on its sovereignty but in return it demands security and real freedom"—James R. Lilley

On 18 March 2000 in Taiwan an election took place. It was fair but it was also bombastic, conspiratorial, laced with "black gold, vibrant, exuberant and rough. I know because I was there. There were shades of the Irish in Boston, Frank Skeffington, in the Last Hurrah except this was the second hurrah, a beginning, for Taiwan. Entrenched corrupt power was peacefully overturned, a son of Taiwan emerged as victor and an autonomous Taiwan identity was legitimized by vote and by spirit: Although 60% of the 82% of Taiwanese who voted selected other candidates, Chen Shui-bian was the decisive winner after a searing, competitive free wheeling campaign. All losers accepted his victory. In its 5000 years of history the Chinese people have done this twice, both times in Taiwan, in elections in 1996 and in 2000. The transition has not been tranquil but the handling of the riotous aftermath contrasts favorably with Tiananmen of June 1989. I was also there.

China watched at times sullenly, belligerently or gloweringly. It issued a long white paper which insisted that force could be used if negotiations dragged on indefinitely. This was probably in response to Taiwanese statements and polls which suggested most Taiwanese preferred living with the status quo indefinitely rather than seeking independence or unification, China threatened disaster if Chen Shui-bian were elected. Its pragmatic and intelligent Premier Zhu Rongji delivered the harsh message, not looking like the sophisticated intelligent man that he is but like an ancient warlord. It was a sorry sight. Was the trend in Taiwan actually towards independence as China insisted, and echoed by American sycophants? Hardly. Since 1991 when independence was inserted in the DDP platform, Chen has moved away from this position and towards the more moderate center, in part to get elected. Independence did not sell with the voters. We Americans ought to understand this shift. The Taiwan voter in 2000 let the Chinese know he would not be pushed around or respond well if a gun was at his head. But China was also a winner in a number of ways. Its nemesis, Lee Teng-hui, on whom the Chinese poured tons of invective, again echoed by their American supporters, has probably been permanently hurt or even deposed—not by China's threats and invective but by Taiwan voters. The voters however turned to another 100% Taiwanese leader, Chen. James Soong, for whom the Chinese and their myriad united front creatures expressed a clear preference, has emerged as the powerful leader of a future opposition, either as chairman of the "One China" KMT, or of a new party. In any case his slogans will be reform and reconciliation. There is suspicion among DPP leaders that Soong and VP Lien Chan of the KMT colluded with Beijing to create a crisis in March to defeat Chen. They cite circumstantial evidence but there is so far no smoking gun. This does, however, cause an aura of distrust along ethnic lines—mainlander versus native Taiwanese.

China can therefore afford to wait four years for the next presidential election, and perhaps can appreciate that peaceful voting is preferable to power which grows out of the barrel of a gun. Realistically China cannot give up military leverage. For practical reasons this leverage could take the form of minor military provocations, below the level of inviting American intervention, preferably without blood shed, but enough flexing to keep the hawks in Beijing placated, and Taiwan nervous, on the other hand. A wiser policy could be to launch a minor peace offensive and this may be under consideration. This tactic could help get China PNTR, and perhaps even influence U.S. decisions on the TSEA and Taiwan arms sales package. A large-scale attack appears highly unlikely but the threat has been used in the past as an effective tool to get concessions. China is also probably trying to figure out how to demonize Chen Shui-bian with help from its American supporters. Stay tuned!

Now, enter the spring frenzy in the U.S. comparable in ways to the NCAA basketball March madness. The WTO and the vote on PNTR occur in an American election year. Then there is the Senate vote on the Taiwan Security Enhancement Act passed overwhelmingly by the House, and the U.S. decision at the end of April on Taiwan arms sales package. The package this time could include items such as Aegis Destroyers, PAC-3 missiles, P-3 fixed wing aircraft ASW systems, including submarines and underwater sensors, long range radars and secure data links. And of course, there is TMD against which the Chinese have railed with predictable intimidating bombast. The vote on PNTR is a key part of this volatile mix. Chinese untimely belligerence in the upcoming days could derail the whole process including the PNTR vote as could U.S. mishandling of arms sales and the TSEA. The human rights vote in Geneva, whichever way it goes, will irritate China but should not be a major factor.

WTO entry for China and PNTR for China are clearly in America's national interest. We will sell more to China, we will get much greater access to a potentially large market. Our farmers, our service industries, our telecommunications, companies, could benefit enormously in the future if we get the generous deal Charlene Barshefsky has skillfully negotiated. China must however get PNTR to make this work for US. Senator Max Baucus has fortunately proposed some innovative legislation which would keep China's feet to the fire on implementation. When we Americans give as the reasons for PNTR and for China's entry into WTO that these votes will change China, open up its society, advance our kind of democracy, we may be giving the hard liners in China the argument they lust for: to wit, WTO is an instrument of "peaceful evolution"—an American sinister attempt to undermine China's "social system." The ploy that WTO entry will change China may play well with U.S. labor unions, human rights activists but there is a downside in terms of how it affects the domestic battles inside China. There are a lot of Chinese who, despite the drumbeat of rhetoric that all Chinese support the party on Taiwan policy, still believe that war is bad for business, and business for growing numbers of Chinese is in fact business with Taiwan. The protectionist, chauvinist, extreme nationalists

will use this argument to frustrate, to criticize and to obstruct the more sensible leaders.

WTO entry will not convert to China into a democracy but it should strengthen the better guys, the economic reformers, against the military and party dinosaurs. WTO and PNTR simply put are in our economic interest and that is why we should pass PNTR. Evolutionary change will come as it came after Deng Xiaoping's decision in 1978 to reform and open the economy. Advancing the rule of law, supporting village elections and international criticism are better ways to affect the political process over time.

As for Taiwan, it is in a tempestuous transition. An inexperienced group is taking over power against strong entrenched interests. For instance, the conservative element in the Taiwan military is suspicious of Chen Shui-bian's previous anti-military positions (sound familiar?). Most Taiwanese want to be in WTO but fear if China gets in first, it will double-cross them and add conditions such as explicit acceptance of its version of "One China." The new DPP leadership has to master the enormously complex history of cross-strait negotiations. It has to get on top of national defense issues in the face of a suspicious Taiwan military and a troubling Chinese threat. It has to understand and take a leading role in managing a complex Taiwanese economic powerhouse and its intricate commercial/political arrangements around the world. Chen Shui-bian did a good job in managing and leading a municipal government in Taipei city, but he is moving from a small can of worms to an enormous bucket of worms. He needs all the helps he can get and in this, U.S. support is critical. Contrary to the much quoted mantra of the pro-China group in the U.S., U.S. support backed by concrete moves in the security area have historically led to Taiwan taking bold steps to open up to China, and have also influenced China to at least reach and accept workable deals. Examples are:

- President Carter's Taiwan Relations Act inspired and passed by a bipartisan Congress. Although the Act was vehemently denounced by China as a violation of sacred sovereignty, in the real world it was closely followed by Marshal Ye Jianying's 9 points which stressed "peaceful unification" rather than the more militant "liberation" of Taiwan. This was a significant shift, which was accompanied by the PRC stopping bombardment of Quemoy.
- President Reagan's personal support for Taiwan backed by carefully selected defensive arm sales (all of which were attacked by China and U.S. Sino-centric advocates) contributed to the unprecedented openings between China and Taiwan in 1987. Trade, investment, tourism blossomed and the sting went out of cross strait hostilities. Taiwan was not an "issue" in my two years in China, 1989-91.
- and finally, the much maligned F-16 aircraft sale by the U.S. to Taiwan in September 1992, led to another unprecedented opening in Chinese-Taiwan relations. The F-16 sale was attacked by the Chinese and probably 90% of American academics as a gross violation of the August 1982 between U.S. and China on limiting in quantity and quality U.S. arms sales to Taiwan. But contrary to their prediction that the sale would lead to a serious downturn in U.S.-Chinese relations and Taiwan intransigence, two months after the sale China and Taiwan agreed on the concept that there was one China but each had its own interpretation. Four months after that China and Taiwan sat down as equals in Singapore for the first time since 1949 in an open, high level meeting, and started working practically on solving the myriad of problems between them.

U.S. arms sales to Taiwan must be handled skillfully and realistically. The priority concern is of course our national interest, and whatever is done should be in accordance with our laws and in accordance with our interpretation of our agreements with China. We obviously must still be sensitive to China's concerns, and these should be factored into any decision but as secondary. But when the Chinese threaten us and our friends with enhanced missile and submarine capabilities, we can only act in our own and in our friends' interests to neutralize these threats. Our F-16 sale to Taiwan responded to the earlier Chinese acquisition from Russian of the advanced SU-27. The air balance was rectified. We face a similar problem today.

What then should the U.S. do in this current complicated situation? There are no facile answers. Nevertheless, what the U.S. does and says can be critical, I would suggest that our role is:

- to keep the peace—there should be no military option. We are not asking China to give up its sacred right to use force to defend its unity and its sovereignty. We are saying that in the interests of humanity, do not actually do it.
- to support Taiwan strongly in its time of need. This should eventually lead to better relations between China and Taiwan, if history is any measure.
- to get both China and Taiwan into the WTO as soon as we can. They will then have a better forum to deal with each other on an equal basis on some critical

market opening measures, investment protection, and on labor management issues. The U.S. should take the lead in changing our priorities from a sterile and hostile argument over Chinese missiles and our TMD to the economic financial commercial concerns. Despite the nasty threats from China about terminating economic relations with Taiwan, I believe wiser heads will realize the enormous Taiwan contributions to Chinese economic growth at a time when China needs that growth to keep the lid on domestic turmoil.

—Taiwan should not rock the boat with China and China would do well not to escalate its demands on Taiwan. The U.S. has the influence to encourage both sides to reconcile their differences.

Back to the beginning quotes in this piece, recent developments show there is a tide of economic globalization and WTO is part of this. To ride this current is clearly in our interest. Alternately, we can end up bound by the miseries and shallows, fighting over minutia, trying to tame bullies, leaning on our friends, arguing endlessly over semantics.

In this troubled era, Laozi's art of peace should become the focus rather than the much touted Sunzi's art of war.

PREPARED STATEMENT OF DOUGLAS LOWENSTEIN

Mr. Chairman, thank you for inviting the Interactive Digital Software Association to appear before you this morning to discuss legislation granting Permanent Normal Trade Relations status to China. My name is Douglas Lowenstein and I am President of the IDSA, the trade body representing U.S. video and computer game software companies. IDSA supports granting PNTR to China and its eventual full admission into the World Trade Organization.

In 1999, our industry generated \$6.1 billion in retail software sales in the US alone. IDSA's 32 members account for 90% of the edutainment and entertainment software sold in the US. Worldwide, our industry generates in excess of \$17 billion in software sales alone, and many of our members generate 40% or more of their revenue from foreign markets. Between 1991-99, the industry has grown more than 145%, far outstripping the growth rate of any other entertainment sector in the world. In 1999, 215 million electronic entertainment games were sold in America alone, or two per household. It is estimated that our industry now employs more than 50,000 people in the United States, many in highly skilled positions. Video and computer game software developers and publishers are in dozens of states across America.

BACKGROUND ON COMPUTER AND VIDEO GAME INDUSTRY

While video games were once thought to be mainly the province of children, today's industry appeals to people of different ages, genders, and tastes. In fact, the average age of computer and video game players in America is now 28 years old, and 43% are women or girls. Overall, it is estimated that 145 million Americans regularly play computer and video games. Increasingly, the interactive entertainment industry is seen as both a content provider and also a high tech industry driving major advances in artificial intelligence, computer hardware, 3D graphics, and silicon chip design. The next generation of video game console hardware, some available now and some available over the next few months, will offer consumers a set top box unit which can play video games, DVD movies, audio CDs, connect to the Internet, download content, handle e mail, and more, all for under \$300. Perhaps this is why a recent story in Newsweek said, "In the century to come, the medium producing the most dynamic, vital, and exciting new art will be video games."

I offer this background to dramatize just how important our industry is to the US economy, particularly the high tech economy of the new millennium. Our industry relies totally on intellectual property to fuel its growth. Demand for video and computer games is huge. It's clear that wherever our industry can sell legitimate product, sales explode. Without strong IPR protection in the United States and around the world, including the Internet, we cannot sell our products. Indeed, piracy is our biggest trade barrier. Without strong copyright protection and enforcement, the kind of growth we've experienced over the last decade will be jeopardized. The plain fact is that large and small countries around the globe are riddled with counterfeit and pirate products, making it virtually impossible to create legitimate markets and build strong businesses.

COMPUTER AND VIDEO GAME PIRACY IN CHINA

Which brings us to China. We estimate that our industry loses \$1.38 billion annually due to piracy in China, and that the piracy rate there hovers around 95%. In other words, all but 5% of the products sold in China are pirate or counterfeit. While we experience similar piracy rates in other countries, the financial losses we sustain in China far outstrips that of any other country in the world.

The obvious question is, given these problems, why on earth would we support PNTR and China's entry into the World Trade Organization (WTO)? There are three major reasons:

First, notwithstanding the continuing domestic piracy problems in China, we believe China has taken some important strides under the 1992 and 1995 Sino-US bilateral trade agreements to improve the IPR environment.

Second, we believe that membership in WTO offers the best way to sustain and build on even the limited progress made to date.

Third, we believe that membership in the WTO will hasten China's ratification of the World Intellectual Property Organization (WIPO) treaties with respect to copyright protection on the Internet. Given the central role the Internet will play for our industry as a vehicle for distributing content, this is a fundamental and critical business issue for us.

THE 1992 AND 1995 MEMORANDA OF UNDERSTANDING (MOUS)

In 1992, and again in 1995, the US and China signed Memoranda of Understanding regarding intellectual property rights in China. The 1995 MOU was further supplemented by a 1996 Action Plan for implementation of its key provisions. These are relevant in the current debate since one of the issues is whether China can be trusted to carry out its obligations under international trade accords. Indeed, there are some critics who point to the IPR agreements as an example of why China cannot be trusted.

In fact, China has complied with many of the key provisions of both MOUs. This is not to say it's been easy, or that all is well. In fact, neither is the case. But it is also indisputable that progress was achieved under both the 1992 and 1995 agreements.

The 1992 plan dealt mostly with steps China needed to take to enact laws to meet various relevant international copyright conventions, such as the Berne Convention. And, in fact, China did everything it was asked to do under that agreement within the prescribed deadlines. However, China did fall well short of meeting the agreement's general commitment to improve enforcement of the new laws it enacted, and it was this failure that gave rise to the negotiation of a new, much more specific agreement in 1995.

The 1995 agreement and the 1996 Action Plan thus zeroed in on enforcement generally and particularly on the increasingly grave problem of uncontrolled production in China of counterfeit optical media products of all kinds. The main focus of the 1995 agreement was to pressure the Chinese Government to shut down these illegal CD replication plants that were churning out massive quantities of illegal video game software, movies, and sound recordings and exporting them around the world. Indeed, in the mid-nineties, the illegal CD plants in China were supplying pirate goods to numerous global markets, from Southeast Asia to South America, thus disrupting many of our legitimate and growing markets.

Candidly, our industry was not entirely satisfied with the 1995 agreement since it did not cover all forms of entertainment software (our members now publish games in three formats: cartridges, CD-ROMs, and DVD-ROMs, and the 1995 pact only covered optical media, not cartridge product). Nonetheless, the agreement was an important effort to reduce the global supply of pirate CD software emanating from China and was a net plus for our industry.

The fact is that the Chinese, over a two year period, have mostly lived up to their obligations under the 1995 agreement and the 1996 action plan to close down this pirate optical media production and halt exports. China closed down 86 production lines producing pirated optical media product since 1996. In addition, China established strict licensing controls over 50 plants that produce legitimate products. The volume of pirate CDs being exported out of China is significantly lower than it was in 1995 and 1996. We believe these gains stem directly from the determination of the Office of the US Trade Representative, led by Ambassador Barshefsky and her staff, to enforce the 1995 agreement.

THE CURRENT ENVIRONMENT IN CHINA

What remains to be done under the 1995 agreement is to complete the job of cleaning up the domestic market now that the export problem has diminished. It is in the domestic market where we still face massive piracy problems in China.

As noted above, the piracy rate for our products is 95% and the estimated losses are \$1.38 billion. According to the International Intellectual Property Alliance Special 301 Report submitted to USTR in February, "the levels of optical media piracy in China across all lines of copyright business continue to remain high despite reports of active raiding at all levels in the production and distribution chain."

Entertainment software companies have noted that there is now massive illegal importation of pirate and counterfeit copyright product into China from Hong Kong, Macau, Malaysia, and Taiwan. This flood of illegal imports has kept piracy rates unacceptably high even though the Chinese have achieved some success in shutting down indigenous pirate manufacturing capacity. For example, we believe that 100% of the pirate games for use on the Sony PlayStation console are imported, and 70% of the pirate games for the PC are imported. Many of these pirate products are titles published by US software companies.

Beyond problems with illegal imports, weak domestic enforcement remains a major problem in China. The good news is that the Office of National Antipiracy and Pornography (NAPP) has taken charge of all copyright enforcement activities throughout the country. But IIPA noted, "enforcement remains the principal weak point within the Chinese IPR system. All industries continue to believe that the system lacks significant deterrence to further piracy due to nondeterrent administrative penalties and the woeful lack of resort to the criminal enforcement system."

Examples of enforcement impediments abound. For example, the central copyright office in Beijing must clear local copyright bureau enforcement actions that involve foreign rights holders, a clear violation of the Agreement on Trade Related Aspects of International Property Rights (TRIPS) which slows down or even stops enforcement. In addition, fines are too low, both in the law and as imposed, and retail shops that sell pirate goods often remain open even after convictions for copyright piracy. The list goes on. In short, the requisite deterrence is lacking.

We also remain extremely concerned that China continues to reserve the right to keep product out of the country using vague cultural standards. China requires our members to submit software for content screening to a Software Approval Board. Only foreign companies are required to go through this screening process. The Board can reject sale of this product, and it can take months to do so. Meanwhile, pirate versions of the same product freely circulate! We were disappointed that the agreement governing entry into the WTO did not address this issue.

However, the fact that enormous piracy and market access problems in China persist does not mean that China is not taking the problem more seriously, or that no progress has been made, or that there is not an improved attitude in China toward addressing the issue. To the contrary, we believe there has been progress and there are signs China recognizes additional steps are required. Indeed, recent speeches by top Chinese officials have been noteworthy for their open acknowledgement that domestic piracy is rampant and much more needs to be done to attack it. I am not sure these statements would have been made absent the prospect of PNTR and WTO membership.

WTO: BEST ROAD TO REFORM

WTO membership is a linchpin in the long term effort to advance the cause of US copyright interests in China. It offers the following benefits to our industry:

- As a member of WTO, China will be obligated to meet the requirements of TRIPS immediately upon accession. This is a significant step forward and will bring China into line with dozens of other countries that accept TRIPS standards. Most notably, a major TRIPS obligation relates to enforcement and will require China to take more effective action to deter further infringements. This imposes a critical international obligation on China which we believe China will want to abide by, and holds out the promise of a vast improvement in the piracy landscape in China.

We believe the WTO dispute settlement procedures offer the most powerful leverage to exact progress in the IP area. If, for example, China does not move to become TRIPS-compliant, the WTO affords a multilateral channel to enforce these obligations, with real teeth. As the Committee know, under WTO rules, if the US were to bring a successful action against China in the IPR area, it would be free to retaliate in any sector, even the most vulnerable domestic Chinese industry. This threat is a powerful weapon to induce responsible behavior.

The alternative is continued reliance on the bilateral Special 301 Process. While we have generated some results through this route, it has inevitably involved repeated brinksmanship, threats, and counter-threats that have unavoidably polarized dialogue. Moreover, it is not clear to us that any future Administration, Democratic or Republican, given the tremendous geo-political issues involving China, will be prepared to risk the relationship over IPR issues. Thus, bringing China into the world body established to address IPR and trade related issues is likely to offer future governments a less confrontational way to push for continued progress in the IPR area.

- The agreement negotiated between the US and China governing its accession to WTO included a range of market access provisions which will be helpful to our industry, including tariff reductions and according "entertainment software" status as an audio-visual work, enhancing distribution options. These market access gains will be lost if PNTR status is not granted. Moreover, WTO becomes a forum in which our industry can pursue these and other market access relief reforms, such as the content review issue I mentioned earlier.
- The Internet is growing rapidly in China. There are now an estimated 8.9 million Internet users, double the level in 1998. IDSA knows from our experience in the US and around the world that Internet piracy is costing our industry untold millions, perhaps even billions of dollars. China is currently amending its copyright law, giving it the opportunity to add provisions implementing the WIPO Internet treaties which would increase protection of digital works and provide critical protection against hacking and the use of circumvention devices to defeat copy protection. While compliance with TRIPS itself as a condition of WTO ascension will heighten copyright protection for digital works (since TRIPS covers both analog and digital works), we believe membership in WTO will create a more positive environment for full implementation of the WIPO treaties by China. As an industry widely regarded as providing some of the core content which will drive the Internet's continued emergence, copyright protection of Internet distributed works is a critical business goal.

CONCLUSION

As the fastest growing entertainment industry in the world over the last five years, we see tremendous opportunity for American entertainment software companies to continue to expand sales in foreign markets. China is a huge opportunity in this regard. If one looks at sales figures for our industry in the US and Europe alone of \$6.1 billion and \$6.6 billion respectively, it's easy to see the potential for American entertainment software companies to significantly grow market share in China. On balance, we believe that PNTR, coupled with membership in the WTO, offers the best hope for building a viable, legitimate software market in China and realizing that potential. And that, in turn, means more jobs in the US entertainment software industry as we continue our sustained growth and expansion.

PREPARED STATEMENT OF HON. FRANK H. MURKOWSKI

(FEBRUARY 23, 2000)

As an initial matter, I want to congratulate Ambassador Barshefsky and her team for salvaging much of the lost April-1999 Trade Agreement with China. I do, however, regret all the sleepless nights and unfortunate horse-trading USTR had to go through to get this deal done. All that could have been avoided if the President had had the good sense to do the right thing back in April.

Despite that fact, this agreement is on its own merits a good deal for the United States. If China implements the agreement effectively, Americans can look forward to the creation of new jobs and new entrepreneurial opportunities in one of the world's most tantalizing markets. For Alaska, this will mean access to new markets for our seafood and natural resource industries in particular. WTO accession by China also gives us access to legal processes which we don't currently have to address potential disputes on trade abuses. Our task will be to ensure that China actually implements the agreement. If it does not do so, we need to be clear to Beijing that we will take appropriate legal action.

The deal is also a win for our partners like Taiwan, which already imports more goods and services from the U.S. than China. China has assured that it will, as part of an agreement to join the WTO, drop any opposition to Taiwan's simultaneous membership in the organization. We need to be vigilant that China does not back-track on this point.

The deal is also a win for the people of China. Our November Agreement with China is, in effect, the ultimate admission by the Chinese Communist Party: communism is dead. By bowing to the will of the market, Beijing is transferring control over the Chinese economy directly to the people of China. China's leaders are trying to make an explicit bargain with the Chinese people: you pay us your taxes and leave us alone to govern China. Is taxation without democratic representation a viable form of government for the long-term? Our own history suggests that it is not.

In coming to terms with Beijing over the WTO, Congress should therefore recognize that this is a win-win-win situation. This is not to suggest that the WTO deal is a magic bullet for all of the problems in China or our relationship with China. Critics of the deal argue that China has not always lived up to previous bargains, and will not now. This is an important note of caution. We should not be so naive as to believe the door to China's market will swing open overnight. A lot of self-interested Chinese communist bureaucrats will drag their heels over this deal, and they have their champions in Beijing. China has politics too. In monitoring progress on the deal, we need to be realistic in assessing how quickly the reforms called for can actually be implemented.

The American people should also know that a positive vote on PNTR for China will not amount to Congressional capitulation on the many concerns we have about China's government. Partnership in trade is not partnership in morality, diplomacy or security. While the WTO deal is a watershed in the trade relationship, significant areas of conflict with China continue, be they over human rights and religious freedom, allegations of military espionage, or Chinese sabre-rattling across the Taiwan Strait. These issues can and should be addressed through every other available means.

Granting permanent normal trade relations to China is not an embrace of the Chinese government, warts and all. However, the benefits of this deal promise to enhance, rather than capitulate on, our ability to affect Chinese behavior in areas other than trade. Failure to support this agreement will not keep China out of the WTO. It will, however, damage our own interests and those of our trading partners.

PREPARED STATEMENT OF HON. FRANK MURKOWSKI

(MARCH 23, 2000)

I am pleased to see such a distinguished group of witnesses appear before the Committee today. As I understand it, we are here to discuss granting permanent normal trade relations to a government that

- threatens our friends;
- steals our military technology;
- sells arms to our enemies;
- abuses its own people; and is an environmental disaster.

Why, in God's name, would we reward this government by granting it permanent access to the most lucrative market in the world?

Well I ask that question and I immediately withdraw it, because it's

- the wrong question,
- based on the wrong premise,
- with the wrong set of terms.

A vote for normal trade relations will not reward the bullies in Beijing. In fact, a vote for PNTR is a vote for private enterprise, market reform and international competition in China. This bill rewards the Chinese people, not their hard-line masters in Beijing.

Clearly, the variety of expertise represented here today is not specific to trade policy, but runs the gamut of the policy issues we face in US-China relations—from security to human rights to Taiwan. I am of two minds on the need to confront these issues in the context of PNTR for China.

Obviously, a proper airing of views on the overall relationship helps establish the context in which a vote on PNTR will take place. However, a focus on non-trade issues in this debate may obscure the virtues of the trade concessions which are truly at issue.

There has been much talk in recent months about the need for Congress to exact an appropriate pound of flesh in exchange for "giving" China PNTR. However, I think we are in danger of treating a vote on PNTR as a referendum on the overall relationship with China.

In looking for a "quid-pro-quo" for PNTR, I believe we need to look no further than the November agreement itself. In addition to promising new markets and opportunities for Americans in China, the terms of the bilateral mean that China's government will reduce its control over the economy; reduce its ability to directly

funnel funds to the military; reduce its control over the lives of average Chinese citizens; and reduce the wall between the Chinese people and the outside world.

That sounds like a pretty good deal to me.

That said, I welcome the opportunity to address the broader issues of concern in the relationship, and the opportunity to hear the testimony of these many distinguished witnesses. I hope, in so doing, we do not become so mired in the forest that we lose sight of the trees.

PREPARED STATEMENT OF RICHARD PERLE

Mr. Chairman, I appreciate your invitation to participate in this hearing on trade with the People's Republic of China. Like many Americans, I have tried to assess the security, economic and political interests of the United States in the rapidly growing trading relationship with China.

I imagine that one reason why the Committee thought to include me in its deliberations was my involvement, nearly three decades ago, in a piece of legislation that became known as the "Jackson-Vanik Amendment," after the name of its author, Senator Henry Jackson, and his House colleague, Congressman Charles Vanik.

By linking trade to human rights, the Jackson-Vanik amendment significantly reshaped a piece of trade legislation enacted in 1974 that granted most-favored-nation treatment (MFN) to nonmarket economies. It changed the administration's proposal to authorize the extension of MFN to state controlled economies by requiring that the President first certify that doing so would lead to significantly freer emigration. With such a certification, MFN status would continue from year to year. Without it, MFN treatment would cease.

Because Jackson-Vanik was enacted so long ago, it might be worth a minute of the Committee's time to recall why it became the first statute in nearly a century to link human rights and concessions on trade.

At the time of its introduction in 1972, the Soviet Union threatened to halt or greatly diminish the flow of emigrants by imposing a prohibitive tax on anyone wishing to leave. The adoption of the so-called "education tax" came just as the Nixon administration was asking Congress to extend MFN to the Soviets. It was in that context that Scoop introduced his amendment to prohibit the granting of MFN status to any non market economy that denied its citizens "the right and opportunity" to emigrate or that imposed unreasonable taxes as a means of controlling emigration. The amendment was eventually modified to allow the President to waive this restriction if and only if a waiver would promote the cause of free emigration.

At the time the Soviets lobbied unrelentingly to defeat Jackson-Vanik. As part of the effort to defeat it they dropped the "education tax" and allowed the number of emigrants, many of them of Jewish origin, to rise sharply. When it passed in 1974, after two years of debate, the Soviets responded by reducing the flow of emigrants to the level that obtained before the increase aimed at discouraging the amendment's passage.

Eventually the number began to rise again as the Soviet authorities struggled to contend with a linkage they abhorred but were unable to break. Hundreds of thousands were able to leave the Soviet Union and find freedom in the west—many in Israel and the United States—because Jackson-Vanik first gave them hope and when they defied the authorities and demanded visas, protection as well. Jackson-Vanik remains the law today and it is with respect to the waiver provision of Jackson-Vanik that the question of MFN for China has arisen each year.

The premise of Jackson-Vanik was simple: if the Soviet Union wanted trade concessions from the United States-MFN status and eligibility for credits they could earn them by letting people go. Both the benefit to be gained and the price to gain it were clear. The pragmatists in the Kremlin could make a choice. And it was a plausible choice. We were not asking Brezhnev's Russia to transform itself into a parliamentary democracy. We were not asking for free speech or freedom of political association—not because we did not value those instruments of democracy or believe in the human right to speak and associate freely, but because we thought such demands were more than the traffic would bear, more than we could reasonably hope to achieve. More exit visas was plausible; democracy was not.

Scoop believed that the right to emigrate was first among human rights because it alone could end the suffering that resulted when citizens were denied any or all other human rights. Emigration was the ultimate escape to freedom. And countries that could not imprison their own people would be compelled to make life tolerable for them. Eventually, this would lead to greater freedom. I believe Scoop was right. And I urge the Committee to support the continuation of Jackson-Vanik as it relates

to Russia. The Russian door must never again be closed to emigration. The prospect of an annual review is the best chance we have of discouraging those in Russia who might wish to turn back the clock and again limit the flow of emigration.

I believe that in recent years the demands made on the Chinese authorities as a condition for a Presidential waiver allowing MFN status to continue have been far too ambitious. For unlike the choice Scoop sought to put before Soviet leaders—a focused, narrow quid pro quo, the Chinese have been asked to accept a broad program of human rights that their controlling Communist Party could not survive. With comprehensive human rights in China, the Communists wouldn't last a week.

If it were up to me I would leave the waiver provision in place and use it to insist on exit visas for those brave Chinese reformers who run afoul of the authorities. But I would not hold MFN status hostage to an unrealistic insistence on comprehensive human rights in China.

Mr. Chairman, I believe that trade between the United States and China has been and can continue to be a force for liberalization. When private industry grows and flourishes, the citizen's abject dependence on the state is sharply diminished. An alternative source of wealth and material well being means an alternative to the central power and control of the Communist Party. And that must lead to a lessening of the totalitarian authority with which the Chinese government now abuses its hapless people. If we are on the side of greater freedom for the people of China, we will look for ways to encourage trade between China and the outside world. We will encourage the private sector in China. And we will encourage the open flows of information without which a modern industrial society cannot succeed and prosper.

The authorities will, of course, try to have it both ways: trade to enrich the country, repression to remain in power. But they will fail. In the end a flourishing economy is inconsistent with central control and the repression of speech, thought and association. The instruments of a modern economy—innovation, creativity, entrepreneurship—are the death of communism and totalitarian rule.

In my view we can speed the process of economic growth in China and the deterioration of communist rule by encouraging trade with the private sector and discouraging it with the state enterprises, particularly those run by the military. As a government we certainly should not buy from the military industries of China or from non-Chinese suppliers who incorporate components of the Chinese military industries in their own products. Such a policy of differentiation would not be easy to apply and, at best, it could be applied imperfectly. But it is worth a try.

This brings me to a second point, Mr. Chairman, the implications for our security of trade with China. I can see no benefit for the United States in the growth of Chinese military power. Whatever the ambitions of the Chinese state are today, they will surely be greater as they become more powerful. For us and for our friends in the region and for Taiwan, the growth of Chinese military power is a most unwelcome development.

Yet the current administration seems either not to have noticed or not to have cared how often we have assisted the modernization of Chinese military capabilities. Whole factories that once produced advanced weapons for our own forces have been dismantled and shipped to China. Trade in advanced technologies between us is conducted freely even when those technologies could significantly improve Chinese military capabilities. Such Chinese state run industries as the space-launch enterprises have benefited from the sale of launch services to American firms even though those enterprises are technologically indistinguishable from those producing ballistic missiles and other military systems. Add to that the espionage with which the Congress is now familiar and you have a deeply troubling failure to shape the trading relationship in ways that might mitigate the Chinese threat to our security and that of our regional allies.

Finally, I would like to say a word about the World Trade Organization (WTO) and Chinese admission thereto.

I have had a chance to observe Chinese commercial practice at close hand. It would be hard to imagine a more outrageously predatory behavior than that practiced by Chinese industry, especially the state run enterprises. Make no mistake: they will lie, cheat and steal on a breathtaking scale. No intellectual property exported to China is safe. No contract can survive a determined effort by the Chinese side to gain an advantage by revising its terms.

Our businesses in China cannot expect to compete on a level playing field because in China, where the government is involved, there is no level playing field, not even for private Chinese businesses, much less foreign ones.

Chinese admission to the WTO will do little, if anything, to change that. It may even make it more difficult for the United States, and our companies, to obtain fair treatment because we will be bound to use the machinery of the WTO, rather than

potentially more effective means, to press any claims of unfair treatment. In terms of how well or badly we come out in our commercial relationship with China, I don't think it matters much whether China does or does not join the WTO.

But we shouldn't make fools of ourselves by anticipating that China will readily play by the rules once it is admitted to the club. Only the most sustained, and aggressive program to obtain enforcement has a chance of helping—and I doubt that it will help very much.

Mr. Chairman, a realistic, convincing, hard-headed approach to the protection of American interests in the trading relationship with China would look very different from the current policy.

It would zero in on plausible objectives with respect to human rights, like freer emigration when emigration is most necessary to protect those who are engaged in the struggle for human rights.

It would comprehend and promote the liberalizing potential of the growth of the private sector in China.

It would have a security dimension in which we would think twice before importing or exporting services and technology with significant military implications.

It would be clear—and clearly skeptical—about the benefits to be found in Chinese membership in the WTO, and it would plan for a vigorous defense of our rights under the WTO when they are violated, as they surely will be.

PREPARED STATEMENT OF MICHAEL A. SANTORO, J.D., PH.D.

Mr. Chairman, Senator Moynihan, Members of the Committee, thank you for this opportunity to testify on the issue of China's accession to the World Trade Organization and what it means for human rights and democracy in China. I urge your approval of Permanent Normal Trade Relations (PNTR) with China because I believe that economic engagement is the most effective tool that the United States possesses to foster democracy and improve human rights in China.

SOME MORAL PERSPECTIVES ON HUMAN RIGHTS AND FOREIGN ECONOMIC POLICY

As do many Americans, I am deeply concerned about human rights conditions in China. Although I support granting PNTR to China, I do not support, apologize for, or justify the human rights record of the Chinese government. The authoritarian government of China regularly and systematically abuses the human rights of its people. It is a well-documented fact that the Communist Party punishes individuals for doing nothing more than expressing their political opinions or practicing their religious beliefs.

I have spent almost a decade researching the moral and foreign policy implications of human rights in China. I have made numerous trips to China to research these issues and in particular the impact of foreign corporations upon human rights conditions and democratization in China. The results of my academic research are reported in my book *Profits and Principles: Global Capitalism and Human Rights in China*. In this testimony I will draw from the findings presented in my book. Before doing so, however, I want to clarify some general moral principles applicable to the subject of human rights in China.

I am not a moral or cultural relativist. I believe that the frequency and severity in which the Chinese government suppresses religious and political expression offends the basic human rights and dignity of its people in such a way as to require the rest of the world, including the United States, to take notice and take action. Such human rights abuses cannot be excused on the grounds that China has different cultural values than the West, or because it is a relatively poor, developing nation, or because of the perceived potential for political instability. In my view none of these reasons which are often invoked by the Chinese government constitute a valid justification for the human rights abuses taking place in China.

International law principles of state sovereignty do not prohibit foreigners from attempting to affect human rights conditions within China. On the contrary, I believe that Americans and other foreigners can and should do something about human rights abuses within China. The relevant moral questions are which foreigners have human rights duties and what these duties are. The "fair share" theory of moral responsibility for human rights that I outline in *Profits and Principles* provides principles for answering these questions and I will be drawing on those principles in this testimony.

The case for granting PNTR to China is I think a simple and compelling one. The greatest human rights impact that the United States can have on China will come through trade and investment. Multinational corporations, particularly those based in the United States are influencing four sets of factors—economic prosperity, merit-

based hiring practices, information-sharing and teamwork, and leadership and change—that are positively related to democracy and human rights. In my book I call this phenomenon “human rights spin-off.” By granting PNTR to China, the United States will accelerate “human rights spin-off,” fuel the dramatic social changes taking place in China, and thereby hasten the day that democracy and human rights can flourish in China.

DEMOCRATIZATION AND ECONOMIC DEVELOPMENT

The first and most obvious positive influence of trade upon democratization in China is economic. Some argue that trading with China helps to support a corrupt regime. In fact, the opposite is true. Since the time of Aristotle political scientists have contended that democracy is much more likely to be sustainable when a country's people have achieved a certain level of economic development. The modern articulation of this idea is credited to the political scientist Seymour Martin Lipset. More recently, political scientists and economists have confirmed that, while there are isolated exceptions (most notably India), economic prosperity generally is a precondition for a stable and sustainable democracy.

The recent Taiwan presidential election perhaps offers the best illustration of the relationship between economic development and democratization. Following several decades of strong economic development and the emergence of a strong middle class, the Taiwanese people demanded and received in the late 1980s and early 1990s a greater role in the rule of their country and increasingly open and free elections. The 2000 presidential election featured 82% voter turnout, further proof that democratization follows economic development. Surely, Chinese citizens and leaders are aware of the thriving democracy in existing in Taiwan today and understand that as their own country becomes more prosperous the possibilities for democracy increase.

Although serious and widespread poverty still exists in China, particularly in rural areas, average per capita income is approaching \$3,000 in terms of purchasing power parity, making China “middle income” according to the World Bank, and is fast approaching levels that would help to sustain a democracy. By helping China to develop economically, American trade and investment is thus helping to create a middle class with power and interests independent of the state. Granting PNTR to China will accelerate this economic growth and thereby help to create a fertile ground in which the seeds of democracy can take deep root.

FOREIGN BUSINESS AND THE RISE OF THE “MERITOCRACY CADRE”

Foreign trade and investment in China are not only helping to create prosperity in China. More importantly, they are doing so in the private sector according to private sector rules. By hiring, firing and promoting on the basis of merit, multinational corporations have two kinds of impacts on Chinese society. First, they are helping to teach their workers that individual merit and talent matter. Second, this emphasis on individual worth is helping to create a “meritocracy cadre”—a well-heeled and highly educated social class with power and interests separate and distinct from those of the state.

For decades, the traditional path to power and wealth in China has been to join the Communist Party, to work for a state-owned enterprise, and to establish good relations with superiors. Being well connected to the party and literally knowing and professing the “party line” has been the most important key to career success. Multinational corporations are helping to break down this equation in dramatic ways. They are helping to create a whole new “meritocracy cadre” of Chinese citizens who are acquiring wealth status and power through individual merit and hard work rather than through connections to the Party.

One member of this new meritocracy cadre is “Tom.” Tom is an engineer by training but has risen rapidly through the ranks of his American company in China. Upon introducing himself, Tom is careful to note that his Ph.D. in theoretical physics from a prestigious Chinese university was earned with honors. My first impression of Tom was that he was a bit egotistical as he told me of his various credentials and accomplishments. After a while, however, I began to understand that the reason Tom touts his credentials is that he is proud of achieving his position on the basis of his talents rather than through personal connections. Tom is very careful to contrast his own career with that of his father, who was, according to Tom, a “number one boss” at a factory in Hebei county outside of Beijing. Tom's father rose to his position largely as a reward for being a People's Liberation Army soldier at the time of the founding of the People's Republic of China in 1949. Tom, however, is eager to be judged by his technical and business acumen.

Another member of this new "meritocracy cadre" is "Ling," a business strategist for an American company. Originally from China's Northwest, Ling went to college in Shanghai and landed a job at an American company in Northeast China after spending several unhappy years working at a state-owned enterprise. Ling told me that in her American company "as long as you perform, you will get promoted. SOEs are large and old. You are behind a lot of people for a promotion."

For young, educated Chinese men and women, working at a foreign company, especially an American company, is the most desirable job they can get. As a result, American companies are attracting the "best and the brightest" of Chinese society, those who are most likely to influence political and social change in the coming decades. Arguably, as they acquire wealth and status, the members of this meritocracy will be in a more advantageous position than are current dissidents, mostly intellectuals and students, to influence the future direction of China. The opportunity to make money, to be promoted, and to achieve on the basis of individual merit are far greater in foreign companies than within traditional state owned enterprises.

The opportunity to have a successful career in an American company has ripple effects throughout the Chinese educational system. In China today, the MBA is replacing membership in the Communist Party for young, talented and ambitious men and women. As "Louisa," a Shanghai-based employee of an international consulting company observed, "simply knowing I would have that opportunity to find a job with a 'politically insensitive' multinational helped me to act more like an individual in college."

Foreign companies are not paying Chinese workers according to merit in order to advance human rights or democracy. They are doing so because it makes good business sense. Companies that are not able to attract and retain talented workers won't be in business very long. This is as true in Beijing or Shanghai as it is in Silicon Valley or Wall Street. This is how the free market works. As Chinese workers learn the lessons of the free market they are also learning an important lesson about human rights and democracy. Once you have gotten used to the idea on the job that you deserve to be treated justly and on the merits, you are not likely to tolerate arbitrary treatment from the government in other aspects of your life.

A time will come in China when the self-made men and women who have risen as entrepreneurs and employees in foreign-based corporations will occupy social and political space uneasily with managers of SOEs who have acquired their positions through the old *guanxi* or personal connections system. These self-made men and women are likely to have little patience for the shortcomings of those who have achieved material well being and power by demonstrating loyalty to the Communist Party line. By providing an alternative avenue for social and economic mobility, multinational corporations in China are helping to create a middle class meritocracy with interests and ideas that are quite distinct from those of the Chinese state. Granting PNTR will accelerate and enlarge the development of a middle class meritocracy and thereby contribute to China's democratization.

STYLES OF LEADERSHIP AND OPENNESS TO CHANGE

American corporations are helping to redefine power relationships within China. Within the context of Chinese society, many of the most basic tenets of contemporary management theory and practice are inherently radical influences. In the traditional Chinese cultural pattern, the good subordinate obeys and respects the boss. The boss gives orders and makes decisions. The boss looks after the subordinate. More conversation, conflict, challenging of authority, and shared decision-making takes place between boss and subordinate in contemporary western management practice. This is how Louisa, the Shanghai-based consultant, describes the difference between working in a Chinese company and in an American company: "Relationships between colleagues and bosses are much better in American companies. Here, I can really open up and act on my opinions. The open environment allows me to be creative and work according to my instincts. Right now, my boss is driving me crazy. I can also tell her she doesn't make any sense when she's wrong about things. This is because the environment in American companies is more open. You make friends with your bosses; you don't simply fear them. Everyone is equal." Another young woman working for a European company in Shanghai told me that "we learn to speak out and say what we think."

Time after time when I asked workers in China what it took to succeed in a foreign corporation, I got the same reply, "attitude"—the willingness to learn how to do things differently. One young woman said that foreign companies require you to "take full responsibility" and "think differently." Ultimately, the most radical notion foreign corporations introduce in China may be the importance of change itself. To thrive, the contemporary corporation must continually reinvent and re-engineer

itself. As a Hong Kong American executive in charge of regional training in Asia told me, "we change a lot and we change very quickly. We don't do things the same every time. We improve. We bring people in and out on assignments. We're not focused on the past. We value open and direct communication." The company for which this woman works is, of course, interested in profits, not politics, but receptivity to change is an idea that can't be confined to the workplace. As Chinese workers in foreign companies assimilate such values they are bound to spill over into the broader society.

INFORMATION SHARING AND TEAMWORK

Multinational firms in China also promote human rights and democratization by stressing the importance of information sharing and teamwork. Corporations encourage such behaviors because they are essential to optimal decision-making and operational effectiveness, but teamwork and information sharing are hard to confine to the workplace. By teaching the importance of these ideas in a corporate context, foreign corporations in China are helping to put in place values and practices that in the long run can help to promote human rights and sustain democracy.

The modern corporation thrives on the free flow of information up, down and across organizational structures. In addition to sharing information freely, workers in the modern corporation must work cooperatively to solve complex problems in teams drawn from diverse parts of the organization. Companies that hope to maximize their profits must design their organizations and train their workers to share information and work together in teams. One of the prime reasons for the resurgence of American business in the 1990s was the massive investment that companies made in new information technologies, including telecommunications equipment and computer hardware and software. Among other things, this investment in technology has made possible the sharing of information among workers within an organization and with workers in other organizations. The emergence of the Internet and the development of communications technology are each day it seems creating new and thrilling new business paradigms. As a result of this technological quantum leap, the ante has risen sharply for companies that want to compete in the global economy. Sharing information throughout an entire network of organizations has become an indispensable key to survival. The Internet has made it possible to share information instantaneously and globally. In China, however, the notion of speedy and open access to information is a radical concept that poses a threat to the power of the Communist Party, which throughout the history of modern China has maintained social control by controlling information.

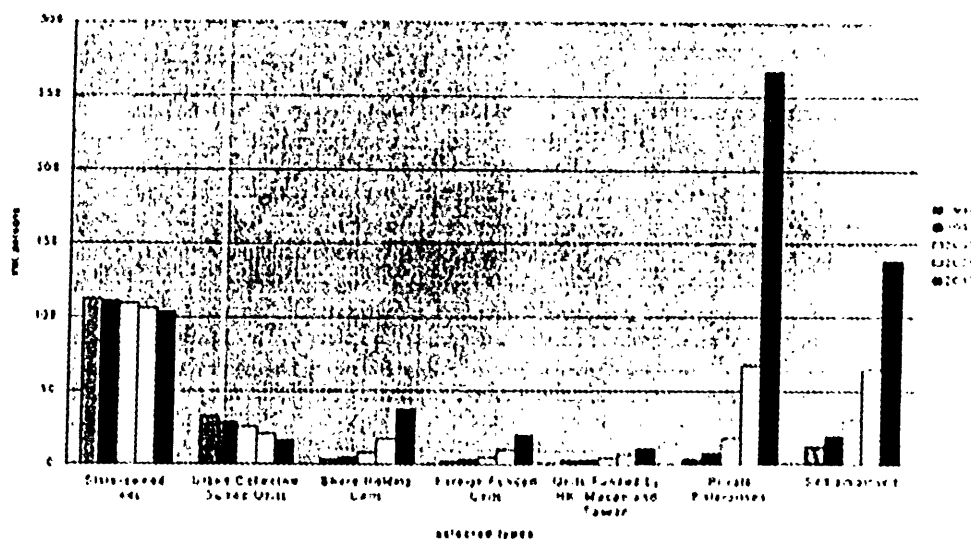
For Western companies, it is critical that Chinese workers learn to practice teamwork and share information on the job. Wall's, the ice cream subsidiary of U.K.-based Unilever, offers a good example of how teamwork and information sharing can affect the bottom line. Shortly after going to China, Wall's general manager for China dispatched a cross functional team to cut the costs of a particular product whose costs, he thought, were getting out of line. He was rewarded with a 10 percent cost reduction without loss of quality. To accomplish the general manager's assignment, Wall's workers had to trust one another, work together, share information, and think creatively about re-engineering a product. These are among the trendiest ideas in modern management science. Any firm not practicing them is not likely to be competitive for very long. Information sharing, trust and teamwork are also, however, the hallmarks of a healthy democracy. In the same way that information sharing is essential to good decision-making and operational effectiveness in a corporation, free speech is essential to good decision-making in a democracy. It is hard to imagine that ideas about the importance of information flow can be confined to corporate life. Inevitably, those who work in foreign corporations and have gotten used to the free flow of economic information will wonder why their government restricts the flow of political information.

In addition to introducing ideas about information flow within their organizations, foreign corporations are pressing the Chinese government toward greater legal and regulatory transparency. As recently as five years ago, foreign businesses were complaining that China's commercial laws were too inaccessible. Today, China's Ministry of Foreign Trade and Economic Cooperation has a website that contains up-to-date text of national laws and regulations affecting business. Moreover, the efforts of multinational corporations to increase the flow of information within and outside of their organizations complement other trends in China. Although official news outlets are still tightly controlled, the proliferation of private publications, the fax machine, the Internet, and foreign travel have all made it more and more difficult to control the flow of information within China. Granting China PNTR will accelerate and heighten this trend toward more open flow of ideas and information.

COMPLEMENTARY DEMOGRAPHIC TRENDS

Even after two decades of economic reform and foreign investment, less than 1 percent of the Chinese labor force is employed in foreign invested enterprises. It is important to emphasize, however, that foreign-invested enterprises, along with private companies, are the fastest growing segments of Chinese society. In time, therefore, the impact of "human rights spin-off" will grow. As Figure A illustrates, the demographic changes going in China today are causing seismic shifts in the Chinese urban economy. The opportunities being created by the free market and foreign trade are persuading an entire generation of young Chinese workers to reject the bland security of working in state-owned enterprises and to work in private enterprises. The most daring among them are starting their own companies. They are in the process learning that they can create their own wealth and acquire social status on their own. If present demographic trends continue, these self-made men and women, along with the men and women who work in Western companies, will grow to outnumber those who have followed the traditional path to wealth and power in China through Communist Party membership. Granting PNTR to China will solidify and accelerate these well-established demographic trends.

Figure A. Projected changes in Urban Employment in China, 1994-2010



Source: *China Statistical Yearbook*, China Statistical Bureau, 1998. The values for the years 2000, 2005, and 2010 are projections, based on the assumption that the growth rate of the previous three years (1994 through 1997) continues.

CHANGE WITHIN SOES

American companies in China are also causing change in the way that their state-owned competitors do business. Two years ago, a young man who worked for a state-owned enterprise sought me out for personal career advice. He was working at the time in a joint venture between a Chinese company and an American company. This young man was lamenting the fact that his counterparts at the American company, also Chinese, were making a lot more money than he was even though they were doing the same level of work. At the time I was only able to tell this young man that his time would come, that eventually state-owned enterprises would have to pay for performance to retain their top employees and compete with foreign-owned firms. When I said this two years ago, I thought that this change would occur five or six years down the road. However, China's entry into the WTO has speeded up the pace of change within state-owned enterprises. In preparation for foreign competition, the *Far Eastern Economic Review* reports in a recent issue, Chinese SOEs already have started to pay on the basis of performance. One Chinese company has even been drawing up a plan to use stock options and bonus pay to reward superior performance.

To compete with the foreign competition that will be unleashed by the World Trade Organization, Chinese state-owned companies will have to reinvent themselves in ways more profound than simply paying bonuses for superior performances. Take, for example, the way information is transmitted within SOEs. A few years ago, I was giving a lecture to a group of middle managers at a large SOE in

Beijing. On my way to the lecture I picked up and read a copy of the *Asian Wall Street Journal*. The front page featured an article describing this company's plans to sell shares in the United States stock market. When I mentioned the article during the lecture I was stunned to learn that none of the managers were aware of the news, even though many of them had jobs and responsibilities that would be profoundly affected by the possibilities being discussed in the article. My little story is meant to make a larger point that SOEs are going to have a lot of trouble competing with foreign companies after China enters the WTO unless they adopt the very best Western management practices. Admittedly, at this point there is little hard evidence that SOEs will change to become more like their Western counterparts. However, the trend would appear to be inevitable. At first, SOEs will, as we are seeing, pick the most obvious practices, such as performance pay, from the Western management toolkit. Eventually, however, they will come to realize that to compete against foreign companies they will have to adopt and integrate up-to-date information technologies and to train their workers to use these technologies. They will also have to consider some of the "softer" management practices that complement these information technologies and perhaps adopt less hierarchical organizational structures that allow subordinates to exercise greater initiative and independence. If these kinds of changes do begin to happen within SOEs then this will constitute a kind of "multiplier effect" for the human rights spin-off effects emanating from foreign forms operating in China. Granting PNTR to China will help to unleash this multiplier effect.

IMPLICATIONS OF "HUMAN RIGHTS SPIN-OFF" FOR THE VOTE ON PNTR

The WTO agreement presents Congress and the American people an historic choice over the future of relations with China. There are numerous "national interests" at stake in this decision. One of those national interests is our cherished commitment to the values of democracy and human rights. A foreign policy that does not advance our interests in democracy and human rights will not receive the support of the American people and will not be sustainable in the long run. Ratifying the World Trade Organization agreement with China and granting it permanent normal trading relations advances America's interest in promoting human rights and democratic values. Doing so will accelerate the "human rights spin-off" phenomenon. As China opens itself more and more to the outside world, its society will inevitably change as a result of the contacts with foreigners. Indeed business people constitute by far the single most important foreign source of social change within China. As I have describe here and in greater depth in my book, many of these changes have important positive implications for democracy and human rights. Granting China PNTR will accelerate these social changes. Ultimately these social changes will pose a formidable challenge to China's government, as profound contradictions emerge between the Communist Party's authoritarian rule and China's increasingly free economy and society being created by private enterprise and the free market.

ASSESSING THE SHORT-TERM AND LONG-TERM EFFECTS OF PNTR

In recent years, political and religious repression within China has increased. In 1999 the government has arrested thousands of members of the religious group Falun Gong . Repression of Christian groups continues, as does the jailing of political dissidents who dare to speak out in favor of democracy and human rights. Some argue that because of this stepped up repression China should not be granted PNTR. This view is mistaken because it fails to appreciate how it is that trade contributes to democracy and human rights in China.

It would, I believe, be a big mistake to return to a policy of attempting to push China toward democracy and human rights by threatening trade sanctions. It is true that without any credible threat of trade sanctions, China's leaders have felt emboldened to step up political repression of political and religious dissidents. But the flip side of the coin is that the exposure to foreign ideas made possible by foreign trade is also helping to embolden Chinese citizens to speak out and exercise their civil and political liberties. Thus, the short-term effect of increased trade with China will be that the number of dissidents will increase and the government will feel more latitude to repress those dissidents. Ironically, therefore, the recent increase in political repression in China is an indication that engagement is working. As time goes by, the winds of change brought on by China's entry into the WTO will encourage even more voices of freedom.

Unfortunately, The United States cannot credibly threaten economic sanctions and simultaneously trade freely with China. At this point, with the positive effects of economic engagement so apparent, the wisest course for the United States is to

grant PNTR to China and to find other ways to put pressure on the government to release political and religious dissidents. This is why in my book *Profits and Principles* I call for the United States to follow a policy that I call "comprehensive engagement plus." At the same time that the United States trades with China, American leaders must not be afraid to speak out and criticize the authoritarian actions of China's government. It is especially important that the United States and other countries press the criticism of China in international forums such as the Human Rights Commission. It will require a subtle balancing, which one American newspaper likened to the traditional Asian balancing of Yin and Yang, to trade freely with China and at the same time be critical of its human rights practices. But public condemnation will complement and help to support the social changes already occurring within China. Brewer Stone, an American businessman with longstanding ties to China, put it aptly when he said that "constant and repeated criticism by foreign leaders will have an effect. It can simply drive home the point that China is not living up to its own stated ideals, and in the end most people find themselves uncomfortable with hypocrisy."

THE SWEATSHOP PROBLEM AND CHINA'S ENTRY INTO THE WTO

Before concluding my testimony, I would like to comment on the suggestion made by some that the United States should not grant PNTR to China because of labor rights abuses in manufacturing operations there. This "sweatshop" problem in China and other developing nations is a complex issue which I address in some detail in my book *Profits and Principles*. Despite the complexity of the issue, I would like to offer a few general observations about the problem here and to suggest how, in light of the nature of the problem, granting PNTR to China can be a positive force for labor rights in China and elsewhere.

The positive "human rights spin-off" thus far described in this testimony results from the profit-maximizing behavior of "market-building" multinational corporations that enter China in the hopes of capturing consumer and business markets. These companies, such as Motorola and General Motors, are world class firms that are investing often huge sums of capital in China, paying wages far above the norm, and offering a high quality working environment for their mostly young, skilled and educated workforces. These companies are committed to long-term strategies in China. In my book, I identify another business strategy employed by firms in China that I call "cost-minimization." This strategy describes companies that are primarily attracted to China because of its bountiful supply of low-skilled, low-wage labor. Such "cost-minimizing" firms are likely to be global marketing companies who usually have little physical presence and direct investment within China. The goods manufactured by cost-minimizing firms are those which require low-skills such as toys, clothing, and basic electronics.

Subcontractors who perform work to the specifications of global marketing companies usually conduct the manufacturing operations for cost-minimizing firms. Competition among developing countries to attract this kind of investment is keen and the workers who are drawn to these jobs are likely to be migrants from rural areas who possess little education. Local governments are often lax in enforcing existing labor regulation because manufacturers can easily shift their operations to more compliant locales whose governments turn a blind eye to labor abuses. Corruption and conflicts of interest involving local officials also contribute to the lax enforcement problem. As I outline in my book, the economic incentives at work in these circumstances and the vulnerability of the workers create the potential for severe worker abuses.

Although there is little systematically gathered evidence of the incidence and severity of such abuses in China and other developing nations, credible reports by journalists and non-governmental organizations (NGOs) suggest that the sweatshop problem is a serious one. Compounding the problem are reports that the subcontractors of well-known global retailing firms employ children and prison labor.

The "fair share" theory of human rights responsibility that I develop in my book leaves no room for doubt that global marketing companies have a moral duty to assure by any means necessary that the manufacturing facilities operated by their subcontractors do not violate the human rights of the workers employed in those facilities. In recent years, NGOs have employed negative publicity campaigns successfully to pressure companies with well known brand names or affiliations with celebrities (particularly in the apparel industry) into assuming increasing responsibility for the labor conditions in factories operated by their subcontractors. Students at prestigious schools such as Rutgers, Duke, Oberlin, Notre Dame, Brown, and North Carolina have joined the anti-sweatshop campaign. With the support of concerned administrators from these schools, these students have pressured manufac-

turers of licensed collegiate apparel to exercise greater oversight over their subcontractors. More recently, elaborate international systems of factory monitoring and certification have emerged. Among the most notable of these are Social Accountability 8000, the Fair Labor Association, and the Workers Rights Consortium.

As I describe in my book, a number of factors complicate and stand in the way of a satisfactory resolution to the international sweatshop problem. Among these factors are: the relative indifference of most consumers in developed nations about human rights abuses in developing countries; free-rider problems resulting from the essentially voluntary nature of compliance with existing and proposed certification schemes; confusion resulting from the proliferation of certifications schemes and compliance marks; and the lack of consensus over the minimal standards for certification, exemplified by the ongoing debate over the meaning and applicability of a "living wage" standard.

Not surprisingly, the lack of progress thus far on the sweatshop problem has led some to call for an intergovernmental solution in the form of the introduction of a "labor clause" in the WTO. Last year, the WTO ministerial meeting in Seattle was disrupted as a result of protests which in part sought to promote such a labor clause. To this point, there has been no indication that developing countries such as China will embrace such a labor clause which they regard, incorrectly in my view, as being a protectionist infringement of their sovereignty and contrary to their economic interests.

Within developed countries such as the United States, some have seized upon the labor clause issue as a basis to oppose free trade generally and, in particular, China's entry into the WTO. In my view, this position is flawed. The position is, in part, premised upon the overly-optimistic view that a WTO-enforced labor clause will result in the return of low-skilled manufacturing jobs to the United States. In fact, the difference in manufacturing costs between less developed countries and the United States is so great that it is highly unlikely that any labor rights clause that could achieve international consensus would result in the return of manufacturing jobs to the United States. This misplaced emphasis on protectionism is a dangerous diversion from the educational initiatives that are necessary to prepare American workers to compete in the global economy of the 21st century. Workers who lose their jobs as a result of the trend toward global markets and manufacturing need training which enables them to assume better paying, higher skilled jobs in the new economy, not the false promise offered by protectionism.

China's accession to the WTO could actually serve to hasten the potential for an intergovernmental solution to the sweatshop problem. I believe that once it becomes a member of the WTO, China, along with other developing nations, will in time come to realize that its workers would gain economic benefits from an intergovernmental labor standard enforceable by the WTO. In this way, workers in developing nations will be able to capture more of the economic benefits of globalization currently lost in the "race to the bottom" engendered by the competition over limited foreign investment dollars. It would be overstating it to suggest that granting PNTR to China will by itself solve the global sweatshop problem. It may, however, hasten the time when it is feasible to achieve an intergovernmental solution making sweatshops a thing of the past and assuring that enforceable, humane minimum labor standards will govern manufacturing operations throughout the world.

CONCLUSION

America is at a crossroads in its relationship with China. There are many national interests at stake in the vote over granting PNTR to China. America's interest in democracy and human rights is as important as any of these interests. As I have tried to show in this testimony, granting PNTR is the most effective way to promote America's interest in promoting the emergence in China of a stable democracy that respects the human rights of its citizens.

Thank you for the opportunity to express my views.

PREPARED STATEMENT OF HON. JAMES R. SASSER

Chairman Roth, Senator Moynihan, former colleagues, distinguished members of the committee. I have the honor today of appearing before this committee to discuss with you one of the most important issues facing the United States and one of the most critical legislative items on the congressional agenda this Spring—whether to establish permanent normal trade relations with China when they join the World Trade Organization and the implications of that decision for U.S. national interests.

Mr. Chairman, allow me to clarify one issue at the outset. I am here to talk to you today as our former Ambassador to China, and as a former member of the Sen-

ate. I hope that my personal perspective will be of use to you as you deliberate the merits of this legislation. I am not here as a spokesperson for the Vice President of the United States or his Presidential campaign. I know the Vice President well, I served with him in the Senate, and I am familiar with his views on this issue; but my comments should not be received as the Vice President's own positions. I will leave that for him to articulate.

When the President asked me to serve as our Ambassador to China, I immediately agreed because I believed then—and I still believe—that our relationship with China is among the most important bi-lateral relationships that America has. As you know, China is a major regional power and home to one fifth of the world's population. It has an economy that is modernizing, and a society that is looking more and more to the West, and in fact, to the United States. Our actions—and, in particular the actions of the Congress on this legislation—can and will have a direct impact on China's future and the future of the U.S.-Sino relationship.

I can say without hesitation that establishing Permanent Normal Trade Relations ("PNTR") status with China is absolutely vital to American national interests. This agreement will open the Chinese market to our goods, services, and farm products; it will promote openness in China and require China to play by the rules; and it will advance human rights and American national security interests.

Mr. Chairman, China will enter the World Trade Organization whether we like it or not. It has already become part of the world trading system—we could not stop that process even if we wanted to. The only issue is: will Congress allow Americans to benefit from this historic trade deal, or will we reject it in a misguided effort to "punish" China, only to find out later that we have punished ourselves, our farmers, our high-tech entrepreneurs, and our working families all across this country.

Let me add one important note: As I anticipate the other panelists will confirm, there is a broad bi-partisan consensus on this issue. The Democratic and Republican candidates for President agree that we should pass PNTR this year. We may differ on some of the details about China policy and about who is best equipped to handle the job, but that is not why we are here today. We are here today to present the case for establishing Permanent Normal Trade Relations with China, the subject to which I will now turn.

There are, in my judgment, three main reasons to grant PNTR.

THE ECONOMIC ARGUMENT

First, there are the economic reasons. As I said earlier, China will enter the WTO whether we like it or not. The only issue is whether Americans will be able to benefit from the deal that our trade negotiators worked out with the Chinese.

Under that agreement, the United States made no new market access concessions. This agreement does not reduce any of our tariffs or increase access to our markets in any way, shape or form. It simply increases our access to China's market.

Here are some examples:

- On U.S. priority agricultural products, tariffs will drop from an average of 31% to 14% by January 2004, with even sharper drops for beef, poultry, pork, cheese, and other commodities.
- Industrial tariffs on U.S. products will fall from an average of 24.6% in 1997 to an average of 9.4% by 2005.
- At present, China severely restricts trading rights (the right to import and export) and the ability to own and operate distribution networks, both essential to move goods and compete effectively in any market. China will phase in these trading rights and distribution services over three years, and also open up sectors related to distribution services, such as repair and maintenance, warehousing, trucking, and air courier services.
- China will participate in the Information Technology Agreement and will eliminate tariffs on products such as computers, semiconductors, and related products by 2005.
- For the first time, China will open its telecommunications sector and significantly expand investment and other activities for financial services firms.

In addition, the agreement contains strong anti-dumping provisions. The deal contains a China-only safeguard that ensures that the U.S. can take effective legal action in case of increased imports of a particular product from China that cause or threaten to cause market disruption in the United States. This applies to all industries, permits us to act based on a lower showing of injury, and permits us to act specifically against imports from China.

But you don't have to be an expert in trade law to understand the value of this deal. You just have to do some basic math. We have 4% of the world's population. If we are going to survive, we must be able to sell American goods and services to

the other 96% of the world. China is a potential market of over 1 billion people. As China's economy moves from a command-and-control system to a market-based system, the Chinese consumer base will continue to grow. Increased U.S. exports to China means better, higher-wage jobs here at home. Trade with China already supports hundreds of thousands of American jobs. And it promises to support hundreds of thousands more.

As you know, Mr. Chairman, Americans are benefiting from the longest running economic expansion in U.S. history. Part of the reason we have had so much economic success is because we have opened new markets and struck hundreds of new trade deals. We can keep that prosperity going if we expand our trade relationship with China.

THE NATIONAL SECURITY ARGUMENT

The second reason to support PNTR—and this may be the most critical one of all—is that it will promote American national security interests in that critical part of the world. I do not need to remind you just how tense it can be in China, particularly in light of last week's elections in Taiwan.

The most important signal we can send is that we want stability. If China turns away from America, or if we turn away from China, that will severely undermine our ability to work with Beijing on a range of regional security issues.

In the wake of the Taiwanese elections, I think it is important to reiterate to both Beijing and Taiwan that we will continue to urge a peaceful resolution to the Taiwan question. There must be a shift from distrust to dialogue across the Taiwan Strait. And we will continue to encourage both sides to seize this opportunity before and after the inauguration of Taiwan's new president. There may be a way to resolve this conflict, but it will take patience, it will require enlightened diplomacy, and it will require us to stay engaged.

In recent weeks, we have been sending our senior military leaders and senior Administration officials to Beijing to keep lines of communication open. I cannot underscore this enough: Defeating PNTR would deal a staggering blow to U.S.-Sino relations and would set back our ability to deal with the national security implications of the Taiwan question. It will be viewed as a sign of confrontation in Beijing and a rejection of constructive U.S.—Chinese relations.

Not surprisingly, the Taiwanese want this agreement. If we reject this agreement, we will be doing Taiwan no favor. They will join the WTO after China does. They are one of the largest investors on the mainland. I believe that both the Chinese and the Taiwanese understand that trade is preferable to war. Both want a peaceful resolution. In fact, Taiwan's legislature just passed a bill authorizing direct postal, trade, and transport links between mainland China and offshore Taiwanese islands, reversing a 50-year ban on such direct exchanges. If we can promote trade in the region, and participate in trade in the region, we will go a long way toward ensuring the stability and peace of Asia and the rest of the world.

THE POLITICAL AND HUMAN RIGHTS ARGUMENT

A third reason to back PNTR is to advance the cause of individual political rights and human rights in China. Later in this hearing, you will hear the words of pro-democracy activists who support this deal.

Mr. Chairman, I know first-hand that some Chinese leaders are suspicious of America. Trade expansion can help change that. As our commercial ties deepen, mutual understanding will follow. This is especially true with the Internet. China is suspicious of the Internet because they can't stop its growth. Trying to control the Internet is, as President Clinton put it, like trying to nail jello to the wall. The Internet is bringing revolutionary change to the world, and it will to China too. So too, as trade expands, tourists will go to China, and they will be the ambassadors of American democracy and freedom.

I recognize—as I think we all do—that political liberalization does not automatically follow economic liberalization. Bringing about change in China is a long-term process. It will not be easy, and it will not happen overnight. There are no guarantees that democracy will take root, but if we expose the Chinese to our respect for workers and political openness, then political liberalization may follow.

When American companies do business in China, they bring with them American business practices, which include better pay, better benefits, more training, and more freedom than local enterprises. By empowering workers—both financially and politically—we can help promote the cause of human rights and democracy in China. It is a fact that working conditions are better in places where there is U.S. investment. And American companies operating in China can help promote the rule of law and other forces that make life better for the people of China.

Moreover, bringing China into the WTO is not a blessing of China's past and current behavior. Rather, accession to the WTO requires a commitment by China to play by the rules. This deal will lead to an expansion, not a contraction of rule of law. Cutting China off or isolating China will not promote the cause of human rights. We need to have influence there, and trade expansion with China is the way to get that influence.

Separate from this agreement, there are other things we can do, particularly on the issues of labor and the environment. We can, as the President and Vice President have advocated, create a committee within the WTO on Trade and Labor. We can strengthen the International Labor Organization. We can work with NGOs that promote human rights, labor rights, and environmental protection. We can and should conduct environmental impact statements of all trade agreements, as the President has ordered.

On this point, let me add that we have other ways of communicating to China our views about freedom, democracy, labor rights, human rights, and environmental protection. That was part of my job as Ambassador. But I can assure you that the Chinese will be less inclined to receive that message if we cut them off.

THE VICE PRESIDENT'S VIEWS

As I stated at the outset, I did not come here to speak on behalf of the Vice President. He is more than qualified to speak for himself on this issue. And he has. For the record, I would like to cite the Vice President's statements on this issue.

In a letter to business leaders, and to Mr. Sweeney, the Vice President wrote:

I support the agreement reached by our Administration on the terms under which China will be permitted to accede to the World Trade Organization. This agreement was negotiated in order to secure economic and security benefits. Specifically, this agreement obtains meaningful benefits for American workers and companies by expanding and opening the Chinese market. Moreover, this agreement will advance our goal of opening up China to the world. I believe that Congress should enact legislation to secure these goals—in the form in which they have been negotiated—this year.

I want you to also understand that I firmly believe in fair and balanced trade agreements. And I agree with President Clinton that future trade negotiations ought to include in the fabric of the agreement both labor and environmental components. Moreover, as I have publicly said to both business and labor audiences, in the future I will also insist on the authority to enforce workers' rights and environmental protections in those agreements. (Letter to National Association of Manufacturers; cc to John Sweeney, 2/18/00).

Last week, in an interview with the Wall Street Journal, the Vice President reiterated his support for establishing PNTR this year. "The Chinese said [] that they will enter the WTO, whether or not they receive the PNTR from the United States. So, it's really a question of whether we will have a disadvantage, a serious disadvantage, versus all of the other nations that are selling into the Chinese market. Or whether we will be on even footing and gain the influence to bring changes in the future." (www.WSJ.com 3/15/00).

The Vice President also stated: "I am committed to getting more attention for labor protection and environmental protections in the WTO. And if I'm entrusted with the presidency, I will insist upon more progress there. And I will work hard for it. But the ability of our country to make such progress will be enhanced if we move forward on this PNTR." (www.WSJ.com 3/15/00).

CONCLUSION

Mr. Chairman, we stand at an important juncture in the history of U.S. policy towards China. Two paths are available to us. One path is the path of isolation and tension. It is the path that hurts Americans and hurts our ability to promote peace and prosperity in Asia. The second path is a path of engagement, of expanding trade on a new frontier, of using our influence and dominance to promote the causes of freedom and democracy, of protecting the environment, and of bringing great financial benefits to the United States while uplifting workers here and abroad. The second path is the one that, I think most of us on this panel can agree, can best serve the interests of the American people.

Thank you, and I look forward to your questions.

PREPARED STATEMENT OF IRA S. SHAPIRO

I appreciate the opportunity to appear before the Finance Committee today to discuss the important issues posed by China's accession to the WTO and whether the U.S. will grant permanent normal trade relations status (PNTR) to China. I had the privilege of spending many hours with the Committee in 1993 and 1994, when I was General Counsel of USTR, and this Committee took the lead, along with your House counterpart, in implementing NAFTA and the Uruguay Round. It is always an honor to appear before you, particularly for someone who spent many years working in the Senate.

I share the views of those who believe that it is critically important that China enter the WTO and that Congress votes to establish permanent normal trade relations with China. The agreement negotiated by Ambassador Barshefsky is a remarkable accomplishment, going beyond any reasonable expectation of what negotiations could produce. China's market opening commitments are far-reaching, opening opportunities for virtually every sector of importance to the U.S. economy: manufacturing, services, high technology, and agriculture. There are no tradeoffs here, of one sector to benefit another. This is a unilateral trade agreement in which China makes all the concessions.

Moreover, the agreement does more than advance the broad interests of U.S. exporters. It fully protects the interests of our import-sensitive industries. Reflecting the fact that China has not yet made the full transformation to a market economy, and that its size and manufacturing strength require special protections from increased imports, the protocol negotiated along with the market access commitments specifies that the United States will continue to apply non-market economy (NME) antidumping methodologies for 15 years. For the first 12 years—in addition to the existing global safeguard provisions—China has also agreed to a country-specific safeguard that is stronger and more targeted relief than that provided under our Section 201 law: permitting us to act specifically against imports from China, based on a lower showing of injury.

China has not limited its concessions to changes in tariffs and non-tariff border measures. The agreement would fundamentally transform the Chinese economy and the way business is done in China. The provisions of the agreement would reinforce and lock in reforms in China: strengthening the market economy, dramatically diminishing the state's role in the economy, and deepening the commitment to the rule of law. It would provide full trading rights for U.S. companies to import, export and distribute products directly to Chinese customers, including after-sales service and repair, without going through a Chinese middleman. China would also be required to abandon its current requirements for technology transfer and export performance.

In my view, this is an agreement that can be explained and defended at any factory, farm, or union hall in America. And I think of no reason why these hard-won gains should go to the companies, farmers and workers of the European Union and Japan, rather than ours, which is precisely what happens if China enters the WTO without Congress granting PNTR.

The agreement promises to alter the landscape so profoundly over time that we should see it for what it is: a fundamental choice by the Chinese leadership to take the path of reform. Everything we know suggests that this choice came only after fierce internal debate and that major restructuring and dislocation in China will follow. It is understandable that we are focused on weighing the possible benefits and costs for the U.S., but we should not overlook the historic importance of this moment in China.

Nevertheless, the agreement, China's WTO accession, and the proposed grant of PNTR have generated fierce and deeply-felt opposition in our country. Unmistakably, we are beginning to have the full national debate that an issue of this importance requires.

As a threshold matter, it is necessary to consider two legal arguments made by the opponents to PNTR. I think that those legal arguments are without merit, and need to be cleared away so that the real issues can be debated fully and forthrightly.

The first argument is the claim that WTO rules do not mandate permanent NTR. Under this argument, the opponents contend that the United States would be with- in its rights to continue the Jackson-Vanik waiver to China on an annual basis. As long as NTR continued, China would be obligated to grant to the U.S. the full benefits of the agreement, and could not discriminate against U.S. companies, farmers and workers.

Having studied the legal arguments of both sides, I am convinced that there is no basis to the opponents' contention. The "unconditional most favored nation" principle found in Article I is the cornerstone of the WTO. It requires WTO members

to provide all trading partners with the same, nondiscriminatory treatment. If the United States grants unconditional permanent NTR to every member of the WTO, except China, and subjects China to an annual review process, it is plainly discriminating against China, whether or not Congress ever actually votes to end NTR. Holding the sword of Damocles over China's NTR status every year is about as clear a violation of the non-discrimination principle as one could have.

The opponents' second argument is that the "Most Favored Nation" clauses of the 1979 Agreement require China to extend WTO benefits to U.S. goods, services, and farm products, even if the U.S. refuses to recognize China as a WTO Member.

The 1979 agreement was an important advance in U.S.-China relations, when it was negotiated, more than 20 years ago, when we had virtually no trade relations with China. But the 1979 agreement does not come close to approaching the range of WTO concessions made by China in the November agreement. Under the 1979 Agreement, the United States and China agreed to extend MFN rights with respect to customs duties, import procedures, and administrative formalities. Thus, the U.S. may be entitled to the benefits of Chinese WTO tariff cuts, but tariffs are a minor aspect of the WTO agreement. The 1979 Agreement does not provide comprehensive coverage for services. U.S. providers would lose the benefits of Chinese commitments for insurance, securities distribution, Internet, auto finance, after-sale service and repair, and telecommunications. While the U. S. has some limited banking rights, these would consist primarily of the right to finance Chinese exports. The 1979 Act also lacks a national treatment obligation for services. Accordingly, U.S. providers would continue to be subject to discriminatory barriers, while European and Japanese firms would be entitled to "national treatment," i.e. the same treatment as Chinese domestic enterprises.

Nor does the 1979 Agreement require China to eliminate state-trading. As a result purchases of U.S. farm commodities would continue to be controlled by Chinese state-trading enterprises (STEs). Indeed, U.S. farmers could be excluded from minimum market access opportunities. The WTO Working Party is considering a proposal to restrict eligibility for agricultural market access opportunities to countries which apply the WTO to China. As a result our competitors Australia, Canada, EU, and New Zealand—may be able to take full advantage of expanded tariff-rate-quotas, while American agriculture would be excluded.

The 1979 Agreement does not eliminate discriminatory taxes and regulations. It does not address trade-related-investment measures (TRIMS)—technology transfer, local content, and export performance requirements that distort trade and put U.S. manufacturing jobs at risk: some of the concessions that Ambassador Barshefsky worked hardest to gain.

The opponents have parsed the 3 page, "best efforts" 1979 Agreement with determination, and contend that the provisions protect U.S. benefits in some areas beyond tariffs. In every area that I have cited, their argument is tenuous at best, and would be fiercely contested by China. The difference between the murky provisions of the 1979 agreement and the clear, definitive 250 pages of commitments in the WTO agreement is the difference between night and day. Congress cannot afford to rely on these contrived arguments to protect the interests of our companies, farmers and workers, while turning down real, tangible benefits that took more than a decade to negotiate. Moreover, even if it had value, the 1979 agreement is temporary and must be renewed every three years. It is hard to imagine China renewing this agreement after the U.S. Congress has chosen not to recognize its status as a WTO member.

The opponents' legal arguments are actually quite revealing in one sense. They implicitly acknowledge that the WTO agreement is an enormous breakthrough in terms of establishing, for the first time, real access to China's market. Consequently, the opponents have felt the need to claim that the U.S. will somehow get the benefits of the deal, even if we keep the annual Jackson-Vanik review and deny China the status of a full WTO member. Congress should dismiss these makeweight arguments to focus on the real issues that divide the two sides in this debate.

The first real issue is the question of the enforceability of agreements with China. The opponents apparently believe that the United States would be better off pursuing our trade objectives with China without WTO rules or dispute settlement, relying instead on the 1979 Act and Section 301 of our trade laws. The opponents cite examples of China's failure to live up to a previous trade agreement as evidence for the proposition that China would not adhere to its WTO agreements and that WTO dispute settlement would not work.

Certainly no one should be under any illusions about the difficulty of doing business in China, either in terms of business ethics, lack of transparency or the very incomplete development of the rule of law. Our trade relationship with China has been unacceptable and unbalanced. Moreover, China has sometimes failed to live up

fully to its agreements, although that fact alone hardly distinguishes China from many nations in the WTO.

But given the track record to date, it is difficult to understand why the opponents to PNTR reject the opportunity to make fundamental change, in effect endorsing the continuation of an approach that has failed to date. Because China is not a WTO member, the U.S. has been free to use Section 301 and impose punitive tariffs on Chinese goods with impunity. Of course, despite that having that option, the U.S. has rightfully not been eager to use it, because a trade war with China would hurt our consumers, our exporters, including farmers, and damage relations with China. Given those realities, the U.S. will be far better off with a far-reaching set of new commitments and recourse to WTO dispute settlement to hold China to them.

The views of U.S. copyright industries on this point are instructive. No one has devoted more time and energy in supporting our negotiating agreements with China and our efforts to enforce them. The U.S. government has come close to major trade battles with China several times over the issues of intellectual property and piracy. The intellectual property agreements with China, and our pressure to enforce them, have improved the climate for intellectual property in China and would not have occurred without the use of Section 301. But in their February 23 open letter, the copyright industries reflect on their experience, and conclude "we are convinced . . . that multilateral enforcement through the WTO offers a far more promising method of ensuring continued progress . . . than does the threat of unilateral retaliation against China." There should be no doubt in anyone's view that China will continue to pose very difficult challenges after its entry into the WTO. But we would be far better off with an agreed upon system of dispute resolution, the chance to seek and build international pressure when we see violations, and the ability to enforce decisions against China when we get them.

Of course, constant monitoring of compliance and vigorous enforcement of China's commitments is absolutely vital. I support the efforts of members of this Committee, and others in Congress, to keep this a high priority, although I can assure you from my experience that it has been, and it will remain so. The enormity of China, the magnitude of changes that its commitments will entail, and the difficulty of monitoring the central government and the provinces all point to the need for significant additional resources. I hope that Congress will grant the Administration's budget request on this issue. And, freed from the discipline of OMB, I can say that I hope that the Administration will not hesitate to ask for what is really necessary. For monitoring and enforcement, as well as for negotiating, we have relied far too long on the herculean efforts of too few people, both in Washington and in our embassies around the world.

One of the opponents' major arguments is that the United States should not give up the leverage on trade, human rights and other issues that annual review of China's NTR status provides. Given the present one-sided trading relationship, and the marked deterioration of human rights in China, it is difficult to find any evidence that the annual review has provided useful leverage on China's behavior, particularly in recent years, where the outcome of the vote has seemed increasingly pre-ordained. The Executive and Congress have many ways to express their disapproval of China's objectionable practices, whether on trade, prison labor, environment or human rights, and I support the efforts of ~~Senator~~ Baucus, Representative Levin and others to design new mechanisms to keep the spotlight on. But I believe that the U.S. government should find ways to do so that will not jeopardize the ability of our companies, farmers and workers to compete equally with their competitors in other nations for the opportunities in the China market. We should avoid self-inflicted economic wounds, particularly where there is no evidence that the annual NTR review has had any positive effect on China's behavior.

The fundamental issue should be confronted directly and discussed candidly. The opponents see WTO membership for China as some kind of gift or privilege that China simply does not deserve. The opponents' concerns gain added force from the recent bellicose statements of the Chinese leadership with respect to Taiwan, although the rhetoric seems to have cooled since the Presidential election in Taiwan.

No one condones the behavior of the current Chinese regime with respect to the use of prison and slave labor and the abuse of human rights, including freedom of religion, speech and assembly. I deplore the fact that human rights conditions in China have actually regressed in the past year. We should strongly support the Administration in its efforts to persuade the world community to adopt a resolution criticizing China's human rights practices, as well as Administration diplomatic efforts that ensure that China recognizes the possible consequences of the use of force against Taiwan.

But China represents one fifth of the world's population. It is a country, and a force, that we and our children will have to learn to live and deal with: not just

on trade issues, but on matters affecting the global environment, AIDS and other diseases, and possibly war and peace. The question posed starkly for Congress right now is whether the United States joins other nations in trying to integrate China into the world economy and the rules-based trading system, or whether we tell China that the far-reaching changes its leaders have committed to in negotiations with the U.S. are not good enough. The vote will be on permanent NTR, but the underlying choice is crystal clear. Congress can support China's entry into the WTO, or it can oppose it.

As President Clinton stated in his March 8 speech at Johns Hopkins: "Voting against PNTR won't free a single prisoner, or create a single job in America, or reassure a single American ally in Asia. It will simply empower the most rigid anti-democratic elements in the Chinese government. It would leave the Chinese people with less contact with the democratic world, and more resistance from their Government to outside forces . . . [Voting against PNTR] would be a gift to the hard-liners in China's government, who don't their want their country to be part of the world . . . The same people whose first instinct in the face of opposition is to throw people in prison. If we want to strengthen their hand within China, we should reject the China-WTO agreement."

Rejecting the agreement would estrange us from China, strengthen the hand of the most reactionary elements in that country, and reduce our persuasive ability on every issue of importance. Try to envision the next President seeking to deal with China on North Korea or climate change—let alone human rights or religious freedom—after Congress has rejected PNTR. There are 133 nations in the WTO. There are very few nations with whom the United States does not have normal trade relations. If Congress expresses its view that China should be added to that group, rather than in the WTO, that decision has the potential to set back U.S. relations with China for years.

Despite the often-deplorable practices of the Chinese government, there is no doubt that the past decade has witnessed dramatic change in China: in the direction of more openness and more personal freedom. The spread of technology, and particularly the Internet, have the potential to accelerate the process of opening China to the rest of the world. Of course, no one can predict the future with certainty, and there are eloquent people on both sides of the issue. But I have been persuaded by the views of Martin Lee, the leader of Hong Kong's Democratic party, who has struggled long and hard for democracy for his people. Mr. Lee wrote to the President that this agreement "represents the best long-term hope for China to become a member of good standing in the international community. We fear that should ratification fail, any hope for the political and legal reform process would also recede."

The opponents have said that this fight continues the battle they were waging in Seattle. Congress has to satisfy itself about the benefits of the trade agreement, but this decision is of a different magnitude. This vote will do much to determine the future course of relations between the United States and China. It is one of an historic handful of Congressional votes since the end of World War II. Nothing that members of Congress do this year—or any other year—could be more important.

PREPARED STATEMENT OF JEFFREY SWAIN

Thank you, Chairman Roth, Senator Moynihan, and Committee Members. I appreciate and am honored to have the opportunity to provide the poultry industry's views on the critically important issue of the U.S.-China Bilateral Trade Agreement and the closely-related issue of permanent normal trade relations (PNTR) status for China. I am Jeff Swain, President/Chief Operating Officer of Townsends, Inc. with headquarters in Wilmington, Delaware and poultry operations in Delaware, North Carolina, and Arkansas.

Townsends is a member of both the National Chicken Council (NCC) and the USA Poultry and Egg Export Council (USAPEEC), and it is my privilege to represent these two organizations today. NCC represents companies that produce and process over 90 percent of the young meat chickens (broilers) in the United States. USAPEEC represents member companies that account for more than 95 percent of total U.S. poultry & egg exporters. Together these two associations work continually and diligently to help build and expand the export market for U.S. poultry. They do so because the U.S. poultry industry recognizes the economic health and future viability of our businesses depend very heavily upon capturing the stomachs and pocketbooks of the 96 percent of world consumers who live outside the United States.

We strongly support the U.S.-China Bilateral Trade Agreement and permanent normal trade relations (PNTR) for China. Granting PNTR will aid China's bid for

accession to the World Trade Organization. As I explain in my following comments the bilateral agreement and the further opening of China's market will result in a very positive, beneficial impact on American agriculture and business.

For our industry, companies that produce, process, and market poultry, exports are not an option, they are a necessity. About 16 percent of all U.S. chicken is exported, but more importantly the export market provides the opportunity to better balance the mix of products being demanded with the supply of products that are processed from the live bird. The primary example of this statement is that the U.S. consumer has developed an overwhelming preference for chicken breast meat compared with legs/leg quarters. Interestingly, and luckily for our industry, consumers in virtually all other parts of the world have a decided preference for legs/leg quarters. Thus, we can export the half of the chicken the world wants while marketing the breast meat at home. This distinct and unique situation adds to the competitive advantage U.S. poultry producers/processors have over all other competing countries.

China not only refers chicken leg meat but, in fact, this preference has helped make China the largest poultry export market for the United States. I should note that statistically Hong Kong ranks as the number one market, but it must be realized that about 75 percent of the U.S. poultry exported to Hong Kong is transshipped to China. Thus, China is in actuality our best international customer for chicken. With a favorable farm policy now in place that permits U.S. animal agriculture to buy feed grains, oilseed meals, and related feed ingredients at competitive world market levels, U.S. poultry producers are confident they have the basis for competing and being successful in the global market place, especially in growing markets, such as China.

Both the National Chicken Council and the USA Poultry and Egg Export Council are strong supporters of the U.S.-China Bilateral Trade Agreement. The November 1999 agreement was a major breakthrough for U.S. agriculture to become more competitive in the Chinese marketplace. Further, the November agreement is companion to an earlier pact involving poultry. In April last year a pact was signed between our government and China that, when fully implemented, will greatly improved market access for poultry, red meat, citrus, and wheat. Certain other agricultural commodities also received favorable treatment as part of the April agreement. It was understood the provisions in the April agreement for poultry and certain other products were not contingent on China's membership in WTO, but rather on a separate track. Nevertheless, the speed and thoroughness with which the agreement is implemented may be influenced by the outcome of the WTO accession.

Our industry is confident that the United States largest poultry market will also be the market offering the best chance for continued, significant growth. We believe in this positive outlook because the agreement terms truly do remove the major market impediments. When fully implemented, the agreement with China is expected to provide up to a 20 percent annual increase for U.S. poultry exports in each of the years in the foreseeable future. U.S. poultry exports to China, including transshipments through Hong Kong, in 1999 were over \$350 million. Adding 20 percent to this sizable market means substantially more income to all segments of agriculture involved in the chicken production process.

A Secretary of Agriculture many years ago referred fondly to chickens as being "condensed corn." Chicken, of course, is much more than "condensed corn," but the point is very valid. When a metric ton of chicken is exported it means that 50 bushels of corn and the meal from 20 bushels of soybeans were also exported. While feed is the primary input in producing chicken, many other inputs, especially labor, are required. USDA estimates that for every 10,000 metric tons of chicken exported more than 100 U.S. jobs throughout the linkage from the farm to the dock at the U.S. port are created. Further, every dollar generated by an export sale multiplies at least three and one-half times through the agricultural and general economy. I can assure this Committee that everyone in the poultry industry appreciates the importance of the international market and the opportunity to grow exports.

To summarize the agreement as it relates to agriculture, we understand the agreement would eliminate import barriers and increase market access for U.S. agricultural products across a broad array of commodities. Commitments include:

- Significant cuts in tariffs that will be completed by January 2004. Overall average for agricultural products will be 17.5 percent and for U.S. priority products 14 percent (down from 31 percent).
- Establishment of a tariff-rate quota system (TRQ for imports of bulk commodities, for example, wheat, corn, cotton, barley, and rice, that provides a share of the tariff rate quota for private traders. Specific rules on how the TRQ will operate and increased transparency in the process will help ensure that imports

occur. Significant and growing quota quantities subject to tariffs that average between 1-3 percent.

- Immediate elimination of the tariff-rate quota system for barley, peanut oil, sunflowerseed oil, cottonseed oil, and a phase-out for soybean oil.
- The right to import and distribute products without going through a state-trading enterprise or middleman.
- Elimination of export subsidies on agricultural products.

China has also agreed to the elimination of sanitary/phytosanitary barriers that are not based on scientific evidence.

More specifically for poultry, China has agreed to reduce its tariff on U.S. poultry products from 20 percent to 10 percent over a four year period whether or not China is admitted to the World Trade Organization (WTO). More importantly than reducing tariffs, China has pledged in the April 1999 agreement to recognize the U.S. inspection certification for poultry and red meat. Also, China has agreed to permit all enterprises in China, both foreign and domestic, to import poultry for any use. At present, just two entities are permitted to import poultry and the product imported can only be used in certain hotels and restaurants. Legal, commercial relationship between U.S. exporters and Chinese importers will result in a more positive environment to increase exports. It should also be noted that China is not imposing a tariff-rate quota for poultry and red meat above a certain quantity. For countries that use a tariff-rate quota system with the accompanying extraordinarily-high import duties a tight ceiling is put on the quantity of poultry we can export to these countries. Since China has chosen not to impose a TRQ for poultry it means that if we can successfully grow the market for U.S. poultry in China we will not be handicapped by market-killing import duties.

Secretary of Agriculture Glickman said China's participation in the WTO will result in at least \$2 billion per year additional U.S. agricultural exports by 2005. He suggests his \$2 billion estimate may be conservative. While he sees the largest gains for bulk commodities, such as grains and oilseeds, he also sees a significant boost for animal agriculture products. Secretary Glickman bases his projections on a 7-percent average annual growth in China's Gross Domestic Product. It is my belief that as Chinese consumers enjoy increased disposable income in the years ahead there will be a great propensity to increase the amount of animal protein in their diets. With the high preference for poultry in Chinese diets, our exporters are somewhat confident that poultry will be one of the major products that will contribute to a growth rate in overall U.S. agricultural exports that will exceed the Secretary's projections of \$2 billion per year.

Too often we are quick to criticize our government officials for "not getting the job done." However, in the case of the bilateral trade pact that includes the provisions for poultry, our industry must express its gratitude to the U.S. Trade Representative and her very capable negotiators and to the Secretary of Agriculture and his staff of trade experts who work tirelessly on our behalf. We appreciate all of these efforts and know their continued dedication will be necessary to finally reach a successful conclusion to the agreement. Part of reaching that successful conclusion is having Congress approve permanent normal trade relations (PNTR) status for China. We encourage an early vote by Congress with regard to this issue and believe granting such status will assist in paving the way to fully implementing the bilateral agreement.

Building agriculture exports requires that those of us in each sector of the farm economy impacted by trade (there are few, if any, that are not impacted) become more involved in our government's efforts to achieve success in the international market. Thus, I readily accepted earlier this year an appointment by Secretary of Agriculture Dan Glickman to serve on USDA's Technical Advisory Committee for Trade in Animals and Animal Products. With limited governmental resources it is very important that the private sector share its thoughts and advice regarding where the best opportunities are and which markets offer the most potential for improved trade access. I look forward to my role on this important advisory group.

I speak to you on behalf of the U.S. poultry industry and request this Committee's full support and the full support of Congress for the U.S.-China Bilateral Trade Agreement and PNTR. While I cannot officially speak for all of American agriculture, I can without reservation characterize the support of American agriculture as "strong, positive, and anxious to move forward." To help demonstrate this wide support I have attached to my statement the position papers of ten farm and agribusiness organizations. These papers not only state strong support but equally important explain why the trade pact is good for American agriculture. Also, attached is a January 26 letter from the Business Coalition for U.S.-China Trade that was sent to the Speaker of the House. This letter in very clear terms expresses the broad and deep support of American agriculture and business for securing timely approval

of PNTR for China and bringing China under the rules of the WTO. As the letter explains, the U.S. market for China is already open and with China agreeing to open its market, the United States can only gain from China's admission to the WTO. The U.S. poultry industry was pleased to have been a signator to this letter with more than 300 other major groups.

To summarize, the U.S. poultry industry appreciates very much the on-going interest and support of this Committee to build world trade for U.S. agriculture and other parts of the U.S. economy. We in the poultry industry, like virtually all other segments of American agriculture and business, will significantly benefit from the U.S.-China Bilateral Trade Agreement when it is fully implemented. We look forward to our government moving forward in a very timely matter on the international trade issues for China.

Thank you for the opportunity to share our industry's views.

Attachments.

Attachment A

Position of the USA Poultry & Egg Export Council on the People's Republic of China

The USA Poultry & Egg Export Council, whose member-companies account for more than 95 percent of total U.S. poultry and egg exports, strongly supports the U.S.-China Agreement signed by both countries last November. The Council also supports granting China permanent Normal Trade Relations status, which would aid its bid for accession to the World Trade Organization.

It is clear that China is a hugely important market for U.S. chicken and turkey products. Last year, the U.S. exported more than 70,000 metric tons of poultry directly to China, valued at more than \$45 million. Also, U.S. companies exported more than 500,000 metric tons of poultry with a value of nearly \$300 million to Hong Kong, of which an estimated 70 percent was transhipped to the Mainland China.

Although the U.S.-China Agreement sets specific guidelines for gradually reducing import tariffs and affords access to the China market for American poultry, in reality the Chinese still have in place certain restrictions that inhibit free trade. For example:

- Import licensing—The Chinese government limits the number of importers through an arbitrary system of licensing. Only companies that hold licenses are allowed to import foreign products.
- Limitations on imports—China further restricts poultry imports to food service use (hotels, restaurants, etc.) and further processing, and does not allow U.S. poultry to be sold at retail establishments.

These restrictions, along with an arbitrary system of customs duty collection that varies from port to port on any given day, has fostered the creation of a huge "gray market" for much of the U.S. poultry that enters China.

Furthermore, China should abide by its agreement and immediately recognize the USDA poultry inspection system without requiring further inspection of processing plants. Under the agreement, China has been granted the authority to conduct random plant audits. Therefore, there is no need for on-site inspection of plants as a condition for access to the Chinese market for U.S. poultry products

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Attachment B

Pork Producers Urge Congress to Establish Permanent Normal Trade Relations with China

(December 6, 1999)

- The legislation of permanent normal trade relations with China is necessary for the U.S. to reap the complete benefits of Chinese accession to the World Trade Organization including the package negotiated on pork.
- The pork package negotiated by the United States with China has the potential, if fully and fairly implemented, to transform China into the single greatest export opportunity for U.S. pork producers. Currently, China blocks U.S. pork imports through a system of high tariffs, restrictive import licensing and distribution practices, and complicated and arbitrary sanitary requirements. Under the terms of a separate bilateral sanitary agreement negotiated with the U.S., China recently agreed to accept pork from any Food Safety and Inspection Service (FSIS) approved packing plant. Under the terms of the U.S.-China WTO agreement, China will, upon WTO accession, phase out its restrictive import and distribution procedures, lower tariffs on pork, and cut subsidies.

- Tariffs on frozen pork variety meats (such as stomachs, intestines, and hearts—the predominant product currently demanded by Chinese importers) and frozen pork muscle meats, will be phased down to 12 percent. Tariffs on frozen pork carcasses and fresh and processed pork products will be set at 20 percent. Tariffs will be lowered from 20 percent to 12 percent in equal increments on the frozen products over a four-year period from the time China becomes a WTO member. Previously, in the course of negotiations with the U.S. during the past two years, China had agreed to lower all pork tariffs to 20 percent from rates as high as 43 percent.
- In China, pork is by far the predominant source of meat protein consumed. China consumes more pork per capita than the amount consumed per capita in the United States making it a vast pork consuming market. Indeed, China consumes approximately 50 percent of the total pork annually consumed in the world. While current annual pork consumption increases in China have slowed due to the economic slump, most analysts project pork demand in China to rebound in the next few years to a growth rate of 6 to 7 percent per year. Even if pork consumption in China stagnates at the depressed, current growth rate of three percent in coming years, the annual incremental increase in demand would be 2 times greater than the total amount of 1998 U.S. pork exports. Thus, China is not a potential market; it is a huge and growing immediate pork consumption market.
- While China is the world's largest producer of pork, 85 percent of its pork comes from backyard producers. As incomes continue to rise and consumers demand higher quality pork and more of it, as well as more beef, poultry, dairy and alcohol products, commercial production of pork in China will become increasingly costly. This is because China must achieve this growth in consumption with only 9 percent of the world's arable land. According to FAO data, China must feed 13.0 people for each hectare of arable land, whereas Europe must feed 4.1 people, and the United States must feed only 1.4 people.
- China is moving from having mid-western U.S. type corn prices to having Taiwanese and Japanese type corn prices. Meat should be produced in grain surplus countries not in grain deficit countries. Countries that import feed grains must pay a premium over world market prices and feed grains constitute over 60 percent of the cost of raising hogs. Pork producers in Japan and Taiwan pay approximately double the amount paid for feed by a mid-western pork producer. Thus, China apparently wants to avoid the mistakes made by Japan, South Korea, and Taiwan.
- Despite official import restrictions, demand from the population for pork, particularly high-quality variety meats (e.g. hearts, stomachs, intestines), is so high that sizeable quantities of imported pork are being smuggled into China principally through Hong Kong. The pork is distributed to the general population mostly through local wholesale markets with a small amount distributed through supermarkets. Technically the importation and distribution of this product is illegal, a fact which is generally acknowledged by the Hong Kong importers and Chinese distributors. In 1998, this trade represented approximately \$50 million for U.S. exporters. (An additional \$8 million of U.S. pork was imported directly by China in 1998. Industry sources in China report that even these imports that directly enter China do so on a negotiated basis, not in accord with the official position.) It is difficult and expensive to smuggle pork into China and, without question, pork imports would explode if China lifted its de facto ban. Even under restrictive trade regulations, Chinese demand is so large at times that they have bought the entire world's supply of certain pork variety meats.
- China, unlike most other U.S. trading partners, is subject to the Jackson-Vanik amendment, which requires the U.S. to annually review China's trade status. In order to get the full benefit of trade concessions that China makes in its accession to the World Trade Organization, the U.S. must extend to China permanent normal trade relations and abandon the annual review of China's trade status.
- One of the cornerstones of the WTO is the "unconditional most-favored nation" or "MFN" principle. MFN is not a special privilege or "favor." It is the normal trade relationship between WTO Members. If the United States refuses to recognize China as a full WTO Member, China would have a right to withhold the benefits of key WTO commitments from the United States. (In this situation, the U.S. and China would probably invoke the so-called "non-application" clause of WTO Article XIII, even though China would become a WTO Member and grant WTO rights and benefits to its other trading partners.) As a result, Congress must approve Permanent NTR if the United States is to realize the bene-

fits of China's WTO commitments. Otherwise, the principal beneficiaries of a China WTO deal will be our competitors, e.g. Europe and Japan, who will reap the gains from America's leadership in negotiating strong commercial WTO accession terms.

- Some are arguing that the United States can still reap the benefits of China's accession to the WTO pursuant to a 1979 bilateral agreement with that country even if Congress does not extend permanent NTR to China. This is not the case. The United States would get some benefits under the bilateral agreement, but the U.S. would lose its rights to most of the WTO package.
- Pork producers do not deny that there are problems in the U.S.-China relationship. However, we do not see how walking away from these fantastic market access concessions negotiated with China would promote U.S. interests. This is a one-way trade agreement; the U.S. benefits significantly because China's previously closed market now opens while China simply maintains the access to the U.S. market that it has had for about 20 years. Unlike NAFTA and the Uruguay Round, the United States doesn't have to make concessions as part of China's WTO entry—our markets are already open. U.S. farmers, ranchers, workers, and business will benefit and our trade deficit with China will be reduced.

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Attachment C

Beef Industry has Huge Stake in China's WTO Accession

U.S. agriculture has become increasingly reliant on the export market. With a population of 1.2 billion and nearly 200 million consumers with middle-class incomes, China is a consumer market with enormous potential. Sales of U.S. beef and beef variety meats to the Peoples Republic of China and Hong Kong during 1998 totaled \$55.6 million, with \$6.5 million sold directly to China. By comparison, 1998 sales to other primary Asian markets included nearly \$1.5 billion to Japan and nearly \$150 million to Korea (down from more than \$300 million in 1997 due to the financial crisis). Per capita beef consumption in China during 1998 was reported at slightly more than 10 pounds compared to 20 pounds in Korea and 26 pounds in Japan. Based on U.S. success in expanding beef demand in other Asian markets, the long-term potential for increased sales of U.S. beef to China is excellent.

The agricultural agreement signed by the U.S. and China during last April pertains to Sanitary/Phytosanitary issues. In laymen's terms specific to meat, China agreed to recognize USDA Food Safety Inspection Service (FSIS) inspection of meat exported to China. In the past a representative from China would inspect U.S. packing plants and very few plants were approved. Under the new agreement any FSIS-approved plant will be eligible to export to China. FSIS began issuing export certificates in early December following final signature of the China SPS agreement (as a side deal) in Seattle.

The U.S. beef industry (and the rest of agriculture) has some huge potential gains in the broader trade package that was finalized with China prior to the WTO meetings in Seattle. Specific to the beef industry, tariffs on some major beef categories would decline by 7 percentage points annually from a current rate of 45 percent to 12 percent in 2004. For example, tariffs on frozen bone-in and boneless beef would decline to 38 percent in 2000, 31 percent in 2001, etc. For many beef variety meats tariffs would decline in equal increments over five years from a current level of 23 percent to 12 percent in 2004.

The overall package also includes elimination of state trading entities (STEs) that currently purchase most products imported by China. If the broader agreement is signed, STEs will no longer have a monopoly on agricultural commodities because private trade for all commodities except tobacco will be permitted. Distribution and trading rights for meat and poultry will be completely phased in by the end of three years. For the beef industry, this means that U.S. exporters will be able to sell directly to buyers (retail, food service, hotels, etc.) in China. U.S. MEF has training facilities in place for Chinese retailers and chefs.

A condition for any trade agreement with China to be finalized is that the U.S. government must grant permanent Normal Trading Relations (NTR, formerly MFN) for China. For the agreement to be completed Congress must separate the importance of trade and access to emerging markets for U.S. agricultural products from other political concerns and approve permanent NTR for China. Congress has approved annual renewal of NTR every year in recent years with increasingly wider margins. Since the Administration has completed this agreement, it is now critical for NCBA and other agricultural organizations to work through a broader coalition with the business community to gain congressional approval of permanent NTR for

China in 2000. Input from the state and local levels will be critical to countering opposition from activist groups.

The National Cattlemen's Beef Association is the marketing organization and trade association for America's one million cattle farmers and ranchers. With offices in Denver, Chicago and Washington, D.C., NCBA is a consumer-focused, producer-directed organization representing the largest segment of the nation's food and fiber industry.

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Attachment D

China's market is important to the U.S. dairy industry

The National Milk Producers Federation (NMPF) is the national farm commodity organization that represents dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States. The U.S. Dairy Export Council (USDEC) is an independent membership organization whose mission is to assist U.S. dairy product suppliers in increasing the volume and value of their exports. Both organizations are dedicated to expanding exports of U.S. dairy products through reduction of foreign trade barriers and other governmental measures that distort international trade in milk and dairy products.

U.S. dairy exporters have enjoyed recent growth in shipments to China—and they predict exports could quadruple once agreed-to tariff reductions become effective.

On November 15, 1999, the U.S. and China inked a deal agreeing on China's terms of accession into the World Trade Organization (WTO). Once implemented, tariffs for key dairy products will be cut as much as five-fold, making imported dairy products less expensive to Chinese consumers (see chart at below). After China joins the WTO, these lower tariffs should help U.S. dairy exporters increase shipments of cheese, lactose and ice cream, in particular. For instance, the fast-food industry in China is poised for tremendous growth. Pizza has been the driving force behind global cheese sales, and these new lower tariffs will make pizza more affordable to Chinese consumers, opening the door for U.S. exporters to supply cheese to the world's most populous market.

China's term of accession		
Product	Current tariff	New tariff*
Cheese	50%	12%
Lactose	35%	10%
Yogurt	50%	10%
Ice Cream	45%	19%
Food preparations	25%	10%
Whey	6%	6%
*Tariffs reduced to this level over five years in equal increments, upon China's entry into the WTO		

In 1998, U.S. exports of dairy products to China reached a record-high \$31 million, up 17% from the previous year. USDEC estimates that this agreement will lead to U.S. dairy exports of \$135 million annually.

In addition to the reduction of import tariffs, China has agreed to eliminate its export subsidies on agricultural products and to permit private trade in agriculture. Removing the government as a middleman in trade negotiations will give Chinese consumers unprecedented access to America's high quality dairy products.

The pact also included China's agreement to eliminate sanitary and phytosanitary barriers that are not based on scientific evidence, a stance that mirrors one of the United States' negotiating priorities in the WTO round.

If the agreement with China could be negotiated in the WTO, U.S. agriculture would not likely be facing the hard times that it is facing today. Congress should provide agriculture with the commercial tools that would enable U.S. farmers and ranchers to benefit equally from the U.S. strong economy. Congress should not exclude China's market from U.S. farmers and ranchers. Congress must act NOW to give China permanent Normal Trade Relations.

The U.S. dairy industry is the second largest agricultural commodity sector in the United States, measured by farm cash receipts. The industry is not only large, in an economic sense, but also geographically extensive. Dairy is one of the top three agricultural sectors in fully half the states, and almost two-thirds of the members of the House hail from one of these "dairy" states. Internationally, the U.S. is the world's largest single country producer of cow's milk.

Impressive as those numbers are, they represent only the milk producer side of the industry; dairy processors, the companies that turns milk into yogurt, cheese, ice cream and milk powder, add overall strength and employment to the impact of the industry as a whole on the country's economy. In addition, we know that our ability to increase production, impacting both processing and employment, is almost unconstrained. This makes our efforts to market U.S. dairy products for export all the more important to the industry and to the economy.

World dairy trade is highly distorted, and if our competitors have an additional edge over the U.S. in the Chinese market, American agriculture and rural economies will continue to suffer economic hardships. Our export share has been growing in recent years, but this status reflects dairy's slow and difficult emergence internationally from being one of the world's most protected and subsidized industries. The outcome of these distortions, exacerbated by the financial crisis in Asia, Russia, Brazil and elsewhere, is a situation where world dairy prices are anywhere from 25 to 50 percent below U.S. domestic prices. And this is despite the fact that the U.S. dairy industry is one of the world's most efficient and low cost producers, at the production, processing, distribution and retailing levels.

Despite this situation, or more precisely because of it, the U.S. dairy industry is committed to achieving substantial reductions and elimination of remaining trade barriers to dairy exports. China is a great step toward that direction, and U.S. dairy farmers as well as processors and exports should benefit from it.

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Attachment E

Grains Council Position Paper

The U.S. Grains Council, whose membership includes 40 producer organizations and 69 agribusinesses, develops export markets for U.S. barley, corn, sorghum and related products. The Council believes exports are vital to global economic development and to U.S. agriculture's profitability. The Council has been actively promoting U.S. feed grains in China since 1981, and believes the U.S./China bilateral agreement would mean greater access to China's feed grain market. We raise the following points for Congress to consider during the upcoming debate on China's permanent normal trading status (PNTR).

- The agreement establishes a tariff rate quota (TRQ) for corn imports, with initial access of 4.5 million metric tons (mint), or 177.5 million bushels (mbu) for 2000, rising to 7.2 mint (283.7 mbu) in 2004. For comparison purposes, China imported only 6 mint (236.4 mbu) of corn in the last decade. Even at today's depressed corn prices, this access represents an opportunity for \$450 million in additional U.S. corn sales in 2000.
- China has pledged to eliminate export subsidies (recently as high as \$30 metric ton on corn) as part of their WTO accession. Export subsidies have allowed China to export 50 mint (1.9 billion bushels) of corn in the 1990s, representing 9 percent of world corn exports. With subsidies eliminated, U.S. feed grains would be in a competitive position to service that 9 percent of world corn trade.
- With accession to the WTO, the Council expects China to become a net importer of corn by the middle of this decade, increasing to over 5 million tons by 2008.
- The agreement calls for a significant portion of feed grain sales to be handled by private trade (initially 25%, rising to 40%). Giving more power to the private trade would mean less authority for China's state trading enterprises, opening China to a free market system.
- The agreement will allow U.S. sorghum producers to pursue, without quotas, a market that uses sorghum in a variety of ways—food, beverage and animal feed.
- The bilateral SPS agreement signed in 1999 officially lifted the ban on grain exports from the U.S. Pacific Northwest, a ban that had been in place because

of sanitary and phytosanitary issues pertaining to TCK smut in wheat. This opens opportunities for U.S. barley and malt sales. China has been a consistent net importer of barley from Australia. The Council forecasts that Chinese imports of malting barley varieties will double to more than 2 mint (91.8 mbu) in this decade.

- China's entry into the WTO will not only increase market access for its trading partners, but it will create a forum where discussion of its trade practices will be more thoroughly scrutinized.

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Attachment F

Corn Growers Position Paper on NTR

Overview

The Peoples Republic of China, with a population of 1.2 billion (about five times that of the United States), is considered the most important growth market for U.S. agriculture in the 21st century. Although it has more than 20 percent of the world's population, China has only seven percent of the arable land. China's impressive growth in national income is projected to lead to increased consumption of food and fiber. At the same time, growing resource constraints on agricultural production are making China increasingly reliant on trade.

Although the United States has supplied almost all of China's corn imports in recent years, China has been a sporadic customer. U.S. corn exports to China spiked in 1994–95 at 3.3 million metric tons. In 1996–97 China did not import any U.S. corn. The average for the last five years is 1.2 million tons. However, we have the opportunity to immediately triple that average if, when China joins the World Trade Organization (WTO), the United States is prepared to grant China permanent normal trade relations.

Last year, China and the United States reached agreement on agriculture and other bilateral trade issues, moving negotiations for China's admission to the WTO one step closer to completion. These key points of the agreement will help increase exports of U.S. corn:

- Tariff reductions will take place immediately upon China's accession.
- China will use a tariff-rate quota (TRQ) to allow imports of approximately 4.5 million metric tons of corn in the first year, rising to 7.2 million tons in 2004.
- To assure that the tariff is used, 25 percent of the TRQ will be available to the private sector in the first year, increasing to 40 percent in 2004.
- Sanitary/phytosanitary measures will permit exporters to ship grain, including corn, through the Pacific Northwest.
- China has agreed to eliminate export subsidies. This is particularly important to U.S. corn farmers because China has increased its corn production in response to high domestic support prices and has exported the resulting surpluses at the expense of U.S. corn farmers. The U.S. Department of Agriculture projects that China will export five million metric tons of corn this year and import 1.2 million tons, for net exports of 3.8 million tons. If China no longer subsidizes its corn exports, U.S. corn will be very competitive in markets that have been buying subsidized Chinese corn.

U.S. producers will not benefit from this agreement until all WTO accession negotiations are completed and Congress approves permanent normal trade relations for China.

Action Needed

NCGA urges Congress to support permanent normal trade relations for China.

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Attachment G

The National Grain Sorghum Producers Position on PNTR for China

The National Grain Sorghum Producers is adamantly in favor of the United States granting the People's Republic of China (China) Permanent Normal Trade Relations (PNTR). The granting of the PNTR status to China is paramount to better trade relations between China and the United States. This action will be an important step for China's accession to the World Trade Organization (WTO). Under International Trade Rules of the WTO, China will open their markets to agricultural products from the United States. The ratification of the agreement reached between China and the United States, and the granting of PNTR status to China will bring China closer to joining the global effort to promote trade and reduce trade barriers. China's desire to be included in WTO indicates their commitment to opening their borders to the world and to international trade rules. The United States must

take a lead role in supporting China's accession to the WTO. Other members of the WTO will follow the commitment made by the United States in granting PNTR to China.

The China-United States trade agreement is favorable for United States agriculture in general, and for sorghum specifically. It will provide for reduced barriers to trade for many agricultural products. Immediately, the tariffs imposed on wheat, feed grains, oilseeds, and other products the United States exports will be reduced significantly. This action will make our products more competitive within China. Thus, PNTR will be a big factor in balancing our trade with China.

China has also agreed to reduce the tariffs on beef, mutton, pork, and poultry meat. The reduction of tariffs on animal products will encourage United States exports to China and in turn increase livestock and poultry growth here in the United States. This will lead to a demand for more domestic feed grains, thus expanding the market for sorghum. Additionally, China has agreed to eliminate all export subsidies. This is proof that China wants to be a sincere trading partner. Giving China PNTR will definitely help level the playing field for the United States and world markets.

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Attachment H

Permanent NTR for China Means Access and Market Opportunity for U.S. Rice Exports

The U.S.-China WTO Agreement Meets Key Objectives of the U.S. Rice Industry:

- Provides increased market access opportunity for U.S. rice.
- Allows private traders to import, breaking the monopoly hold of China's state importer.
- Allows U.S. exporters to engage in direct distribution and marketing to consumers.
- Binds China to follow the same trade rules, including the SPS Agreement, as every other member of the WTO.
- Commits China to forego export subsidies, a major issue for U.S. agriculture.
- Establishes disciplines on domestic agricultural support.

U.S. Rice Gains Market Access

- The initial TRQ of 2.66 million tons of rice, growing to 5.32 million tons in 2004, will have a 50 percent allocation for the types of rice—short and medium grain—where the U.S. is competitive.
- Private trading entities in China will be able to import rice: 30% of the overall TRQ will be reserved for private importers, and 50% of short and medium grain TRQ imports will be in private hands.

Monopoly Hold of State Importing Entity Broken

- The Agreement is a specific Chinese commitment to end the monopoly status of its state grain importer. The U.S.-China WTO Agreement is a step in the right direction for dealing with monopoly state trading importers and TRQ administration.
- Private importers are guaranteed a share of any imports; the state's import share can be reallocated to private importers if it goes unfilled; and U.S. companies can engage in direct distribution and marketing to end users in China.

Positive Impact for U.S. Rice Will be Longer Term

China is the world's largest producer and exporter of rice. The benefits to U.S. rice producers and exporters will be the ability to develop niche markets through direct marketing and distribution; to export through private trade entities; and to be free of subsidized export competition from Chinese rice.

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Attachment I

Permanent Normal Trade Relations

U.S. wheat growers strongly support China's accession to the World Trade Organization (WTO) and the granting of permanent normal trade relations (PNTR) by the U.S. Congress. Granting PNTR would ensure that the U.S. reaps the tremendous trade benefits negotiated in the China WTO accession agreement last year.

WTO accession would make China subject to the same trade rules that 135 other countries currently abide by, and would give other member countries a multilateral dispute mechanism to address trade concerns. WTO accession would also subject China to trade rules that secure science-based sanitary and phytosanitary standards, transparency and non-discrimination.

The U.S. wheat industry would also benefit from the following commitments made by China:

- The tariff rate quota (TRQ) for wheat would rise to 7.3 million metric tons upon succession and increase to 9.3 million metric tons by 2004.
- The tariff under the quota for wheat will drop to 1 %, lower than most Asian countries. Agricultural tariffs would drop, on average, to 17.5 percent by 2004 from a current average of near 30 percent with some tariffs exceeding 65 percent.
- Elimination of export subsidies upon WTO accession.
- State-owned and state-invested enterprises would be required to act on a commercial basis. The Chinese government will not interfere with commercial decisions outside the terms of WTO agreements.
- Lifting of the long-standing restrictions on imports of U.S. wheat from areas where *Tilletia Controversa Kuhn* (TCK), a wheat fungus, is known to occur. The agreement allows for wheat imports that do not exceed a tolerance level of 30,000 TCK spores per 50-gram sample, a level that can easily be met by U.S. wheat exporters.

This agreement will give U.S. wheat producers a far greater sales opportunity to a country with 1.2 billion consumers, with a potential 10% increase in total annual U.S. wheat exports. This represents almost 20 percent of the world's population. China's accession into the WTO will also continue to spur economic growth within China and increase demand for higher quality U.S. wheat.

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Attachment J

The Grocery Manufacturers of America Statement on China's Accession to the WTO

The Grocery Manufacturers of America is the world's largest association of food, beverage and consumer product companies. With U.S. sales of more than \$450 billion; GMA members employ more than 2.5 million workers in all 50 U.S. states. Led by a board of 42 Chief Executive Officers, GMA speaks for food and consumer product manufacturers at the state, federal and international levels on legislative and regulatory issues and leads industry efforts to increase productivity and efficiency.

GMA strongly supports Chinese membership in the WTO. With more than 20% of the world's population and a rapidly growing middle class, China represents a major market for exports of processed food products. In fact, the USDA reports that exports of processed food products could exceed \$1 billion annually, the largest gain in the agricultural sector, as a result of China's entry into the WTO.

Conditions of China's entry into the WTO include:

Tariff Reduction

China has committed to deep cuts in tariffs on processed food products. On average, tariffs on processed food products will be reduced from 40% to 17% by 2004. Tariffs on key products such as chocolate and fresh cheese will be reduced even further to 10% and 12%, respectively.

Distribution Requirements

For the first time ever, U.S. producers will gain the right to import and distribute products without going through state trading enterprises or middlemen.

Elimination of Export Subsidies

China has committed to zero export subsidies when it joins the WTO. This commitment will not only level the playing field for agricultural products, but should increase pressure on other nations, particularly the EU, to abandon their subsidy programs.

SPS Issues

China has agreed to the elimination of Sanitary and Phytosanitary barriers that are not based on science and has agreed to the terms and conditions of the WTO SPS Agreement.

China's entry into the WTO will afford U.S. manufacturers significant access to the Chinese market through tariff cuts, increases in quotas on bulk agricultural commodities, disciplines on state trading enterprises and the elimination of sanitary and phytosanitary barriers to the entry of goods.

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Attachment K

BUSINESS COALITION FOR U.S.-CHINA TRADE

<http://www.business4chinatrade.org>

January 26, 2000

The Honorable Speaker Dennis Hastert
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Bringing China under the rules of the international trading system is in America's national interest.

Last November, U.S. Trade Representative Barshefsky announced an historic U.S.-China trade agreement. By opening the door for China to join the World Trade Organization (WTO), the agreement provides unprecedented opportunities for workers, companies, and farmers across America. Because U.S. markets are already open, we can only gain from China's admission. In WTO access negotiations, it is China, not the United States, that must unilaterally open its markets and agree to play by global rules.

Trade is much more than just the sale of goods and services; it is an exchange of ideas, beliefs, and values that changes and enriches all who participate. For two decades, China's historic opening to foreign trade has advanced America's economic and security interests, while helping transform the lives of the Chinese people.

American business, agriculture, and consumers need your strong leadership to make the promise of China's WTO market-opening a reality. To realize the full benefits of China's commitments, the United States must recognize China as a full WTO Member by granting Permanent Normal Trade Relations (PNTR)—the same non-discriminatory tariff treatment we give to 133 WTO members. We are giving up nothing. Because China has received NTR on an annual basis for almost twenty years, U.S. tariffs would remain exactly the same, while China's are reduced or eliminated.

At a time when America's prosperity rests on our continued participation in the global marketplace, we cannot afford to leave the world's biggest emerging market to our European and Japanese competitors. China is America's fourth largest trading partner and one of the fastestgrowing markets in the world for American industrial, high-technology, and services products. It is our sixth largest agricultural export market and has enormous future potential. USDA estimates China could represent over one-third of the future growth in the U.S. farm exports in the next 10 years.

Earlier this year, strong bipartisan congressional leadership on U.S.-China trade allowed the WTO negotiations to succeed. The stakes are even higher today. We urge all Members to consider the importance of China's WTO market-opening for companies, workers, and farmers in their districts. We look forward to working with Congress and the administration to secure timely approval of PNTR for China—without conditions or delay—so the United States can fully apply the WTO and reap the full benefits of this unprecedented breakthrough for American trade.

Sincerely,

(Signed by over 300 agricultural and business organizations)

PREPARED STATEMENT OF JOHN J. SWEENEY

Thank you, Mr. Chairman. I'm delighted to have an opportunity to appear before this Committee on behalf of the 13 million members of the AFL-CIO and our affiliated unions.

Congress will soon be asked to grant permanent normal trading relations to the Peoples Republic of China.

You should not.

An affirmative vote would reward the Chinese government at a time when there has been significant deterioration in its abysmal human rights record and would significantly reduce our ability to insist upon improvement in the future. It would also

dramatically weaken our ability to insist that China live up to trade agreements that it has already signed, and that it routinely violates.

The record is clear.

China routinely tramples human rights and religious liberty. It is a massive user of prison labor, and, according to the Laogai Research Foundation, operates over a thousand forced labor camps, many of which produce commercial goods.

The Chinese government does not allow workers to join free and independent trade unions and imprisons those who try to exercise this fundamental right to freedom of association and to organize.

Tens of thousands of Chinese citizens have been detained for daring to express their religious views. For instance, Amnesty International reports that over 200 Roman Catholics were arrested when they tried to celebrate Mass in 1997.

Both the U.S. State Department and the United Nations have concluded that China's human rights record is deteriorating, not improving. The State Department finds that China's active human rights dialogues with a large number of countries "have not produced significant improvements in the government's human rights practices."

As you know, Mr. Chairman, I could go on and on with examples of the Chinese government's outrageous repression of human rights.

The question that will be before this Committee and the Senate is, in effect: will the United States make it easier for the Chinese government to go on repressing its citizens and violating every norm of international conduct? We believe that a grant of permanent normal trade relations will have exactly that effect. It will signal to the Chinese government that the international community will continue to turn a blind eye and welcome China to a seat at the table.

Not only will that send the wrong message to China, but China will use its seat at the table to obstruct the efforts of the U.S. government and other countries to insist that those who wish to gain benefits from the world trading system must meet international standards with respect to core workers' rights and environmental standards.

President Clinton was correct when he told the World Trade Organization that labor and environmental standards ought to be incorporated in the rules governing the trading system. China's unchecked accession to the WTO will work against those goals directly and indirectly. First, it will, perversely, give the world's biggest law breaker a voice in writing the rules. Second, it will signal to others that we don't mean what we say and that they can continue to repress their citizens and violate international standards without any fear that they will be called to account.

On these grounds alone, Mr. Chairman, and members of the committee, you should refuse to grant China a blank check by voting no on permanent normal trade relations. But the story does not end here.

China also routinely violates existing trade agreements, and high-ranking Chinese officials have made it clear that they have no intention of living up to the deal negotiated with the United States in Beijing last fall.

Since 1992 the United States and China have entered into four bilateral agreements—on market opening, prison labor, intellectual property rights, and textiles. The Chinese government has failed to live up to its obligations in all four cases. The annual USTR report on foreign trade barriers lays out China's failure to comply in numbing detail. Mr. Chairman, I'm sure you are familiar with USTR's report, so I will not recite their findings here, but simply observe that the violations are blatant, widespread, and continuing.

And if past behavior were not bad enough to raise questions about Chinese intentions with respect to the latest agreement, we need only turn to the words of the Chinese leaders themselves.

- In a November 1999 fact sheet discussing the U.S. China accession agreement, the USTR reports, "China agrees to award (insurance) licenses solely on the basis of prudential criteria, with no economic needs test or quantitative limits." Just a few days later Ma Yongwei, chairman of the China Insurance Regulatory Commission told the Financial Times that "Beijing reserved the right to block licenses for foreign insurance companies if their approval seemed to threaten stability of economic policy."
- The USTR also reports that with respect to meat exports, "China has also agreed to the elimination of SPS barriers that are not based on scientific evidence." But Chinese trade official Long Yongtu told the South China Morning Post, that although Beijing had agreed to allow 7.3 million tonnes of wheat from the United States to be exported to the mainland each year, "it is a complete misunderstanding" to expect this grain to enter the country.

Mr. Chairman, I could go on and quote Chinese officials saying they have no intention to honor commitments with respect to telecommunications, wheat, autos,

and petroleum, but time is short. The record is clear. China has not lived up to past commitments, has no intention of living up to its latest commitments, and if we grant permanent NTR we will have given up our ability to protect our interest by using bilateral tools to respond when violations occur.

Mr. Chairman, members of the committee, let me sum up.

China routinely violates the rights of its people and agreed-to norms of international behavior. The United States is seeking to strengthen the ability of the international community to insist that standards are adhered to, but the Chinese government has made it clear that if it joins the World Trade Organization it will oppose those efforts. And finally, Mr. Chairman, China has failed to live up to past commitments, and Chinese leaders have clearly communicated that practice will continue. Contrary to the Administration's claims, granting permanent normal trade relations will effectively pardon China's past violations and give the government a blank check for the future.

Thank you for your attention. I will be happy to answer any questions that you may have.

PREPARED STATEMENT OF RICHARD L. TRUMKA

Thank you, Mr. Chairman. I'm delighted to have an opportunity to appear before this Committee on behalf of the more than 13 million members of the AFL-CIO and our affiliate unions.

It now seems likely that Congress will be asked to grant permanent normal trading relations to the Peoples Republic of China.

You should not.

An affirmative vote would reward the Chinese government at a time when there has been no improvement in their abysmal human rights record and would significantly reduce our ability to insist upon improvement in the future. It would also dramatically weaken our ability to insist that China live up to trade agreements that it has already made, and that it routinely violates.

The record is clear.

China routinely tramples human rights and religious liberty. It is a massive user of prison labor, and, according to the Logai Research Foundation, operates over a thousand forced labor camps, many of which produce commercial goods.

The Chinese government refuses to allow workers to join free and independent trade unions and imprisons those who try exercise this fundamental right to freedom of assembly and to organize.

Tens of thousands of Chinese citizens have been detained for daring to express their religious views. For instance, Amnesty International reports that over 200 Roman Catholics were arrested when they tried to celebrate Mass in 1997.

As you know, Mr. Chairman, I could go on and on with examples of the Chinese government's outrageous repression of basic rights.

The question that will be before this Committee and the Senate is, in effect: will the United States make it easier for the Chinese government to go on and on repressing its citizens and violating every norm of international conduct? We believe that a grant of permanent normal trading relations will have exactly that effect. It will signal to the Chinese government that the international community will continue to turn a blind eye and welcome China to a seat to the table.

Not only that will send the wrong message to China, but China will use its seat at the table to obstruct our efforts, and those of others, to insist that those who wish to gain benefits from the world trading system must meet international standards with respect to labor rights and environmental standards. President Clinton was correct when he told the World Trade Organization that labor and environmental standards ought to be incorporated in the rules governing the trading system. China's unchecked accession to the WTO will work against those goals directly and indirectly. First, it will, perversely, give the world's biggest law breaker a voice in writing the rules. Second, it will signal to others that we don't mean what we say and that they can continue to repress their citizens and violate international standards without any fear that they will be called to account.

On these grounds alone Mr. Chairman, and members of the committee, you should refuse to grant China a blank check by voting no on permanent normal trade relations. But the story does not end here.

China also routinely violates existing trade agreements and high-ranking Chinese officials have made it clear that they have no intention of living up to the deal negotiated with the United States in Beijing last fall.

Since 1992 the United States and China have entered into three bilateral trade agreements and a memorandum of understanding on prison labor. They have failed

to live up to their obligations in all four cases. The annual USTR report on foreign trade barriers lays out China's failure to comply in numbing detail. Mr. Chairman, I'm sure you are familiar with USTR's report so I will not recite their findings here, but simply observe that the violations are blatant, widespread, and continuing.

And if past behavior were not bad enough to raise questions about Chinese intentions with respect to the latest agreement we need only to turn to the words of the Chinese leaders themselves.

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- The USTR also reports that with respect to meat exports, "China has also agreed to the elimination of SPS barriers that are not based on scientific evidence." But Chinese trade official Long Yongtu told the South China Morning Post, "Diplomatic negotiations involve finding new expression. If you find a new expression this means you have achieved a diplomatic result. In terms of meat imports we have not actually made any material concessions."

Mr. Chairman, I could go on and quote Chinese officials saying they have no intention to honor commitments with respect to telecommunications, wheat, and petroleum, but time is short. The record is clear. China has not lived up to past commitments, has no intention of living up to its latest commitments, and if we grant permanent NTR we will have given up our ability to protect our interest by using bilateral tools to respond when violations.

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Thank you for your attention and I will be happy to answer any questions that you may have.

PREPARED STATEMENT OF STEVE VAN ANDEL

Thank you, Mr. Chairman, for the opportunity to testify today before this Committee on the critical issue of US trade relations with China. I am Steve Van Anandel, Chairman of Amway Corporation, a Michigan-based company known for its quality products and use of the direct selling system that encourages people around the world to succeed by owning their own businesses. Amway has proudly maintained a partnership with its distributors that has enabled the company to grow from a tiny operation in the basement of my father's home into a multinational enterprise with operations in 80 countries and territories.

I also represent the US Chamber of Commerce, where I serve as a member of the Board of Directors and have a direct role in shaping the Chamber's international policy positions. The US Chamber is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region.

The US Chamber has long advocated unconditional and permanent normal trade relations (PNTR) for China. Annual NTR extensions continue to generate uncertainty in the bilateral relationship that has undermined the ability of American business to compete against companies from Europe, Japan and elsewhere. PNTR will help anchor our relationship with China, which has weathered some storms in the last few years. The unprecedented market-opening concessions made by China as part of the US-China agreement on its accession to the World Trade Organization (WTO) makes the case for PNTR even more compelling. Unless we grant China PNTR once it becomes a WTO member, American businesses, workers and farmers will not receive the benefits of the agreement—but our foreign competitors will.

EXPANDING PUBLIC AWARENESS

The US Chamber has launched a nationwide grassroots initiative aimed at increasing public understanding of the benefits to the United States of expanded trade with China. The Chamber's initiative—known as TradeRoots China—uses the federation of state and local chambers of commerce as well as coalitions of small and medium-sized member companies to explain the benefits of the US-China WTO agreement to communities across the country. Other goals of TradeRoots China include:

- Identifying and mobilizing community leaders as pro-China-trade advocates in key congressional districts;
- Partnering with the governor of each state to communicate the local benefits of China trade;
- Sharing China trade success stories through local media, using a vigorous communications campaign; and
- Serving as a one-stop information resource on US-China trade from everything from state and local trade statistics to success stories.

The US Chamber believes there will be a groundswell of support for this landmark agreement once the public has had a chance to review the details. Although the Administration has taken steps to make many details of the agreement available, we hope that the full text will be released soon. This agreement will sell itself.

WTO AGREEMENT OPENS CHINESE MARKETS, SAFEGUARDS US MARKETS

China has some of the most restrictive trade barriers in the world. American companies must overcome high tariff walls, quantitative restrictions, and arbitrary standards and regulations in order to enter the Chinese market. Moreover, most US companies lack trading rights in China and must use a Chinese middleman to import their products. Once inside, there are severe restrictions on the distribution, wholesaling and retailing of US products. After-sales service is also strictly curtailed, making it difficult for American firms to establish relationships with their customers. Despite these barriers, American companies export \$18 billion in goods and services each year. Our success stems from the quality of our goods, efficiency of our operations and productivity of our workers.

In stark contrast to the Chinese market, the US market is wide open to imports. US families benefit from increased choices and price competition brought about by Chinese imports. Many US industries also have improved their competitiveness by procuring material from China. The openness of the US market and the restrictions imposed on US exporters means that in 1998 China ran a merchandise trade surplus of \$57 billion with the United States—second only to that of Japan.

By tearing down thousands of Chinese trade barriers, the US-China WTO agreement helps level the playing field between our two countries and gives US companies an opportunity to increase their share of the Chinese market. Unfettered by import restrictions, bureaucratic regulations and other burdensome requirements, US exports to China will likely rise and contribute to a drop in the trade imbalance.

US exporters will not be the sole beneficiaries of the US-China WTO agreement. There is a cascade effect. More business for US exporters means more business for their vendors and suppliers. Thus, even companies with no international sales will be able to attribute some increase in business to the agreement by virtue of their supplier relationship with companies that sell to China.

Because of the comprehensive nature of the agreement, I only have enough time to highlight a few of the many outstanding benefits from the agreement.

- *Distribution.* China restricts the ability of US companies to distribute their goods within the country. Under the agreement, China has agreed to permit US firms to distribute their goods freely—whether made in China or imported. US companies will also be permitted to engage in retail, wholesale and direct sales, an important concession from the point of view of Amway distributors. They will also have the ability to market their products and provide customer service.
- *Trading rights.* China will also phase out its requirement that US firms use a Chinese middleman to import and export their products, which has limited US exports.
- *Tariffs.* Industrial tariffs on US products will fall from an average of 25 percent to 9.4 percent by 2005, making US products more competitive within the Chinese market. For US priority industrial items, these cuts will be even deeper.
- *Agriculture.* China's agricultural tariffs will be cut in half by 2004. There will be even deeper cuts on US priority products like beef and pork. In addition, barriers to US corn, cotton, wheat, rice, barley, soybeans and other commodities will be eliminated.

Importantly, these concessions are fully enforceable. The agreement provides for specific phase-out periods for full implementation of China's commitments. If Beijing fails to adhere to the terms of the agreement, the United States will have access to its trade remedy laws and the WTO dispute settlement mechanism.

In fact, the agreement contains provisions to protect the US market while China's economy undergoes the restructuring needed to implement the terms of WTO accession. Product-specific safeguards will remain in place for 12 years with respect to China to protect US producers against import surges. Additional protection will be granted for textiles through 2009. US antidumping and countervailing duty laws will continue to apply "non-market economy" methodology—which takes into account the high level of state participation in the Chinese economy—for 15 years after China's accession. In addition, China will abolish requirements that US firms transfer technology as a condition for exporting or investing.

The agreement's market-opening provisions are one-sided. In exchange for these concessions, the United States is not required to open its markets wider to Chinese imports. These concessions are the price of admission China must pay to become a WTO member. With the exception of the annual NTR renewal process, the United States in effect already treats China as if it were a WTO member. We must end the annual NTR renewal process and grant China PNTR in order to insure that we receive the benefits of this landmark agreement.

CHINA PNTR INSURES US RECEIVES BENEFITS OF US-CHINA WTO AGREEMENT

Once it becomes a WTO member, China will have the right to demand PNTR status from the United States. It is in our interest to grant it. If Congress does not grant PNTR, China's government will not be bound to honor its market-opening commitments to the United States. In this case, American businesses will be forced to stand by helplessly as our competitors in Europe, Japan and elsewhere benefit from China's market-access commitments. A vote against China PNTR thus is not a vote against China. It is a vote against American businesses, workers and farmers.

Beyond meeting our obligations under the WTO, providing China PNTR has other benefits. It allows US companies like Amway to develop relationships within China without the threat of having NTR revoked. Withdrawing China's NTR status would certainly lead to retaliation by the Chinese against the most prevalent US presence in China—American business interests.

Some critics argue that by granting China PNTR, the Congress will lose leverage over China. They claim that the annual NTR debate is a useful way to prod China into improving its record on human rights and religious tolerance. History does not support this. The living conditions and freedoms of the average Chinese citizen have improved faster during the last 25 years of US-China engagement than during the prior 25 years when no relations existed. Furthermore, withholding PNTR would isolate Chinese officials such as Prime Minister Zhu Rongji who argue for liberalization and an improved relationship with the United States.

The current policy of engagement has also allowed US companies to set up operations in China that establish benchmarks for corporate practice in such areas as personnel management, corporate citizenship, fairness and equal opportunity. Many US Chamber members have made their commitments to ethical business practices explicit through a corporate statement of principles. US investment also has contributed to China's economic growth and the emergence of a middle class that will press for new liberties.

Finally, I would like to point out that granting China PNTR does not deny any Member of Congress the ability to express his or her concerns about China at any time. If China seriously threatened American interests in the region, I am confident that Congress would take swift action unimpeded by PNTR.

AMWAY'S EXPERIENCE IN CHINA

I just returned this week from China, where I met with local Amway distributors and Chinese leaders and with key officials of the People's government.

Permit me to recount for you our experience in China, as doing so will provide a vivid example of improvements in the rule of law and the commercial environment for foreign companies that have already been made in China. Amway is one of the largest direct selling companies in the world. We manufacture more than 400 home and personal care products as well as the Nutrilite line of vitamins and food supplements. Amway only sells products through a network of independent contractors who own and operate their own businesses.

We initiated operations in China as Amway (China) Company, Ltd.—or ACCL—in 1995, and soon developed strong business growth and acceptance within the Chi-

nese public. Amway has invested US\$100 million in China, making us one of the largest US investors in China. Our plant was the first chemical facility in China to be given ISO 9000 certification. By providing business opportunities to Chinese citizens, Amway is helping to meet the country's employment and income needs while training people in basic business skills. ACCL consolidated sales reached US\$178 million in 1997 with over half-a-million Chinese distributors.

As Amway began to succeed in China, others tried to emulate our operations and direct selling companies began to proliferate. Although most of these were legitimate operations, several con-artists established operations that included "pyramid" schemes and inventory-loading scams. In April 1998, responding to demands from Chinese citizens who had lost large sums of money in what is called chuan xiao—literally "chain selling"—the Chinese government announced a ban on all forms of direct selling in China.

We were forced to cease operations for two full months. During that time we worked to explain the nature of our business and how it could contribute to economic development in China. Finally, we were permitted to reopen in a manner that restricts our growth potential. We have resumed operations and last year had revenues of just under \$60 million.

Although this was a difficult challenge, we came away from it with greater respect for and a better understanding of the Chinese government. The government demonstrated that it would respond to the demands of both its citizens and foreign investors. Notwithstanding the sudden imposition of the ban, the process demonstrated a commitment on the part of Chinese officials to the rule of law.

Under the new agreement, our operations would be protected from sudden change through government decrees. Moreover, the Chinese government has agreed to develop regulations for our industry that are to be based on international standards. This will permit us to resume the use of a dynamic sales method that we believe will enable us to grow for the benefit of all concerned. With the agreement, we hope to exceed our previous sales numbers and that a very significant portion of the sales will come from US products.

Let me stress that point. We cannot prosper unless China prospers. We believe that a market economy will stimulate economic progress in China and that with that progress Amway will soon be exporting significant volumes of product from our facilities in Michigan and California. Thus, this is a win-win agreement. It is good for China and for us—our company, our employees and our country.

CONCLUSION

The US Chamber believes that we have an historic opportunity to secure broader and more consistent access to China's markets. The US Chamber hopes that Congress will not wait long after this hearing to begin the debate on China PNTR. China must still complete their WTO negotiations with the European Union, India and Mexico. However, we should not delay our consideration. The US-China WTO agreement contains most of the major components that will be in China's final access protocol. Any additional market-opening measures negotiated by these other countries must be extended to the United States as well. Thus, the final terms of China's accession to the WTO can only be improved over the already impressive US-China agreement.

Thank you, Mr. Chairman. I would be happy to respond to any questions.

PREPARED STATEMENT OF HARRY WU

As you may know, after spending nineteen years of my life in the Laogai—China's forced labor camp system—I have dedicated myself to investigating China's forced labor system. I have also spent much time researching the Laogai's "older brother," the Soviet Gulag. Last August, I visited one of the centers of the former Siberian Gulag in the city of Magadan. Beginning in 1932, Stalin sent one million people to these Soviet labor camps. Of course the total number of people he sent to the Gulag is much larger. After Khrushchev condemned Stalin in 1956, Magadan was no longer a Gulag city. But still, the West knew that the Soviet Union was based on principles other than freedom and democracy. Here, in the seat of American government, we know that these words are not just cliches—they mean that a government is accountable to its people because it respects their dignity, and that there are mechanisms in place to ensure that accountability. These concepts do not exist in China, and they will not exist as long as the Chinese Communist Party controls the government of China. Maintaining one-party rule is the ultimate goal of this party.

That is why we, despite economic reform, have not heard Jiang Zemin or any of his predecessors renounce Mao Zedong. Actually, the current Chinese regime is

based on Mao's structures and his political concepts. The foundation of despotism laid down by Mao remains the state ideology. It is still regularly reinforced and even celebrated by the current rulers of China. While the statues of Lenin have been taken down in the former Soviet Union, the giant portrait of Mao still hangs in Tiananmen Square.

No force on earth could return China to isolationism, and any actor in world politics would be foolish to try to isolate the world's most populous nation. But we must still ask why the West, the United States included, has adopted a kowtow culture in its dealings with the Communist Chinese government. We pretend to have a "strategic partnership" with a regime whose goals and values are very different from our own.

It is true that economic reform and openness has changed China. But Deng Xiaoping's policies of economic reform were not intended to weaken the power of the communist party. After Mao's death, Deng did not end the communist system. Rather, he restored it with economic reforms. He knew that the Party could not hold on to its legitimacy if it did not change. That is embodied in Deng's doctrine of "it does not matter if the cat is black or white, as long as it catches mice." The Chinese leaders will continue to try to take the best from the West, and keep their monopoly on power. The Chinese Communist Party needs foreign investment because the socialist market economy in China cannot support itself. The investment and technology transfers from the West are a "blood transfusion" to a sick regime.

Last month, the Chinese People's Liberation Army obtained a Russian-built missile destroyer, and they will acquire a second destroyer by the year's end. Currently, two thousand Soviet military experts are working for the PLA. I ask you this question: are these Russian weapons and experts helping China become a more free and democratic society?

Where did the Chinese Communist government obtain the hard currency to purchase these battle ships and pay the Soviet weapons experts? This is the same country that owes many of its employees in its state-owned enterprises months of back pay. The same country that is the largest recipient of aid from the World Bank.

It is the money of Western capitalists is helping to fuel the Communist vehicle.

The Chinese Communists are building up their navy and buying Russian battleships. They are continuing to abuse human rights—the State Department human Rights report released last month says that the human rights situation in China is getting worse. But still, one of the most popular theories in politics today is that the best way to promote democracy and improve human rights in China is to build up trade and investment. Of course, this theory has only been applied to Communist China, not to any other authoritarian countries.

This argument has been repeated in the current debate over permanent NTR and China's entry into the WTO. The reasons for this "dollars to democracy" approach are the following:

1. Better and newer information and communication systems will help the flow of truth to the people.
2. China will learn to follow the rules of the international community and become more disciplined.

Please allow me to briefly address these supposed ways that increased trade will lead to greater democracy in China.

First, the education revolution and the spread of information are supposed to bring democracy to China. Of course, you cannot dismiss the achievements that have been made. There are some small cracks in the wall. But the Chinese government is doing everything they can to seal up those cracks as quickly as possible. The government still controls the media, just like it controls all of the economy. Censorship is used in all forms of media in China, and those seeking to work outside the confines of the state-controlled media may be subject to detention and imprisonment. And it is foreign companies and foreign technology that are helping the government keep control of information. For example, a telecommunications firm that wanted to put China on its satellite network agreed to bounce back the satellite signals to China, so that Chinese security can trace calls if they want. Rupert Murdoch, in order to get into the Chinese market, agreed to pull CNN from his cable system, and in September, one media official at the Fortune conference in Shanghai told journalists that they should not report things that will offend their host country.

The second way in which economic engagement is supposed to bring democracy is the idea that by joining the international community, China will learn international norms and become more disciplined. This is a nice ideal. But the truth is that China has done more to change international institutions than international institutions have changed China. As an example, next week I will go to Geneva to attend the annual meeting of the UN Human Rights Commission. This is supposed

to be an important opportunity to put international pressure on countries that violate human rights. I do believe it is important to have a strong, consistent voice at this commission. But anyone who has been to Geneva during this meeting in a year where there is a resolution against China knows that China has managed to undermine the whole process. The meeting has become more about backroom deals for building projects and favors than human rights. -

Resolutions at the United Nations are not enough to encourage China to respect human rights. They are also not enough to demonstrate that the United States is serious about making human rights part of its foreign policy. This is at the center of the current debate about Permanent Normal Trade Relations Status for China. The annual NTR debate could have the potential to be a strong tool against the human rights abuses of the Chinese regime. Just because it was never used in the past, does not mean that it is useless. Normal Trade Relations status is very important leverage, and the United States should not give it up.

There is a saying that what is good for Wall Street is good for the United States. This is not necessarily true. The foreign policy of the United States should not only achieve the goals of the executives of multinational companies.

I remember when China's president, Jiang Zemin, gave a speech at Harvard University during his visit to the United States in 1997. He said that the Chinese government had to crack down on the democracy demonstrators at Tiananmen Square, otherwise China would not be enjoying its current state of economic development. He added that stability is the number one priority. It seems that American and European businesses appreciated the crack down which provided this stable investment environment.

I wish that foreign businesses would be honest and admit why China is good for US business. The biggest advantage is the cheap and disciplined labor force. It is very good for US business to have a strong communist party, because then they do not have to worry about giving workers benefits, or dealing with strikes.

Everyday in China, people are making demands like those made at Tiananmen Square in 1989. Listening to these people would be a way to bring about stability. It is tragic that this regime refuses to recognize the basic fact that democracy is the best way to stability. It is even more tragic that all of the human rights abuses continue without any serious consequences in the international arena.

- China has learned that as long as it negotiates trade agreements, it can continue to repress its own people.

The international community must tell China clearly: we expect to see a peaceful, prosperous, free and democratic China, not a prosperous and stable communist China. Peace and prosperity are possible only when human rights, democracy and freedom are respected.

COMMUNICATIONS

STATEMENT OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Thank you for providing this opportunity to comment on the U.S.-China Bilateral Trade Agreement and Accession of China to the World Trade Organization.

The American Apparel Manufacturers Association (AAMA) is the national trade association for the US apparel industry. Our members are responsible for about 85 percent of the \$100 billion worth of garments sold at wholesale in this country every year. Our members manufacture every type of garment and are located in nearly every state. Many also import from nearly every part of the world. Our industry employs about 700,000 Americans.

AAMA has been closely following the discussions regarding China's accession to the World Trade Organization (WTO). Our members have a strong interest in the provisions of the China WTO accession protocol—both those that deal with textile and apparel as well as those that deal with other elements of China's trading regime.

Some of our members view China as a competitor. Many rely solely upon domestic production while others base their production and sourcing strategies on partnerships with the Caribbean Basin. At the same time, a number of our members view China as a potential partner. They either source products from China now or, pending a liberalization of the trading regime, would consider doing so in the future. Many also sell, or are beginning to sell, finished products into the Chinese market.

Uniting those diverse views is the belief that China's WTO accession bid should proceed in a manner that is transparent, consistent with international trading rules, and based on commercial, and not political, grounds. At the end of the day, we believe it is vitally important that China accede to the WTO soon so that they can quickly apply the disciplines of international trade to their economy. We need to make sure that the rules of international commerce apply to China as soon as possible.

In general, AAMA is supportive of the new U.S.-China trade agreement. Although we are still unsure how several of its provisions will be administered, including those relating to safeguards, the deal seems to strike an appropriate balance among the various industries and interests that will be affected by U.S.-China trade relations in the coming years. Moreover, it paves the way for China's entry into the WTO—an event that needs to occur soon.

Following is our understanding of some of the key points of the deal, as described in summary papers that have been circulated within the industry.

- The agreement will end quotas on Chinese textile and apparel imports on December 31, 2004, when they end for other WTO partners. However, quotas can still selectively restrain Chinese imports through a special 4-year post-2004 textile and apparel safeguard, lasting until the end of 2008, and an overall 12-year product-specific safeguard, lasting until 2012.
- Although the deal does not permit the reduction of U.S. tariffs on Chinese apparel imports into the United States, it does reduce most duties on apparel imports into China. Most apparel duties will drop from about 35 percent to between 17 and 24 percent. Including other sectors, China lowers its average duties to about 9 percent.
- Other provisions of the agreement open up the Chinese market to provide more guaranteed market access, distribution and investment rights for foreigners.

It remains to be seen if bilateral agreements struck with other countries will provide further benefits for U.S. companies in the trade relations with China.

To ensure that the United States is able to take full advantage of this deal, and the overall Chinese accession package, it is important that the United States accord unconditional normal trade relations with China. Such a move is also important to

ensure that we live up to our obligations under the WTO. We expect our trading partners to abide by their commitments before the WTO. We should do no less.

A congressional vote on this matter is also important to reconfirm to the world that the United States—in the post Seattle world—wants to remain a strong participant in the global economy. We have argued in other testimony that the Congress should quickly pass CBI/Africa trade legislation and reaffirm U.S. membership in the WTO (should that vote be necessary) to help reassert US leadership of the global economy. A strong vote in favor of permanent NTR for China is also necessary to reassert US global leadership in the world's trading system.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to comment on China's accession into the World Trade Organization. The American Farm Bureau Federation represents more than 4.9 million member families in all 50 states and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to customers around the world for the sale of over one-third of our production.

We appreciate the opportunity to comment on the important subject of the recently signed U.S.-China bilateral trade agreement and China's accession into the World Trade Organization (WTO). Farm Bureau has long supported China's entry into the WTO on a commercially meaningful basis. There has been a long-standing concern that the U.S. and other trading partners would consider China's entry into the WTO for geopolitical reasons. Since we now have an accession package which is indeed commercially meaningful for both the U.S. and Chinese economies, we should accelerate this accession protocol for precisely those geopolitical considerations.

This agreement is good for the American people. Having China—the largest emerging economy in the world—in the WTO will expand trade among all members leading to increased global economic prosperity, the very foundation of trade liberalization efforts. Having China in the WTO will advance the rule of law within China, and more importantly, will bind China to the rules of commercial law represented by the WTO. For China, this agreement will undoubtedly lead to increased economic and political freedoms. The promise, and premise, of trade liberalization is more than just that. It is the exchange of ideas and values that can lead to more fulfilling civic institutions and citizens.

We urge Congress to grant permanent normal trading relations for China as soon as the vote can be scheduled. There are a host of reasons to do so, but none better than improving the daily lives of the American and Chinese people.

This agreement is good for American farmers and ranchers. China is broadly recognized as the most important growth market for U.S. agricultural exports. The Department of Agriculture estimates that China's admission into the WTO could lead to an increase of \$1.7 billion in sales of agriculture products within one year, just about doubling our current exports to that large country.

In addition, U.S. exports to the Asian region as a whole are expected to increase in the next few years as a result of China's accession into the WTO. This is likely to occur as Chinese consumption levels increase, domestic production patterns skew more to global prices, China ceases to employ export subsidies, and there is a commensurate decline in Chinese agricultural exports to the Asian region. This agreement may be with China, but it will have impacts far beyond Chinese borders.

China has agreed to several major concessions regarding agriculture. Many of the commitments go beyond what is currently mandated by the WTO.

1) China will begin to reduce tariffs immediately (upon accession), from an average of over 31% to an average of 15%. All tariff reductions are bound and will be fully implemented by 2004.

2) China has agreed to establish sizeable tariff rate quotas for bulk commodities such as wheat, corn, rice and cotton, which will give U.S. producers a chance to compete for that market, without import licensing schemes or quantitative restrictions.

3) China has agreed that sanitary and phytosanitary disputes should, and will, be settled on a scientific basis.

- U.S. citrus exports to China will be phased in over a period of two years. After that, citrus exports would be permitted based on U.S. export standards.
- China will lift the ban on wheat and other grain exports from the northwestern U.S. by raising the tolerance level on TCK smut in bulk shipments.
- China has agreed to recognize the U.S. certification system for meat and poultry which will allow these products access to all segments of Chinese markets.

4) China has committed to eliminate use of export subsidies. This will be especially beneficial to U.S. producers as we export to third-country markets.

5) China has agreed to increase trading rights for the private sector and will phase out the state trading of soy oil. The right for importers to act on their own, without going through a state agent or middleman, could lead to a sizeable increase in imports.

China has signed a bilateral agreement in which they have agreed to solid market access commitments for American food and fiber products. In some instances, they have gone beyond what their minimum commitments would be under current WTO rules. Even the more conservatives estimates point to these commitments as placing China in the "top five" of U.S. agricultural export markets by the close of the decade.

I'd like to also mention the commitments that the U.S. has retained, or strengthened, as a result of this agreement to protect the U.S. market from unfair dumping of products by the Chinese.

This agreement ensure that American farmers and ranchers will have strong protections against unfair trading practices, including dumping. The U.S. will retain our current antidumping methodology, which treats China as a "non-market economy" in the future, without the risk of a WTO challenge. This provision will remain in force for 15 years after China's accession into the WTO. Its important that we were able to retain this provision given the production characteristics of an economy dominated by state or quasi-state run operations.

This agreement also ensures that American farmers and ranchers will have substantial protection against import surges of Chinese products. This mechanism, labeled the Product-Specific Safeguard, will address increased imports that cause, or threaten, to cause market disruption to any U.S. industry or sector. China is an agricultural exporter, and we have had instances of Chinese agricultural exports disrupting the U.S. internal market (e.g. apple juice concentrate, crawfish). While the U.S. has had success through its own domestic dumping laws in the past to address these issues, this new provision will accelerate the review and adjudication process. This Product-Specific Safeguard provision can be applied unilaterally by the U.S. under legal standards that are lower than those of the WTO. However, having a tool and using a tool are two different matters. We urge the administration to continue to use all tools available to combat the results of unfair production, marketing, and trade practices used by any exporting country.

The Chinese have offered American agriculture an historic opportunity which could greatly enhance our export potential at a time when it is drastically needed. It can positively impact farm income in the U.S. when the agreement goes into effect.

China has also offered the equivalent of this bilateral negotiation to many of our competitors. China will join the WTO, and our competitors will have the market to themselves unless Congress acts quickly to grant China permanent normal trading relations.

The vote for permanent normal trade relations is about trade. It's a vote for continuing the U.S. economic expansion and hopefully having that expansion flow into the U.S. agricultural sector. Farmers and ranchers are already hampered in developing export markets by our own unilateral sanctions and the unfair trading practices of other competing nations. We must ensure that we do not unilaterally disengage from this historic opportunity for American farmers and ranchers.

STATEMENT OF THE AMERICAN FOREST & PAPER ASSOCIATION

The U.S. forest products industry strongly supports China's accession to the World Trade Organization (WTO), and urges timely Congressional approval of Permanent Normal Trade Relations (PNTR) for China.

China holds great promise as a major export market for U.S. wood and paper products. However, Chinese tariffs in our sector are among the highest in the world. Those high tariffs—coupled with a broad range of nontariff barriers—currently inhibit our industry's ability to take advantage of the potential that is inherent in China's huge population, relatively low per capita consumption of wood and paper products, shortage of quality housing, economic growth and burgeoning middle class.

Bringing China into the WTO rules-based trading system, under the market access conditions that were agreed bilaterally in November 1999, should significantly enhance export prospects for U.S. producers of wood and paper products. At the same time, China's integration into the global trading system will strengthen the economic and political forces which are changing Chinese society, and thereby advance important American security, social and human rights interests.

U.S.-CHINA BILATERAL MARKET ACCESS AGREEMENT

- The bilateral WTO accession agreement concluded last November between the U.S. and China will reduce most Chinese paper and wood tariffs to the 5-7.5% level, with some tariffs as low as 1-2%. Most of these rates will be achieved by 2003. This is well below current levels of 12-18% on wood and 15-25% on paper products.
- China agreed that if an Accelerated Tariff Liberalization (ATL) agreement is reached in the WTO, China will join the forest products initiative upon accession. While an ATL agreement was not reached in Seattle, this suggests that China is not opposed to elimination of wood and paper tariffs not later than 2005. It is therefore critical that this opportunity for tariff elimination in a huge market not be lost.
- U.S. companies' ability to do business in China is currently limited by restrictions on trading rights (importing and exporting) and distribution of imported products. Within three years, any entity will be able to import forest products into any part of China and engage in the full range of distribution services.
- The agreement requires that China extend to U.S. forest products suppliers any preferential treatment it provides to other countries.

PERMANENT NORMAL TRADE RELATIONS FOR CHINA

- The U.S. forest products industry has long supported the normalization of U.S. commercial relations with China. As China prepares to join the WTO, it is essential that Congress grant permanent, unconditional trade status to ensure that U.S. exporters and investors get the full benefits of the very favorable bilateral market access agreement and the other commitments China makes as a condition of its accession.

THE IMPORTANCE OF CHINA'S PAPER AND WOOD MARKET TO U.S. SUPPLIERS

- China's membership in the WTO, with its system of rules and obligations, will give U.S. exporters a means for addressing inconsistent, discriminatory and trade-distorting practices that have made doing business in China very difficult.
- China already has access to our market, since U.S. tariffs on forest product imports are at zero or very low. WTO accession on the terms of the U.S.-China bilateral market access agreement will ensure a more level playing field on tariffs.
- The removal of tariff and nontariff barriers to China's market is expected to provide significant export opportunities for U.S. producers of paper and wood products. Because China is deficient in forest resources, with limited potential for extending its own fiber supply, its need to import paper and wood products is expected to increase substantially as it pursues economic and industrial expansion.
- *Pulp and Paper Products:* U.S. pulp, paper, paperboard and converted products exported to China totaled more than 800,000 metric tons in 1998, with a value of \$430 million (there is also significant trans-shipment through Hong Kong). In 1998, China was the only Far East market which saw an increase in U.S. exports despite the effects of the Asian financial crisis (U.S. exports to all other markets in the region dropped sharply).
- Over the past decade, China has experienced the world's fastest paper and paperboard consumption growth. However, production capacity has not kept up with this growth. Projections by the Food and Agricultural Organization (FAO) show that China's paper and paperboard consumption will continue to grow strongly over the next decade and that the gap between supply and demand will continue to widen and be filled by imports.
- *Wood Products:* Exports of solid wood to China will approach \$60 million in 1999, up from \$41 million in 1998. Most products are imported in the form of logs or lumber and re-manufactured in China for use in interior applications such as furniture, flooring, doors and windows. These markets should continue to grow as more Chinese can afford to upgrade their current dwellings or purchase new housing.
- Almost no U.S. wood is used in housing construction, but this could change as the Chinese government has launched an ambitious, market-oriented housing reform plan to privatize and increase the quality of Chinese housing. AF&PA is participating in the revision of the Chinese design standard for timber frame construction with the Chinese Ministry of Construction, and using our membership in the U.S.-China Residential Building Council to increase pressure on China to allow greater use and importation of U.S. wood building products.

- In order for U.S. products to compete in both interior and housing construction areas, high Chinese tariffs must be eliminated. U.S. value-added interior products such as flooring, veneer, molding and millwork, windows and doors cannot compete in local markets when facing an 18% tariff on top of the Chinese VAT tax.
- Price competitiveness in building materials is foremost in Chinese purchasing decisions, and U.S. wood products are competing against locally produced materials such as steel and concrete. Without tariff elimination and major building code changes, it will remain difficult for U.S. manufacturers to compete effectively in this growing and increasingly prosperous market.

STATEMENT OF THE AMERICAN INTERNATIONAL GROUP, INC.

(SUBMITTED BY MAURICE R. GREENBERG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER)

As a CEO of an American company with operations worldwide, I can think of no more important geo-economic policy challenge facing the United States than U.S.-China relations.

How the Congress handles China's membership in the World Trade Organization (WTO) will affect U.S. interests for decades to come. I am convinced that a positive vote to extend Permanent Normal Trade Relations (PNTR) status to China will help build a legacy that will serve U.S. economic and security interests in Asia and the world.

China is at an extraordinary moment in her history. Over the last 25 years, China has built stronger economic and diplomatic ties with her Asian neighbors and the West, and is making an effort to become an increasingly integrated member of the global community. There can be little doubt that China is rising to great power status.

The broad policy question before the Congress today is whether China should be encouraged to further integrate itself into the community of nations, or whether it is ostracized and isolated, unable to address the aspirations of its 1.3 billion citizens, and becomes an unstable force in world affairs. Regardless of what we do, China will continue to expand its relations with other nations. Our national interest is served by continuing to build our relations with China. Otherwise, there is a risk that we might isolate ourselves.

The more specific question Congress must answer is whether to allow the United States to enjoy the dramatic market opening benefits China has offered by making Normal Trade Relations status for China permanent. For twenty years, Congress has renewed this status annually because it benefits both China and the United States.

AIG'S HISTORY IN CHINA

American International Group, Inc. (AIG) has a unique history. We were founded by an American entrepreneur in 1919 in Shanghai, China. AIG is the only major American corporation that traces its roots directly to China. AIG was also the first foreign insurer to return to China. We were granted a license in 1992 to operate a wholly owned, non-life and life insurance business in Shanghai. AIG's China operations today span a range of insurance, financial services and investment activities, with offices in Shanghai, Guangzhou, Foshan and Shenzhen. We employ 1,100 Chinese citizens, and have an agency force of nearly 10,000.

AIG's life insurance company in China, American International Assurance Company, Ltd. (AIA), is the largest life insurer covering the Asian region. When it was licensed in China, AIA continued its longstanding tradition of innovation by introducing the agency distribution system to the Chinese life insurance industry. The system is now widely employed by local insurance companies as a principal distribution channel.

In addition, AIA pioneered the introduction of professional life insurance operations, including management information systems, professional underwriting and world-class service standards. For example, we were the first to introduce the auto pay system for premium payments, the first to develop a bank draft system for insurance company payments, and the first to introduce professional examinations to help educate and train insurance company staff in China. In fact, over 6,000 agents currently employed by the domestic insurance industry were trained by AIA.

AIG's presence in China provides a good example of how expanded foreign trade and investment can be a win-win result for both countries.

In our case, the introduction of new management practices, training, technology, and marketing techniques has resulted in a cadre of highly motivated and skilled

Chinese personnel whose lives today bear no resemblance to what existed only a few years ago. They have readily adopted Western "best business practices," enjoy better living conditions, and a wider range of freedoms to travel and to spend their growing financial resources than have any of their countrymen during China's 5,000 year history.

While AIG's history is unique, the experiences of thousands of other U.S. and foreign-owned companies doing business in China today strongly suggest that similar, positive results are occurring.

Simply stated, economic progress and expanded trade opportunities in China are helping to create a new and prosperous middle class while enhancing the quality of life for hundreds of millions of people.

THE BENEFITS OF CHINA'S ENTRY INTO THE WTO

I believe AIG's China story provides lessons for the future ramifications of China's entry into the WTO.

First, if China joins the WTO on the commercially attractive terms so ably negotiated for U.S. manufacturing, agricultural and services industries by Ambassador Barshefsky, considerable new employment opportunities will be created for U.S. workers. U. S. competitiveness has never been stronger and our businesses are positioned well to generate meaningful results for the U.S. economy.

Secondly, the commitments China has made to the United States as part of its WTO accession package are striking in breadth and scope. In our industry, for example, China has agreed to:

- Open the entire insurance market within three years to all foreign companies by expanding from the current, limited access;
- Permanently grandfather existing operations and eliminate all restrictions on internal branching;
- Open up to foreign ownership both non-life and life insurance (including health and pension plans), and eliminate existing restrictions on the placement of reinsurance.

The U.S. insurance industry has been poised for many years to expand into China. Limitations that have confronted us geographically, and by product line, will be almost completely eliminated, practically overnight. In fact, one of the great challenges facing China's regulators will be to manage the rapid opening of its market, given the many foreign companies that will be allowed to do business there so suddenly. It is in our interest that China manage this transition successfully.

Over time, the presence of U.S. and other foreign insurers will bring to China the modern management tools necessary to develop a competitive, world class insurance industry. This will give China the ability to more efficiently manage risks throughout its economy and society. And, with it will come the benefits of choice, lower prices and product innovations to meet the needs of Chinese consumers.

Because of the long-term liabilities involved, life insurance is an especially effective stimulus to long-term investments—investments that, by their very nature (i.e., bonds, housing, and infrastructure), help in the national building process.

Over time, China could become one of the largest insurance markets in the world. Such a market holds forth tangible economic benefits to the United States. Over time, successful American insurers in China will generate new employment opportunities for support personnel in their U.S. corporate headquarters. In addition, they will transfer dividend income to their U.S. shareholders and generate tax revenues for the U.S. Treasury.

Despite these benefits, I am aware of the various arguments made to block China's WTO membership or to condition its entry. Some of these arguments will be made because China and the U.S. have different values and different political systems. We do, and we probably always will. But for those who have not had the benefit of seeing firsthand the remarkable changes that have occurred over the last 25 years in China, it may be difficult to appreciate how these values are converging. Bringing China into the WTO will accelerate the process of helping to understand the reason for those differences—differences that can sometimes lead to mutual distrust, hostility, or even conflict.

Moreover, we should not allow our trade relations to become hostage to our differences. The U.S. has differences in values and culture with many countries. What is important is that we always try to work out our differences in a peaceful way.

UNDERSTANDING CHINA'S PAST

Over many years, I have had occasion to observe firsthand post-war economic developments in many countries around the world. I first visited China in 1975, and have been back just about every year since. Compared with other countries, the

positive results of China's economic growth and development are nothing short of miraculous. Continued progress can be expected for the foreseeable future, particularly if China allows even more open competition and trade.

We should not forget that it was not many years ago that, with respect to China, the U.S. had no diplomatic relations, no meaningful trade, no cultural exchanges, and certainly no military cooperation. Just suspicion and isolation, and a cold peace.

China's interests in Asia were often in conflict with our own. The consequences for America were costly in political, economic and human terms. The Korean conflict claimed over 50,000 American lives, and China supported insurgency movements throughout the region, and provided moral and logistical support for North Vietnam to prolong that tragic war.

During the period leading up to the Communist revolution, and for much of her modern history, China was subjugated, humiliated and exploited by foreign powers. The Opium Wars, the partitioning of Shanghai, and Japan's military occupation are examples. Understanding China's history helps explain China's preoccupation today with stability, following hundreds of years of internal turmoil, famine and bloodshed. Understanding China's history also helps us appreciate and interpret China's current needs and interests. Given where China has been, feeding and clothing such a massive population represents tremendous progress.

In this context, China's WTO commitments are all the more significant. Beyond insurance, China has agreed to open up its agricultural markets, its distribution systems, significantly lower its tariffs, and has offered increased market access and foreign ownership for financial services, telecommunications and automobile companies, to name a few.

Once implemented, China's overall WTO concessions will far surpass the level of market openness found today in many other developed and developing WTO member countries. Importantly, the package also represents a higher and wider level of market liberalization toward which both existing and prospective WTO members should now aspire.

These concessions are entirely one-way in nature (with no reciprocal concessions by the U.S.). They are the result of decisions the Chinese leadership has made to use WTO membership to push ahead with domestic economic reforms and open the economy to worldwide competition.

The Chinese leadership is taking a calculated risk that the U.S. will help, and not exploit, their efforts to promote competition with vested interests in their own country. Denying China entry into the WTO would not only engender bitterness and resentment, it would also undercut the gamble China's leaders have made to modernize their economy.

U.S. AND CHINA: SHARED INTERESTS

As with any two countries, a stable relationship between the U.S. and China depends upon each country respecting the national interests of the other, and upon having realistic and achievable objectives. This relationship should promote U.S. national interests in Asia. I would suggest that among the most important U.S. foreign policy objectives are:

- Promoting stability in Asia, including such unstable areas as the Korean Peninsula and the Taiwan Strait;
- Limiting the proliferation of weapons of mass destruction;
- Encouraging the continued expansion of open electoral systems where the views of individual citizens can be expressed, and;
- Expanding trade, investment and access to markets based on transparent legal structures and the rule of law.

We will be unable to achieve these objectives without a constructive relationship with China—one that accepts international obligations by integrating into the rules-based economic and security arrangements that govern global conduct.

It is clear that there are a broad number of areas where the U.S. and China have common interests. We both want a reliable partner. We have a common interest in a growing and stable Asia. We both want to avoid tensions in Asia's potential trouble spots. Our recent cooperation on Korea, for example, has been more positive than many people appreciate. Our economies complement each other, and trade has expanded some 400 percent over the last ten years, with a significant number of high-wage U.S. jobs dependent on our exports to China.

WHY PNTR SHOULD BE PERMANENT

Some have argued that the annual ritual of granting normal trade relations (NTR) to China has provided useful leverage in affecting Chinese behavior. There is little evidence to support this claim. To its credit, each year since 1980, the Con-

gress has extended NTR to China. After vigorous debate, successive Congresses have concluded that withdrawing NTR would be disruptive to the relationship and to our own interests in seeing China play a more constructive role in the world. Moreover, each year Congress has recognized that denial of NTR would be devastating to Taiwan, as well as to Hong Kong, and that the U.S. would simply be rewarding our competitors in China.

Under WTO procedures, all WTO members are required to extend unconditional NTR when China joins the WTO. With over 130 other WTO members, the U.S. has supported the principle of non-discrimination, which rests at the heart of the multilateral trading system. Any benefits granted to a WTO member must be granted unconditionally (i.e., permanently) to all other members.

Were China to join the WTO without receiving permanent NTR from the United States, China would have the right, under WTO rules, to deny to U.S. workers, businesses and agriculture the extraordinary benefits the U.S. obtained as part of China's WTO package. Instead, we would relinquish to French, German, Japanese and other competitors the concessions that are properly due the U.S. We are not doing our firms and workers any favor by denying them what is clearly in their best self interest.

This is not to suggest that the U.S. should refrain from discussing differences we have with China over human liberties or freedom of speech, assembly and the press. But, we should do so in other, more appropriate, fora. Denying China PNTR based on our dissatisfaction with progress in these areas will not make China share our values or adopt our systems. In fact, just the opposite is true. As has been demonstrated in many countries, the expansion of trade lessens our differences over time.

Some have argued that China should not be allowed to enter the WTO now, because it cannot be trusted to live up to its trade agreements. The commitments China has made to enter the WTO, however, will be subjected, for the first time, to the WTO's dispute settlement mechanism. Trade disputes will no longer be governed by bilateral frameworks alone. Disputes will be resolved according to standards China has accepted and, more importantly, for the first time, the overall world trading community will have the right and power to enforce them. Therefore, the obligations China has made will be exposed to much greater transparency and a multilateral, rules-based regime as compared with those negotiated with individual countries in the past.

CONCLUSION

In conclusion, I would respectfully urge the Congress to support China's entry into the WTO and to grant Permanent NTR to China as soon as possible. Your decision should be based on the primary objective of promoting a sound U.S. foreign policy. If you agree that it is in our geo-economic interest to engage China on a broad strategic basis, we should not let our differences on individual issues, as important as they may be, distort the opportunity to accomplish our broad objectives.

The immediate post World War II experience of the United States is instructive in this respect. The U.S. wisely chose to expand trade ties with our former adversaries. The results were more prosperous and free allies. China's entry into the WTO can lead to the same result.

Moreover, the past 25 years demonstrates that there is much good to come from a positive relationship with China. We have everything to lose, alternatively, by pushing China into a hostile role.

It is highly unlikely that the U.S. could have a realistic policy for Asia if it excludes China. If our relations with China were unsettled, it would be very difficult for other Asian countries to openly side with the U.S. One only has to look at a map to understand why. The U.S. would be the loser. I sincerely hope that we never allow our relationship with China to reach a point where that choice has to be made.

By joining the WTO, China deepens its stake in the community of nations and the U.S. promotes its national interests of peace and stability. When future generations look back on this period in our history, I am confident Congress will be judged as having made the right decision for the American people.

Business Coalition for U.S.-China Trade

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-- Michael A. Santoro, Rutgers Graduate School of Management, in The Wall Street Journal, June 29, 1998

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**U.S. COMPANIES IN CHINA: LEADERS IN MORE THAN JUST MARKET SHARE.
SUPPORT PERMANENT NORMAL TRADE RELATIONS WITH CHINA.**

And Now, From the Home Office In...

Part of a Continuing Series from the Business Coalition for U.S.-China Trade



Akron, Ohio: *"Membership in the WTO wouldn't represent a badge of honor... it would require China to open its market, to uphold the rule of law and follow international rules of trade... Congress should embrace the arrangement by permanently granting normal trade relations to China."* —The Akron Beacon Journal, March 8, 2000



Atlanta, Georgia: *"A normal trade relationship will be in America's best interest. It will be good for U.S. consumers. It will be good for U.S. exporters. It will be good for the whole world when China submits itself to WTO rules and regulations... So, no more excuses. It's time to get cracking on the China trade legislation."* —The Atlanta Journal and Constitution, March 9, 2000



Boston, Massachusetts: *"Free trade does not destroy jobs; it creates them... Openness to trade has helped keep the U.S. economy strong... The WTO provides avenues to challenge failure to live up to commitments, such as cracking down on software pirates or compensating owners whose property is taken for public use, to mention just two areas where China has been weak in the past."* —The Boston Herald, March 13, 2000



Omaha, Nebraska: *"Entry into the WTO would mean that China would greatly open its market to U.S. goods, including agricultural products [like] beef, pork and soybeans... This can be a win-win situation for both countries. The Midlands farm economy certainly stands to benefit from increasing its export opportunities to a nation of 1.2 billion people."* —The Omaha World-Herald, February 20, 2000



Seattle, Washington: *"Congress should cement permanent normal trade relations with China... Making China play by the rules and open its markets creates opportunities—no guarantees but extraordinary opportunities... Political and economic reform in China are nurtured from the outside by constructive engagement..."* —The Seattle Times, March 12, 2000

SUPPORT PERMANENT NORMAL TRADE RELATIONS WITH CHINA.

From One Who Knows...

LABOR LEADERS "HAVE GOT IT WRONG"

Part of a Continuing Series from the Business Coalition for U.S.-China Trade



"I have spent much of my life in the labor movement and remain deeply loyal to its goals. But in this instance, I think our labor leaders have got it wrong... American labor has a tremendous interest in China's trading on fair terms with the U.S. The agreement we signed with China this past November marks the largest single step ever taken toward achieving that goal."

-- Leonard Woodcock, former president of the United Auto Workers and former U.S. ambassador to China

Source: The Washington Post, March 8, 2000, p. A29. See also Mr. Woodcock's op-ed in the Los Angeles Times, March 9, 2000

Also from the Washington Post story:

- > "Woodcock has earned his stripes in the American labor movement. A key lieutenant in the 1930s drive to unionize the U.S. auto industry, he later rose to president of the UAW and led a major strike against General Motors."
- > "[He] argues that the WTO agreement U.S. negotiators reached with China in November would strengthen protections against surges in imports from China and open Chinese markets to more U.S. exports."
- > "He said... limiting Chinese access to the U.S. market would not help reduce the U.S. trade deficit. Instead, he said, it would only add to imports of cheap goods from other low-wage, developing nations. Finally, Woodcock argues that increased access for foreign firms to the Chinese market eventually will improve conditions for Chinese workers."

For the full text of Mr. Woodcock's op-ed in today's Los Angeles Times, please go to www.latimes.com and visit the commentary section.

**DON'T SLAM THE DOOR ON ENGAGEMENT WITH CHINA.
SUPPORT PERMANENT NORMAL TRADE RELATIONS.**

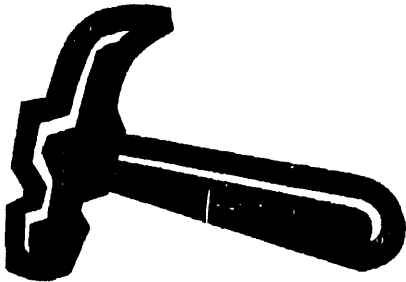
"If I Had a Hammer..."

ENFORCING TRADE DEALS WITH CHINA

Part of a Continuing Series from the Business Coalition for U.S.-China Trade

"... We know, first hand, that multilateral enforcement through the WTO offers a far more promising method of ensuring continued progress in China's intellectual property environment than does the threat of unilateral retaliation against China"

—Joint statement of America's creative industry, which led battles to combat software and movie piracy in China.



Congress Enacts PNTR with China.

- U.S. enforces China's trade concessions through WTO dispute settlement system, including WTO-authorized sanctions if China fails to comply.
- U.S. gets new leverage through WTO to enforce strict rules against forced technology transfer and prohibited export subsidies.
- China under pressure from 135 WTO members to comply with WTO legal rulings. Any Chinese counter-retaliation prohibited by WTO rules.



Congress FAILS to Enact PNTR.

- U.S. must use unilateral sanctions only, without any support from our WTO partners. (And bilateral trade deals have no built-in enforcement mechanisms.)
- U.S. has little leverage to counter Chinese attempts at forced technology transfer or export subsidies.
- Japan and Europe get a free ride. They share in benefits from U.S. enforcement action under Section 301, but the U.S. takes all the risks, including possible counter-retaliation against U.S. goods.

WTO OFFERS BETTER ENFORCEMENT OPTIONS. SUPPORT PERMANENT NORMAL TRADE RELATIONS WITH CHINA.

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STATEMENT OF THE FERTILIZER INSTITUTE

INTRODUCTION

The Fertilizer Institute is a voluntary, non-profit trade association of fertilizer industry participants. TFI's nearly 250 member companies manufacture more than 90 percent of domestically produced fertilizer. TFI's membership includes producers, manufacturers, distributors, transporters, and retail dealers of fertilizer and fertilizer materials.

TFI appreciates the opportunity to submit written testimony on the importance of China's WTO accession to the U.S. fertilizer industry. This testimony expresses both a concern and a hope with respect to China's accession. While the November bilateral agreement included several positive commitments that could help open China's fertilizer market, including lower tariffs, elimination of quotas and distribution rights, our concern is that the Agreement did not contain the critical element for meaningful market access for fertilizer—trading rights. Trading rights are the

rights of private parties to import and export fertilizer outside the control of China's state trading enterprises. The lack of trading rights for private parties to import fertilizer undermines the commercial value of all of China's commitments on fertilizer. It means that the Agreement provides no assured access to China's enormous fertilizer market. Our hope is that, based on recent developments, this situation will be corrected in the near future.

THE NEED FOR INTERNATIONAL ACCESS TO CHINA'S FERTILIZER MARKET

First, it is essential to understand the importance of fertilizers in feeding the world's expanding population. There are three primary plant nutrients nitrogen, phosphate and potash. While all three occur naturally, they are not supplied in sufficient quantity to support today's high yielding crop production. It is conservatively estimated that, without fertilizers, production of essential crops such as corn, wheat, and rice would decline by as much as twenty-five percent.

China's fertilizer market is the largest in the world. China accounts for almost 30 percent of the world's annual consumption of nitrogen and phosphate fertilizers and approximately 14% of the world's annual consumption of potassium fertilizers (Exhibit 1—Chinese Fertilizer Demand). Furthermore, China is the largest importer of U.S. phosphate fertilizers. In fact, fertilizers are the fourth largest U.S. export to China with sales of approximately a billion dollars annually (Exhibit 2—Top U.S. Exports to China).

The bilateral accession agreement that was reached in Beijing last November included some potentially meaningful commitments on fertilizer, including the reduction of tariffs, the elimination of certain quotas, and certain distribution rights. Unfortunately, the Agreement contained nothing on trading rights for fertilizer. Without having at least some form of trading rights for fertilizer, U.S. and other countries effectively have no guaranteed access to the Chinese fertilizer market at any level. This renders meaningless the other potentially market opening provisions on fertilizer that the Chinese have agreed to.

We are pleased to say that the Clinton Administration is sympathetic with our concerns and is working hard with China to rectify this situation. We are grateful to them for their efforts. We are also grateful for the support we have received from the Congress on this matter, including Members of this Committee, particularly Congressman Crane and Congressman Levin.

At this point, We would like to describe for the Committee in greater detail the importance of China's fertilizer market, the content of November's bilateral agreement as it affects fertilizer, and the current state of play.

THE IMPORTANCE OF CHINA'S FERTILIZER MARKET

China is the world's largest importer of diammonium phosphate (DAP). DAP is the world's most widely used and traded phosphate fertilizer product. China accounts for more than one-third of total world trade in DAP, with almost all of the imports purchased from U.S. producers. Each year the U.S. exports approximately 5.5 million tons of DAP to China worth almost \$1 billion, which represents nearly half of total U.S. DAP exports and more than one-third of total U.S. DAP production.

The outlook for China's phosphate use remains strong. Chinese phosphate consumption is expected to grow from approximately 8 million metric tons today to 11 or 12 million metric tons by the year 2005. The outlook for increased U.S. DAP exports to China also looks positive, but any Chinese trade restrictions on DAP imports would have a devastating impact on these prospects and on the entire U.S. fertilizer industry.

China is also the world's largest consumer of urea. Urea is a dry, solid product and is by far the world's most important and widely used nitrogen fertilizer product. To put the role of China's urea market into perspective, China accounts for one-fourth of total world urea fertilizer demand and, up until 1997, China was the world's dominant importer of urea accounting for as much as 40 percent of total world trade. Furthermore, urea is the largest and one of the fastest growing nitrogen fertilizer products used in China. From 1981 to 1996, urea demand in China grew at an average annual rate of 7.0 percent, with the total volume increasing from 9.6 million metric tons in 1981 to 26.5 million in 1996.

THE CLOSING OF CHINA'S UREA MARKET IN 1997

In mid-1997, the Chinese government made a decision to bolster the domestic Chinese urea industry and completely closed its borders to urea imports by refusing to issue new import licenses for urea. Imports immediately dropped from 6.4 million metric tons in 1996 to virtually zero in 1998. Given the importance of China's de-

mand, China's complete and sudden withdrawal from the world urea market had and continues to have an immediate and immense impact on world urea prices and on the U.S. market. In the U.S., prices for granular urea at the Gulf Coast (the key pricing point in the U.S.) dropped from \$180 per short ton at the beginning of 1997, to \$100 in January 1998, to \$82 in January 1999. This is a price at which efficient U.S. producers cannot return a profit. In addition to the drastic drop in urea prices, the U.S. market has experienced an influx of substantial quantities of urea displaced from the Chinese market. U.S. imports of urea increased by approximately 30 percent in 1998, primarily due to an increase in volume from Middle East production diverted from the Chinese market. U.S. import statistics for 1999 are expected to approximate 1998's record levels.

NOVEMBER 1999 MEMORANDUM OF UNDERSTANDING AND FERTILIZER TRADE

As this Committee is aware, after months and indeed years of negotiations, the United States and China reached a bilateral agreement in Beijing in November of 1999 with respect to China's accession to the WTO. As we understand it, this Agreement contains a number of potentially useful provisions with respect to fertilizer. According to information provided to us by USTR, these provisions include the following:

- Tariffs—China will reduce tariffs on fertilizer imports from a current average of 6% to an average of 4% upon accession.
- Quotas—China will eliminate quotas upon accession for priority fertilizers and by January 1, 2002, for all other fertilizers.
- Distribution—China will permit foreign enterprises to engage in the full range of distribution services for chemical fertilizers after a 5-year transition period.
- Other commitments—China will apply all taxes and tariffs uniformly to both domestic and foreign businesses to eliminate uncertainty associated particularly with application of the 17% VAT tax.

Unfortunately, the November Agreement did not include any Chinese commitments to provide trading rights for fertilizer. Without such trading rights, which would give privately owned companies (both domestic and foreign) the right to import fertilizer into China, the importation of fertilizer into the Chinese market will remain entirely within the hands of state enterprises or the state itself. Without trading rights, there is no effective market access for fertilizer based on China's accession to the WTO. As previously noted, the lack of trading rights totally undercuts the value of China's other commitments relating to fertilizer.

CURRENT EFFORTS TO OBTAIN TRADING RIGHTS FOR FERTILIZER

The industry has been told that, when China failed to provide trading rights for fertilizer in the November bilateral agreement, there was an understanding at the highest levels of the U.S. and Chinese governments that work would continue on this important issue. Although the bilateral agreement would be signed in Beijing, bilateral discussions would still continue in an effort to find mutually acceptable means of ensuring meaningful access to China's important fertilizer market. We would like to believe that China understands that market access for our fourth largest export must be assured. The effort to come to an agreement on effective market access and trading rights for fertilizer is underway. After an initial meeting in Seattle on the margins of the WTO ministerial in December to discuss the issue, U.S. and Chinese negotiators met again on January 20 in Geneva where a U.S. proposal was presented to the Chinese side. We understand that this U.S. proposal is currently under consideration by the Chinese, but that at this point this important issue remains unresolved.

We are, however, very hopeful that an agreement will be reached in the near future. In a November 19, 1999 letter to Chinese Ambassador Li Zhao Xing signed by 70 U.S. Senators, 16 members of the Senate Finance Committee including Chairman Roth, wrote to insist that fertilizer market access be included in the final WTO accession agreement. In similar letters, many of those same U.S. Senators relayed the same message to President Clinton. The Fertilizer Institute thanks the 70 U.S. Senators who have given their strong support on this important issue. Furthermore, House Speaker Hastert, Chairman of the House Subcommittee on Trade, Representative Crane, and the ranking member Representative Levin have strongly communicated their concern to both the Administration and Chinese Ambassador Li. USTR Ambassador Barshefsky and her negotiators are working tirelessly with the U.S. fertilizer industry and with the Chinese to resolve this remaining issue in an acceptable manner and we remain hopeful that they will do so.

CONCLUSION

The U.S. fertilizer industry strongly urges this Committee to ensure that there is assured access to China's important fertilizer market within the context of a final WTO accession agreement. Because of the importance of China's market to our industry, we have consistently been a strong and vocal advocate for normal trade relations with China and for China's accession to the WTO. We continue to believe that China's entry into the WTO is the best possible way to encourage bilateral trade and investment and to open China's borders and its culture to the world. However, we must ensure that effective market access for fertilizer is among the commitments that China ultimately makes as part of its WTO accession package in exchange for the many benefits of WTO membership. We trust that an agreement on fertilizer can be reached, and we will continue to seek your help in obtaining a swift and favorable resolution of this critical issue.

(Exhibits attached.)

EXHIBIT 1.—CHINESE FERTILIZER DEMAND 000 METRIC TONS OF NUTRIENTS

	1994	1995	1996	1997	1998
Nitrogen:					
China	19,529	22,264	24,123	23,493	22,933
Percent of World Total	26	28	29	28	27
Phosphate:					
China	7,311	8,776	8,835	9,034	9,049
Percent of World Total	25	28	28	27	27
Potassium:					
China	2,129	3,017	2,224	3,202	3,127
Percent of World Total	11	14	11	14	14

EXHIBIT 2.—TOP U.S. EXPORTS TO CHINA

(In millions of dollars)

Harmonized Tariff Schedule (HTS) #	HTS Commodity	1997	1998
88	Aircraft & Spacecraft	2,12.6	3,585.2
84	Power Generation Equipment	2,477.0	2,718.5
85	Electrical Machinery & Equipment	1,520.0	1,754.2
31	Fertilizer	1,049.8	1,064.1
90	Medical Equipment	627.4	679.6
39	Plastics & Articles	432.3	432.0
48	Paper & Paperboard	260.1	335.8
15	Animal, Vegetable Fats & Oils	168.4	319.4
12	Oilseeds	428.6	303.7
29	Organic Chemicals	215.6	223.0

Source: U.S. International Trade Commission, U.S. Department of Commerce, and U.S. Bureau of the Census.
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STATEMENT OF DAROL LINDLOFF, PRESIDENT, PANDA ENERGY INTERNATIONAL

[APRIL 6, 2000]

Thank you, Mr. Chairman, for the opportunity to submit this written statement to the Committee on the issue of US trade relations with the People's Republic of China and their implications for the United States. I am Darol Lindloff, President of Panda Energy International, an independent power company headquartered in Dallas, Texas. We are in the business of developing power plants and supplying electricity both in the United States and international markets. Panda has interests in two operating power plants in Maryland and North Carolina, three merchant power projects under construction in Texas, a hydroelectric project in Nepal, and the project I am about to describe in China. We also have a number of other projects actively under development or construction in the US.

I am not here to urge you either to grant or deny permanent normal trade relations, or PNTR, status to China. China is an important member of the international community; we all benefit if it is allowed to participate in world trade on the same terms as other countries and it subscribes to the same basic rules.

Rather, my purpose today is to call your attention to the story of how one US company has fared when trying to do business in China. As you and your colleagues consider whether to grant PNTR status to China in the coming weeks, I believe you will find valuable the story I am about to share and the issues it raises. Panda spent the last six years developing a private power project in Hebei province in northern China. Construction is now complete, and the project is ready to start commercial operation.

POWER CONTRACT

Panda signed two contracts—an “Electric Energy Purchase and Sales Agreement” and a “General Interconnection Agreement”—with the North China Power Group Company in September 1995 under which the North China Power Group Company agreed to buy the electricity produced by the project at a price to be determined by a formula.

The North China Power Group is one of five regional power agencies that fall under what used to be known as the Ministry of Power and Industry but that, after recent reforms, is now called the State Power Corporation of China. The North China Power Group covers the region that includes Hebei province.

The contracts commit the North China Power Group Company to “dispatch,” or call on, the plant for 1000 of its capacity during peak hours and 60% to 65% during off-peak hours and trough periods.

The tariff, or price at which electricity from private power projects in this part of Hebei province can be sold, is set by the Tangshan Municipal Pricing Bureau. The pricing bureau sent Panda a notice in October 1995 that the company could assume a price of 0.5997 renminbi per kWh for purposes of its financial planning, but said the company would have to apply for the actual tariff 30 days before the project was ready to start commercial operation. The bureau attached the formula that would be used to set the tariff. This was the same formula used to arrive at the planned tariff. The only difference was that the actual tariff would be calculated by replacing the cost variables in the formula with actual costs closer to the time the project was ready to start supplying power.

US BOND OFFERING

By the spring 1997, Panda was ready to start construction. It borrowed \$155.2 million in April that year by issuing public debt in the US capital markets. Of this amount, a sizable share was set aside in reserves to cover interest payments on the debt during construction and other working capital requirements.

A total of \$110 million has been injected to date into the Chinese joint ventures that own the project. (The project assets have been divided among four Chinese joint ventures. Panda owns approximately 83% of each joint venture. Other investors own approximately 5%, and the remaining 12% is owned by the Luannan government, the county within Hebei province where the project is located.)

The project consists of two 50-megawatt coal-fired generation units (e.g., boilers and steam turbines). Construction of both units was completed last fall, and both had been “synchronized” with the regional power grid by December 1999 and were in a position to start generating electricity.

TARIFF APPLICATION

In May last year, Panda applied to the Tangshan Municipal Pricing Bureau for its tariff. It plugged the actual numbers into the pricing formula and came up with a figure of 0.704 renminbi per kWh. The pricing bureau audited the cost figures, made site visits, and came back with comments on the Panda application in July. Panda used the pricing bureau's figures in place of its own in the formula and arrived at a figure of .58685 renminbi for the tariff. However, on July 22, the pricing bureau showed Panda a draft order that said the tariff would be only 0.37 renminbi and suggested the North China Power Group Company would not buy the power at this price but rather the project would be allowed to charge the price if Panda could find customers itself to which to make direct retail sales of electricity.

The project does not have authority under Chinese law to make direct retail sales. Demand for power in the region has fallen since the project started construction. The Chinese appear to have assigned the swing industrial load (i.e., the portion of demand that is more susceptible to economic cycles) to foreign-owned independent power projects, and reserved the safer base load to the public sector for Chinese-owned facilities.

A tariff of 0.37 renminbi would bankrupt the project, even if it could find retail customers for the entire output.

EFFORTS TO SEEK HELP

Panda met with the vice mayor of the Tangshan municipal government, Zhang Yu, on August 3 in an effort to explain its situation. The vice mayor asked what was the lowest possible tariff the project would require to avoid defaulting on its debts. Panda sent a letter three days later that said the project would need a tariff of at least 0.53 renminbi per kWh to service the debt (or 0.453 renminbi per kWh if one ignored the share of the tariff that went back to the government in the form of value added taxes). Over the next month, Panda tried to see other officials at both municipal and provincial levels. It had only limited success. For example, we showed up for a scheduled meeting with the deputy general secretary of the Tangshan municipal government only to be told that the gentleman was in Russia.

In early September, Panda learned that an executive vice governor of Hebei province, Mr. Cong Fukai, had given the problem to a deputy director of the Hebei Provincial Planning Commission, Mr. Cao Mangui, and told him to solve it. Around this time, Alan Turley, the commercial minister-counselor in the US embassy in Beijing, sent a letter to the executive vice governor urging him to help.

In late October, Mr. Cao summoned all the interested parties to the provincial capital. Panda was invited but not allowed in the room. Mr. Cao "split the baby." He took the 0.37 renminbi that had been proposed by the Tangshan pricing bureau and the 0.53 tariff that Panda said the project needed to avoid defaulting on its debt and settled on the midpoint of 0.45 renminbi.

Mr. Cao called in the Panda representatives the next morning, briefed them on the outcome, and asked whether they could accept the 0.45 figure. We responded on November 2 that the proposed tariff of 0.45 renminbi would leave the project unable to service its debts, but said we would see how much room we had with the US bondholders to restructure the debt. Panda had initiated discussions with the bondholders starting in August at the first sign there might be trouble. The talks had progressed by this time to a point where the bondholders were demanding that Panda give up a majority of its ownership interest in the project and also pay them a considerable amount to reduce the debt to a level that the project might be able to service at the reduced tariff.

I flew to China and delivered a letter in person on November 5 accepting the 0.45 tariff on two conditions—first, the tariff would be implemented quickly so that the project could start operation on schedule and, second, the tariff would come with an assurance that the government would buy the output at this figure as required under the power sales contract.

The following Monday, November 8, we were briefed on a report that Mr. Cao had written for the governor to send the Tangshan authorities directing them to accept the tariff of 0.45 renminbi, but not taking a position on the two conditions. The report justified the 0.45 tariff on grounds that the figure had been widely adopted for other foreign power plants in the province.

The report never made it to the governor. It became tied up in a maze of the governor's aides and was eventually blocked by the head secretary who was concerned about the harshness of the report on the Tangshan municipal government and who wanted to hear from the local government before allowing the report to reach the governor.

I tried to get Mr. Cao to come with me in person to the governor's office. Mr. Cao seemed to be trying to distance himself from our case and, the next day, we learned that he had been reassigned to another job. Mr. Turley at the US embassy sent another letter to the executive vice governor, Mr. Cong Fukai, on November 10 and this was followed up by a brief faxed memo from Bruce Quinn at the US embassy urging Mr. Cong to implement the compromise that I had travelled to China to say we would accept. The Hebei government responded around November 18 that a satisfactory solution had been reached.

The following day, we were given a brief order from the Tangshan pricing bureau that said in its entirety:

"In accordance with the opinion given by the leaders of the provincial pricing commission in the tariff coordination meeting on October 28, 1999, the tariff of the electric energy sold in Luannan County for Tangshan Panda Heat & Power Co., Ltd. will be 0.45 yuan/Kwh. The execution period of the tariff for the time being is one year. The above commercial tariff will become effective at COD [the commercial operation date]."

The problem with the order is Luannan County has only a 10 megawatt demand for electricity. Thus, the project is assured of earning the tariff on only about a tenth of its output.

Panda sent a letter to the executive vice governor of Hebei province on November 25 expressing its disappointment. The letter said, in part,

"Mr. Cong, you are a very important, powerful and busy person. I honestly do not know if you truly have been made aware of what has transpired over these last weeks, and this recent Tangshan Government action which has now put our project in a desperate situation. In the interest of fair business and future foreign investment, please get personally involved in this issue now and take some positive action to save us. Right now we have no future."

The letter was signed by John Zamlen, general manager of the Tangshan Panda Heat and Power Co., Ltd. in China.

CONCLUSION

As I said at the start of my statement, I am not here to ask you and your colleagues to grant or deny China PNTR status. I am here to relate a story of how one US company fared when it tried to supply electricity to the Chinese. Unfortunately, we have come to find that our experience is not all that uncommon. However, in our case, the consequences are potentially disastrous because Panda had to guarantee the US bondholders that they would be repaid. We feel like the jilted bride who entered into a marriage five years ago with the Chinese only to find them trying to walk away from the marriage now that the child has been born. This isn't fair.

At this time, we still do not have an assigned tariff necessary for the commercial operation of our facility. There is a growing lack of concern on the part of local and provincial officials for even granting a tariff. If this is not achieved soon, the consequence will be the failure and bankruptcy of a U.S. capital-markets funded international project in China.

STATEMENT OF MATTEL, INC.

[SUBMITTED BY THOMAS F. ST. MAXENS, ST. MAXENS CO.]

This statement is submitted on behalf of Mattel, Inc. in connection with the February 23 hearing conducted by the Senate Committee on Finance regarding the U.S.-China bilateral trade agreement on China's accession to the World Trade Organization (WTO). Mattel strongly supports China's accession to the WTO upon the terms reached under the U.S.-China bilateral agreement on November 15, 1999, as well as congressional approval of legislation granting permanent normal trade relations (NTR) status to China.

Headquartered in El Segundo, California, Mattel is the world's largest toy company with 1999 sales of \$5.5 billion in over 150 countries. Mattel has 31,000 employees, of whom 7,700 are in the United States.

China's accession to the WTO is a matter of major importance to Mattel and the rest of the U.S. toy industry given its exceptionally strong economic ties with China. The American toy industry became the world's leader, as reflected by its 50 percent share of the global toy market, by drawing on the United States' competitive edge in such areas as product conceptualization and design, design and development engineering, and strategic marketing. In the case of Mattel, virtually all of these critical functions are performed for Mattel's worldwide operations by the 2,000 workers at the company's El Segundo headquarters.

The other key to the U.S. toy industry's success has been its ability to produce these innovative, high quality toys at the most competitive cost. This has required a constant adaptation to changing conditions of competition, which has caused the industry to shift much of its manufacturing operations through a series of countries and, eventually, to China and other low-cost Asian suppliers. China has been the dominant supplier of toys to the U.S. and foreign markets throughout the 1990s, and is likely to remain so for the foreseeable future. Sourcing product both from joint ventures and unrelated vendors in China, U.S. toy companies imported roughly \$10 billion of toys from China in 1999, accounting for two of every three toys purchased by American families. This approach—combining high value-added American operations in product conceptualization and design, design and development engineering, and strategic marketing with low-cost, high quality production overseas, mainly now in China—is the key to the U.S. toy industry's global success.

China's accession to the WTO will further support the interests of U.S. manufacturers and consumers of toys in three ways: (1) it will give U.S. toy companies access to the large Chinese toy market; (2) it will eliminate the uncertainty regarding China's continued access to the U.S. toy market that has been associated with the country's conditional NTR treatment; and (3) it will help U.S. toy companies by protecting the access of their China-origin products to third country markets.

The U.S.-China bilateral agreement on China's accession to the WTO achieves the U.S. toy industry's market access objectives in China by requiring China to completely eliminate its tariffs on toys (which currently range as high as 30-50 percent) by January 1, 2005. In addition, the U.S.-China agreement addresses several non-tariff barriers facing U.S. toy companies in China, such as the denial of trading rights that prevents Mattel and other foreign companies from selling directly to the Chinese market the toys they manufacture there.

In addition, China's accession to the WTO is a necessary precondition to stabilizing China's access to the U.S. toy market through the granting of permanent NTR status. The fact that the United States does not accord China permanent NTR status creates uncertainty for America's toy companies and exposes them to unwelcome risk. While the risk that the United States would withdraw NTR status from China may be small, if it did occur the consequences would be catastrophic for U.S. toy companies given the 70 percent non-MFN U.S. rate of duty applicable to toys. As a result, Mattel strongly supports congressional approval of legislation granting permanent NTR status to China upon its WTO accession.

Finally, China's WTO accession will help protect the access of China-origin products to third country markets, a matter of major importance to Mattel and other U.S. toy companies. As indicated above, U.S. toy companies are the most competitive in the world, and they are a major factor in almost all of the world's toy markets. In these countries, like in the United States, a major portion of U.S. companies' sourcing requirements is supplied by manufacturing operations in China.

The fact that Mattel's China-origin products are not protected by WTO rules has proven to be a problem overseas. For example, Mattel and other U.S. toy companies dedicated substantial resources to defeating safeguard petitions filed by the Argentine toy industry in recent years. The two investigations were rigorous, and Mattel was pleased to see the Argentine government abide by the WTO's disciplines for considering import relief actions under the safeguard code.

However, in January 1999, less than four months after the Argentine government had denied the second safeguard petition filed in two years, Argentina's Ministry of Economy announced substantial tariff increases for toys imported from China and other non-WTO members. This was a unilateral action that was not taken pursuant to any WTO-authorized procedures for implementing import restrictions. Obviously, the Argentine government would not have been able to take this unilateral action against China had the country been a member of the WTO.

The Argentine example is not an isolated one. Until recently, the EU subjected some categories of toys from China to quotas, an action that would not have been allowed under the WTO. Brazil currently maintains safeguard measures on toys and, while these measures do not currently discriminate against China as a non-WTO member, there is no assurance that that will remain the case in the future.

In conclusion, Mattel believes that China's accession to the WTO under the terms of the November 1999 bilateral agreement will bring major benefits to U.S. toy companies. It will help protect the ability of their cost-competitive Chinese operations to continue to supply the toy markets of the United States and other WTO member countries, to the benefit of consumers throughout the world. At the same time, China's accession also will open China's domestic toy market to the products manufactured by Mattel and other U.S. toy companies, presenting U.S. companies with significant opportunities for increased sales over the longer term.

In each instance, while toy manufacturing operations in China will benefit, less obvious but equally important beneficiaries will be the thousands of U.S. workers employed by Mattel and other U.S. toy companies in their high value-added U.S. operations that form the basis for the U.S. toy industry's position of global leadership. However, it is critical that Congress enact legislation granting permanent NTR status to China in order for Mattel and other U.S. companies to receive the benefits of China's WTO accession.

STATEMENT OF THE NATIONAL RETAIL FEDERATION

I. INTRODUCTION

The National Retail Federation (NRF) is the world's largest retail trade association with membership that includes the leading department, specialty, discount, mass merchandise, and independent stores, as well as 32 national and 50 state associations. NRF members represent an industry that encompasses more than 1.4 million U.S. retail establishments, employs more than 22 million people—about 1 in 5 American workers—and registered 1999 sales of \$3 trillion. NRF's international members operate stores in more than 50 countries.

NRF strongly supports the accession of China to the World Trade Organization (WTO) under the terms negotiated by the United States as stipulated in the U.S.-China bilateral trade agreement. That agreement offers substantial benefits to U.S. consumers, farmers, companies, and workers. The agreement will integrate China, the world's third-largest economy, into the global trading system and help to bring about positive economic and political change within China. China must undertake substantial reforms to open its economy and liberalize its domestic trade and economic policies and practices. But to benefit from China's WTO membership and the provisions in the landmark bilateral trade agreement, Congress must act swiftly to approve permanent normal trade relations (NTR) status for China.

II. PERMANENT NTR FOR CHINA IS NEEDED TO END THE DISRUPTIVE ANNUAL NTR RENEWAL PROCESS

For years, the annual NTR renewal process has created instability in the U.S.-China relationship. This ongoing instability has hampered opportunities to export to, import from, and invest in China. Although Congress has granted China annual NTR continuously since 1980, the cycle of annual renewals and the uncertainty associated with the process result in costly disruptions that hurt both American consumers and U.S. businesses alike.

The uncertainty of the annual NTR renewal is particularly disruptive for U.S. retailers, which typically place orders for Chinese products 18 months prior to delivery. China offers American consumers many value-priced goods such as clothing, footwear, consumer electronics and toys, as well as products like silk apparel that are simply not available from other manufacturers in the United States. The continuing uncertainty of China's NTR status forces retailers to gamble. Should they pay other suppliers more to buy the goods they would have gotten from China, which would, in turn, force them to pass the higher prices on to their customers? Or should they risk the uncertainty of sourcing from China, hoping that NTR will continue, so they can realize cost savings which are passed on to their customers? In either case, the uncertainty is reflected in higher product prices for American families.

Opponents of permanent NTR for China have claimed that the United States can maintain the annual renewal process once China is a WTO member and still receive the benefits of the bilateral agreement. This is not the case. As a member of the WTO, the United States must grant China unconditional, continuous NTR status. Even if the United States continues to grant China continual annual NTR status, perpetuating a system that limits NTR status to a length of time would violate the requirement, because a time limit constitutes a condition in and of itself. Moreover, it is a limitation to which no other WTO member would be subject. Therefore, unless Congress grants to China the same permanent NTR status enjoyed by other WTO members, China would be within its right to deny to the United States many of the benefits of China's WTO membership.

Under Article XIII 3. of the Marakesh Agreement Establishing the World Trade Organization, PNTR legislation must be passed by Congress and enacted into law, before the WTO membership approves China's terms of accession. It should also be emphasized that Congress cannot prevent China from joining the WTO. That event will occur if two-thirds of the WTO members vote to approve the terms of accession. All Congress can achieve by failing to approve PNTR is to deny to U.S. companies and American workers the benefits of the U.S.-China bilateral trade agreement and Chinese membership in the WTO.

III. THE TEXTILE AND APPAREL PROVISIONS IN THE BILATERAL TRADE AGREEMENT WILL BENEFIT U.S. CONSUMERS

Virtually all textile and apparel imports from China are currently subject to some type of restrictive quota. These quotas distort trade and lead to higher clothing prices for American families. Under the provisions of the bilateral trade agreement, China will be subject to the WTO Agreement on Textile and Clothing (ATC), which requires that all quotas on textile and apparel products be phased out over a 10-year period ending in 2005.

A study by the U.S. International Trade Commission (ITC) found that applying the ATC to China would have impressive positive effects on the U.S. economy. The ITC predicts that applying the ATC to China would increase U.S. GDP by \$1.9 billion and economy-wide welfare would reach \$2.4 billion in 2006.

It must be remembered, however, that the benefits of applying the ATC to China will take many years to materialize. The United States has refused to integrate (release from quota) any textile or apparel products of importance to American consumers (save babies' wear) before 2005. Thus, even with the ATC, U.S. quotas im-

posed on imports from China remain intact for some time. Also the trade-weighted base growth rate of Chinese apparel quotas is very low: 1.33 percent. The ATC's accelerate growth provisions, which will apply to China once China becomes a member of the WTO, increase this base growth rate to just 2.0 percent in 2000. Thus, the accelerated growth provisions of the ATC will not result in surges of apparel imports from China.

The U.S.-China bilateral trade agreement governing the terms of China's accession to the WTO also includes two safeguard mechanisms that portend greater protection from increased textile of clothing imports than apply to any imports into the United States from any other WTO member. From 2005 to 2009, China will be subject to a special textile safeguard mechanism under which it will be relatively easy for U.S. textile and apparel producers to win extended quota protection from imports. After that, this trade will be governed by another stricter-than-Section 201 special safeguard that also promises a continuation of quotas into the foreseeable future. Although retailers are concerned that the protections afforded by these safeguards mechanisms as well as the U.S. antidumping laws will continue to restrict trade textile and apparel trade with China for some time into the future, these protections belie the dire scenarios painted by some of the PNTR opponents about the adverse impact on the U.S. textile industry.

IV. THE BILATERAL TRADE AGREEMENT WILL IMPROVE THE ABILITY OF RETAILERS TO OPEN, SUPPLY, AND OPERATE STORES IN CHINA

Some American retailers are eager to open stores and sell products to the Chinese market. Unfortunately, that market is virtually closed to U.S. retailers. Foreign companies are only allowed to conduct retail business through experimental joint ventures. Stringent restrictions are also in place that regulate the geographic locations of stores, limit foreign ownership, and impose burdensome licensing procedures for new stores. In this environment retailers are not able to easily expand operations into the world's most populous market.

The good news for retailers is that the bilateral trade agreement would dramatically open China's distribution services. The agreement would allow foreign ownership, eliminate geographic limits on stores and grant foreign retailers full trading rights. In a recent study, the ITC determined that the removal of distribution services restrictions would allow U.S. retailers to boost trade and investment in the Chinese market and facilitate the opening of new stores. The liberalization of distribution services is also important for U.S. producers of manufactured and agricultural products that rely on retailers to sell their products in stores in China.

If Congress does not approve permanent NTR for China before its accession to the WTO, U.S. companies will be denied these benefits and foreign retailers will gain a huge advantage in the Chinese market. As U.S. companies miss out on the opportunity to open and operate stores in China, huge amounts of market share will be lost to foreign competitors, whose home countries have granted China permanent NTR.

V. CHINA'S MEMBERSHIP IN THE WTO WILL PROMOTE THE KIND OF CHANGE THAT AMERICA SEEKS IN CHINA'S TRADE AND OTHER POLICIES AND PRACTICES

Membership in the WTO, including U.S. extension of permanent NTR, will promote the very change America seeks in many of China's trade and other policies and practices. As a member of the WTO, China will be held to its trade commitments by the WTO's dispute settlement system. WTO membership will make China subject to multilateral action by the organization's 135 members in trade disputes. The current U.S. tools, Section 301 and the annual threat of denial of NTR, have not achieved the kind of success that the WTO process can promise. Moreover, unilateral trade sanctions can threaten a similar action by the target country that can escalate into a destructive trade war. That threat is substantially diminished when the sanctions are imposed and approved by the multilateral rules of the WTO.

Excluding China from the international economic system will weaken, not strengthen, the position of courageous reformers in China. The cost will be long-sought improvements in China's human rights, nuclear proliferation, and other non-trade practices that these reformers support. Approving permanent NTR will send a strong sign to China that the United States is committed to those who would reform China and will be a partner in its transformation to a market economy.

VI. CONCLUSION

The importance of granting China permanent NTR status cannot be understated. The consideration of this matter by Congress later this year represents a historic

opportunity that will fundamentally affect the progress of reforms in China and U.S. competitiveness in the global economy in the 21st Century.

When considering permanent NTR for China, Members of Congress must remember that they are not voting on the admission of China to the WTO. China can become a member without the nod of the United States. Rather, Congress will decide whether or not the United States will receive the benefits of China's WTO membership. The U.S.-China bilateral trade agreement and the accession of China to the WTO offer tremendous benefits to all Americans and NRF strongly encourages Congress to act swiftly to approve permanent NTR for China.

STATEMENT OF THE NPES—THE ASSOCIATION FOR SUPPLIERS OF PRINTING,
PUBLISHING AND CONVERTING TECHNOLOGIES

INTRODUCTION

NPES is a United States national trade association representing over 440 companies who are manufactures and/or suppliers of printing, publishing and converting technologies. NPES strongly supports free, fair trade. Because of our belief in this philosophy, we support the People's Republic of China's (China) accession to the World Trade Organization in order to encourage China's efforts to reform its state enterprises and banking system, and to continue lowering import duties. Moreover, we urge Congress to adopt Permanent Normal Trade Relations (PNTR) status for China, in order to implement the recent WTO accession agreement between the United States and China.

SINO-US PRINTING TECHNOLOGIES TRAINING CENTER

Since September 1997 NPES, along with its joint venture partner the Shanghai Printing Group Corporation, has developed and manages the Sino-U.S. Printing Technologies Training Center in Shanghai, China. The training center promotes the sale of members' products in China. Together with its 30 Technology Partners (member companies that have contributed equipment to the center) NPES is an active leader in the Chinese printing industry. Called "a highly creative and innovative effort" by the United States Commerce Department, the training center has produced more than \$10 million in new export business for U.S. Technology Partners, and is but one example of our efforts to open up China to lucrative trade.

DIRECT BENEFITS TO PRINTING, PUBLISHING AND CONVERTING EQUIPMENT
MANUFACTURERS OF CHINESE ACCESSION TO WORLD TRADE ORGANIZATION

As the world's third largest economy and the fourth largest U.S. trading partner, China is a nation that we cannot afford to turn our back upon. Last year the American printing industry exported more than \$60 million worth of equipment and printed material to China, an increase of 24% from the previous year, and we are working hard to increase that total this year, and in the years to come. As part of its Ninth Five-Year Plan, China is committed to meeting the demand for modernizing its printing and publishing industry. This policy represents a great opportunity for American exporters of this technology. The reductions in tariffs and other trade barriers, which China would have to accede to under WTO protocols could only enhance American exports in this industry.

China's accession to the WTO would provide a series of direct benefits to the U.S. printing, publishing, and converting equipment industry. NPES Members will be able to offer their Chinese customers a leasing option for large printing equipment, an option not currently available under prevailing conditions. Chinese end-users would be able to have direct access to parts and supplies of printing, publishing and converting equipment and services. Finally, clear and transparent rules governing imports into China would enable U.S. manufacturers and suppliers to position and market their products and services. This last point would be especially useful, as NPES Members have reported experiencing great difficulties exporting spare parts to China. One member commented to us that, "we have a hard time getting warranty parts into China and an impossible time getting parts back to the U.S. for evaluation and repair." NPES Members also report that corruption and commission payments represent strong non-tariff barriers to trade with China. While WTO accession would not by itself solve the problem of Chinese corruption, the rules under which China would be required to operate would serve to throw the process open so that it would become more difficult to unfairly deny American exporters access to the Chinese market. NPES Members would also benefit from the ending of arbi-

trary or non-scientific standards that represent a significant non-tariff barrier to American imports.

American printing equipment manufacturers would also see a direct benefit from the extension of intellectual property rights enforcement in China. So far domestic competition within China, while priced at around 20% the cost of American imports, is of such poor quality that American-made printing equipment is considered far superior and worth the expense. However, should Chinese companies begin copying American designs and marketing their own versions of American products, as has happened in other industries, our members fear a significant reduction in their Chinese business.

CHINESE MEMBERSHIP IN WTO MEANINGLESS WITHOUT PNTR

It can clearly be seen that Chinese admission to the WTO would have a significant, and positive, impact on the American printing, publishing and converting equipment industry. However, in order for these positive gains to be realized it is necessary for Congress to grant China Permanent Normal Trade Relations status. This is because unconditional normal trade relations are required under WTO protocol, and even an extension of the current annual review of NTR would violate WTO rules. Without PNTR American manufacturers would have the worst of both worlds, as China could still join the WTO, but American manufacturers would reap none of the benefits of the U.S.-China agreement.

Opponents have raised economic, social, and political objections to PNTR for China. We believe, however, that these objections should not sway Congress against granting PNTR. For example, it has been stated that the current U.S. trade deficit with China will only increase as inexpensive Chinese imports flood the U.S. market. This objection is refuted, however, by the fact that the agreement between China and U.S. is a litany of almost completely one-sided concessions by the Chinese that will serve to open the Chinese markets to more exports. The printing, publishing and converting equipment industry would expect to see little or no competition from Chinese imports.¹ This is due to the vastly superior quality of American equipment compared to its Chinese counterparts.

CONCLUSION

NPES believes that the important technological integration taking place both in China generally, and in the Chinese printing industry specifically, is leading the way to Chinese economic integration. This integration is an effective tool with which to advance the broad range of U.S. national interests in China and all of Southeast Asia. Our members would benefit greatly from the implementation of the agreement between the United States and China that allows for Chinese accession to the World Trade Organization, and we encourage Congress to pass PNTR needed to facilitate that outcome.

It has also been argued that poor working conditions in China, China's poor overall human rights record, and its proliferation of weapons to other parts of the world will be tacitly endorsed and encouraged by the policy of engagement that is embodied in this agreement. We believe, however, that it is only through engagement with China that change will occur. A poor and isolated China is a dangerous international player, whereas an engaged China fully absorbed into the global trading community will lead to a safer world.

NPES thanks the Committee for this opportunity to submit testimony, and it is prepared to respond to questions or requests for further information.

STATEMENT OF THE U.S. HIGH-TECH INDUSTRY COALITION ON CHINA

[SUBMITTED BY JENNIFER GUHL, DIRECTOR, INTERNATIONAL TRADE POLICY, AMERICAN ELECTRONICS ASSOCIATION]

Eleven trade associations representing U.S. high-technology industries have joined together through the U.S. High-Tech Industry Coalition on China to work together on one of our highest priority public policy issues this year—China's accession to the World Trade Organization (WTO). The coalition represents U.S. manufacturers of semiconductors and semiconductor equipment and materials, computers, electronics, software, and telecommunications equipment, as well as U.S. Internet companies. A list of coalition members is attached.

¹In 1999 American imports of Chinese printing products amounted to only \$9 million, compared with \$60 million in exports.

The U.S.-China bilateral WTO accession agreement reached on November 15, 1999 is a solid win for U.S. high-technology industries. In that agreement, China committed to comprehensive reform of its economy, and to eliminate tariff and non-tariff barriers to trade, regulatory requirements and investment restrictions. As a result of this historic step, U.S. high-tech industries are poised to expand exports to this rapidly growing market, increase high-wage American jobs, and continue our technological leadership and competitiveness in international markets.

For our industry to reap the benefits of these market opening concessions that China has made, however, Congressional approval of permanent normal trade relations (PNTR) with China is necessary.

OPPORTUNITIES IN THE CHINESE MARKET

In the next decade, China is expected to become one of the largest markets in the world. Based on U.S. Commerce Department data, China represented the 12th largest high-tech export market in 1998, with electronics exports exceeding \$3.0 billion. Electronics comprised 21 percent of total U.S. exports to China in 1998. The following provides an overview of the Chinese market for some of the key high-tech sectors.

Semiconductors and Semiconductor Equipment and Materials

The current semiconductor market in China is estimated to be up to \$8 billion per year. Some analysts expect it to become the third largest semiconductor market by 2001 (ahead of Germany, but behind Japan and the United States) and the second largest by 2010. The current semiconductor equipment and materials market in China is estimated to be over \$1 billion per year and is projected to reach almost \$4 billion in 2003.

Computers

The market in China for computers is expanding rapidly, averaging 37 percent growth per year for the past three years. The Chinese market will continue to grow. International Data Corporation predicts that by 2003, China will be the third largest PC market after the US and Japan. More than 120 million Chinese citizens plan on buying a computer in the next two years.

Software

China's software market is growing at 28 percent a year. High growth rates will continue as Internet use in China continues to climb and piracy rates decrease. The Internet is projected to reach an estimated 20 million people in China by the end of 2000.

Telecommunications

China's market for cellular telecommunications is growing at a tremendous rate. By the end of 1999, China boasted approximately 40 million cellular subscribers, bringing it closer to its target of becoming the world's second largest cellular market with approximately 60 million subscribers. Only the cellular market of the United States is projected to be larger than China's by the end of this year. With the market potential for 3rd generation mobile communications also taken into consideration, China promises market opportunities for years to come.

Internet

More than 9 million Chinese are already on-line, and in the next few years China is expected to become one of the largest Internet markets in the world. This growing market offers tremendous commercial opportunities to U.S. firms. By participating in this market, U.S. Internet service and content providers can make sure that vital social services—such as education, communications and telemedicine—are delivered across the Internet. We can also lay the groundwork for e-commerce and the economic growth, productivity and jobs it will generate.

BENEFITS OF CHINA'S WTO ACCESSION

As the China accession negotiations began in earnest, the High-Tech Industry Coalition on China set forth its objectives for our negotiators. The package that they have come back with meets those objectives.

Under the terms of the November 1999 bilateral agreement, China's WTO accession would provide significant opportunities and benefits to U.S. high-tech industries. A summary of some of these key benefits follows.

- *Information Technology Agreement:* China has agreed to adopt the Information Technology Agreement (ITA), which eliminates tariffs on products such as computers, telecommunications equipment, semiconductors, semiconductor manu-

facturing equipment, computer equipment and other high technology products. China has agreed to eliminate nearly all of its IT tariffs (which currently average 13%) by 2003, and the remainder by 2005.

The benefits to U.S. high-tech industries are clear: duty-free entry of U.S. products should result in increased exports, sales and market share of U.S. products. In addition, American high-tech companies producing in China will have access to lower cost inputs. Finally, China's adoption of the ITA will help to combat smuggling, since the incentive for the creation a black market to circumvent tariff barriers will be removed.

- *Trading and Distribution Rights:* China will, for the first time, permit American and other foreign companies to directly import and export products—so-called trading rights. China has also, for the first time, agreed to permit American and other foreign companies to directly distribute their products, including wholesale and retail and after-sale service, repair, maintenance, and transport.

For American high-tech industries, the right to provide direct service is essential to control quality and ensure the authenticity of the spare parts being delivered. Indeed, in other important overseas markets, American firms increasingly are using quality service as a strategic weapon against foreign competitors to win customers and grow market share. The inability to deal directly with end-users is a particular problem in the semiconductor industry, where the design and development of application-specific chips requires extensive contact between semiconductor producers and the ultimate end-users of the chips.

Since China has agreed that all restrictions on trading and distribution rights will be eliminated three years after accession for most sectors, the benefit will be the ability for our industries to quickly excel in China's rapidly growing, competitive information technology market.

- *Investment Restrictions:* China has agreed to implement the WTO Trade-Related Investment Measures (TRIMS) Agreement upon accession. This means China will eliminate and cease enforcing trade and foreign exchange balancing requirements. China will also eliminate and cease enforcing local content requirements, and refuse to enforce contracts imposing these requirements. China will guarantee that laws or regulations to the transfer of technology or other know-how will be consistent with WTO obligations to protect intellectual property rights and trade-related investment measures.

China has also agreed that, upon accession, it will not condition investment approvals, import licenses, or any other import approval process on performance requirements of any kind, including: local content requirements, offsets, transfer of technology, or requirements to conduct research and development in China.

These provisions will help protect American firms against efforts by some Chinese officials to force the transfer of U.S. commercial technology to Chinese firms, which has been a significant issue for U.S. high-tech companies seeking market access or the right to invest in China.

- *State-Owned and State-Invested Enterprises:* China has agreed that it will ensure that state-owned and state-invested enterprises will make purchases and sales based solely on commercial considerations, providing U.S. firms with the opportunity to compete for sales and purchases on non-discriminatory terms and conditions. This is an important point for U.S. high-tech industries, since state-owned and state-invested enterprises currently control a significant share of domestic and international trade in commercial high-tech goods in China.
- *Telecommunications Services:* Included in China's concessions in the telecom sector, China agreed to open its telecom market to foreign service providers according to the following schedule:
 - Phase-in of foreign participation in paging/value-added services in two years, allowing up to 50 percent ownership by foreign investors;
 - Phase-in of foreign participation in mobile/cellular services over five years, allowing up to 49 percent ownership by foreign investors;
 - Phase-in of foreign participation in fixed line/international long distance services over six years, allowing up to 49 percent ownership by foreign investors.

In addition, China agreed to sign onto the WTO Agreement on Basic Telecommunications Services (BTA). The BTA commits participating countries to open their telecom services markets. China has committed to a set of regulatory principles contained in the so-called Reference Paper to the BTA, and has therefore made specific commitments to open up its telecom services markets. These include providing access to the public telecom networks of incumbent suppliers under non-discriminatory terms and at cost-oriented rates. China also agreed to technology-neutral scheduling, meaning technology choices are made as commercial decisions, rather than government mandate.

The Ministry of Information Industry (MII) is preparing China for competition from foreign service providers after China's accession to the WTO. To meet this goal, China's second telecom carrier, China Unicorn, is slated to buildout an additional national cellular network in 2000 based on Code Division Multiple Access (CDMA) technology. This development is very positive for U.S. telecom equipment manufacturers, as they are the world's leading suppliers of this technology. In addition, China introduced a new service provider into the market in 1999, China Netcom (CNC). This new company will focus on the provision of Internet Protocol (IP) telephony, allowing more efficient use of bandwidth on the Chinese networks.

- *Intellectual Property*: By joining the WTO, China will become subject to the Agreement on Trade Related Aspects of Intellectual Property (TRIPs). Moreover, China has agreed to be subject to all TRIPs obligations upon accession, without any transition period. The TRIPs agreement is the best vehicle available to high-tech industries to combat piracy of intellectual property and to create a healthy environment for the development of information technology in China.

Industry experts estimate that 95 percent of the business applications software used in China was pirated in 1998 (the last year for which data is available), depriving the software industry of nearly \$1.2 billion in licensing revenue. If China were to bring its legal system into compliance with the standards in the TRIPs Agreement, the U.S. software industry should be much more able to enforce its rights in Chinese courts and administrative tribunals. However, the United States will be unable to ensure Chinese compliance with the TRIPs Agreement absent the grant of PNTR to China.

- *Antidumping*: The bilateral agreement enables the United States to maintain strong protections against dumping. Since China's economy is not fully market-oriented, it is critical that the United States maintains its ability to utilize its existing non-market economy methodology in the application of U.S. anti-dumping laws. The United States and China have agreed that the United States may maintain this current methodology for 15 years after the date of China's accession to the WTO.

PNTR IS NECESSARY FOR THE U.S. TO BENEFIT FROM CHINA'S WTO ACCESSION

The United States must approve permanent normal trade relations (PNTR) status for China in order for U.S. firms to receive the benefits of China's accession to the World Trade Organization (WTO). If China accedes to the WTO and the U.S. Congress does not pass legislation granting China PNTR, it is expected that the Administration would invoke its right of "non-application" under Article XIII of the WTO Agreement, as has been done with respect to other countries subject to the Jackson-Vanik Amendment. This would be done at the time China formally accedes to the WTO. Even though China would become a WTO member, the United States would not treat China as a WTO member. Moreover, China would not be required to treat the United States as a WTO member.

Without PNTR, an historic opportunity would be jeopardized for U.S. companies and their workers. The terms of the landmark U.S.-China bilateral agreement concluded in November and all other terms of China's WTO accession package would not apply to U.S.-China trade and investment, except to the extent that existing bilateral agreements make the WTO agreement terms binding between the two countries.

While the United States would receive some modest benefits, such as tariff cuts, under the terms of the 1980 bilateral agreement between the United States and China, many of the hard-fought concessions by the Chinese are not covered by this agreement. For example, China's agreement to eliminate forced technology transfer and investment requirements would not be extended to the United States. Nothing in the 1980 agreement requires the Chinese government to ensure that its state-owned and state-invested enterprises make their purchases solely on commercial terms, while China agreed to this commitment in the WTO accession agreement. Without PNTR, U.S. companies would not benefit from China's agreements to allow distribution rights for foreign companies and to allow investment in telecom and Internet services. Additionally, the United States would not have access to the WTO dispute settlement process to enforce intellectual property and other rights in the case of any noncompliance by China.

ANNUAL NTR EXTENSION IS NOT SUFFICIENT

Article I of the General Agreement on Tariffs and Trade (GATT) requires that WTO members provide "unconditional" MFN treatment to other WTO members. This principle is a cornerstone of the WTO and an open global trading system.

Some have argued that the United States can meet this unconditional MFN obligation, and thus be entitled to China's WTO concessions, as long as Congress renews NTR on a continual basis. But under the Jackson-Vanik Amendment to the Trade Act of 1974, China's MFN status is tied to annual Presidential findings or waivers regarding freedom of emigration, which can be overridden by Congress through a joint resolution of disapproval. Continued annual renewal of China's NTR status would violate WTO rules because it would be conditional (on freedom of emigration per the Jackson-Vanik Amendment) and discriminatory (requiring procedures for China that are not applied to other WTO members). Approval for permanent NTR is necessary to meet the WTO's unconditional MFN obligation.

CONCLUSION

The American high-tech industry has been at the forefront of U.S. economic expansion and technological leadership. Granting China PNTR, coupled with the significant market reforms in China embodied in its WTO commitments, will enable our industry to expand its market presence and business opportunities in this critical market.

Moreover, access to American commercial information technology enables people worldwide to improve business efficiency across all sectors, enhance educational and social opportunities, and connect with one another. Improved market access for U.S. commercial information technology in China will help to advance economic and social reform in China. A timely congressional vote granting PNTR to China is a critical and necessary step toward securing this goal.

U.S. HIGH-TECH INDUSTRY COALITION ON CHINA

American Electronics Association
 Business Software Alliance
 Computer Systems Policy Project
 Computing Technology Industry Association
 Electronic Industries Alliance
 Information Technology Industry Council
 Semiconductor Industry Association
 Semiconductor Equipment & Materials International
 Software & Information Industry Association
 Telecommunications Industry Association
 United States Information Technology Office

STATEMENT OF THE U.S. WHEAT ASSOCIATES, THE WHEAT EXPORT TRADE EDUCATION COMMITTEE, AND THE NATIONAL ASSOCIATION OF WHEAT GROWERS

Wheat producers across the United States strongly support China's entry into the World Trade Organization (WTO) and the immediate approval of permanent normal trade relations status for China.

China is potentially the world's largest wheat market. Unfortunately, it has maintained a non-tariff trade barrier on U.S. wheat exported from Pacific Northwest ports since 1972, and from Gulf ports since June of 1996, due to the perceived threat of *Tilletia Controversa* Kuhn (TCK), a wheat fungus known as TCK smut. This barrier to the Chinese market continues to have a very negative economic impact on all U.S. wheat producers.

In April of 1999, Prime Minister Zhu Rongji announced China's intention to lift its long-standing restrictions on the export of U.S. wheat from areas where TCK is known to occur. This agreement allows U.S. wheat to be exported from any state or any U.S. port to any Chinese port as long as these imports do not exceed a tolerance level of 30,000 TCK spores per 50-gram sample. This level can easily be met by U.S. wheat exporters while acknowledging China's concerns about this disease.

While the market access agreement is not tied to China's entry into the World Trade Organization, the Chinese unilaterally decided to link it to U.S. support for their WTO entry that has now been agreed upon. We had expected China to implement the TCK agreement immediately upon signing. We have strongly encouraged the Chinese to implement this agreement as a sign of good faith towards their WTO commitments.

This announcement followed more than 20 years of extensive—at times frustrating—discussions between the U.S. and China to resolve this issue. TCK restrictions were instituted due to China's concerns that its own wheat crop could become infected with TCK. It is significant that this longstanding dispute over TCK smut was resolved based on a framework that is consistent with the objectives of the Uru-

guay Round Agreement on Sanitary/Phytosanitary Measures (SPS). The SPS agreement is the heart of settling disputes of this type in the WTO as it requires that sound science, not political or other issues, determine whether products are safe to trade. Together, the United States and China agreed to let science, rather than political or other considerations, determine the terms of trade between our two countries. Likewise in November of 1999, the United States and China completed negotiations on China's entry into the WTO. The agreement was formalized when the Chinese language version of the agreement was signed in Seattle last December.

In accordance with this agreement, China will liberalize its purchase of bulk agricultural commodities like wheat, corn, soybeans, rice and cotton. China will adopt tariff-rate quotas—that is, very low tariffs on a set volume of these bulk commodities. The wheat TRQ, for example, begins at 7.3 million tons and rises to 9.3 million tons by 2004. (Present import levels are below 2 million metric tons.) In all commodity TRQs, private traders will be guaranteed a share of the TRQ and a right to import using the portions of the shares given to state trading companies that are not used by the state agencies. This will help establish legitimate private-sector trade in China. Taken together, the TCK resolution and the U.S.-Chinese trade agreement, represent an important new commercial opportunity for U.S. wheat producers at a critical time for the economic health of the industry.

China is the world's largest wheat producing and largest wheat consuming nation. The U.S. is the world's largest wheat exporter. U.S. wheat exports to China have varied over the years, contingent upon Chinese wheat production levels and those of other wheat suppliers. Throughout the early 1990s, China imported from one million metric tons to 5.6 million metric tons of U.S. wheat each year. In recent marketing years, Chinese imports of U.S. wheat have declined significantly due to major increases in China's own production and the stringent enforcement of the TCK zero tolerance restriction.

Nevertheless, we expect China to once again become a major importer of U.S. wheat. We base our expectations on economic developments and production constraints in China. China has a huge and growing population, burgeoning coastal cities, growing demand, declining stocks, stagnant acreage and reduced domestic price supports. We anticipate that over a period of a few years, increased China trade would have a significant impact on the world supply and demand situation that should be positive for prices. To put it plainly, nothing else on the horizon could have such a big impact in the short term on U.S. wheat exports and the economic stability of wheat producers or hold such potential for expanded growth in the future.

USDA's baseline projection puts China's wheat imports at 4.2 mint in five years. U.S. Wheat Associates estimates that the U.S. market share could be one third to one half of total Chinese imports. The U.S. market shares are very high in a number of neighboring countries and we believe that our market share with China has greater potential than most estimates. This is based on work by U.S. Wheat Associates personnel located in China who believes that China's wheat importers are focusing on the need for "quality" wheat. The import demand is projected to focus on wheat with qualities needed for better consumer products that are not produced in large quantities in China.

In order for U.S. wheat producers to realize the full potential of the Chinese market, it is absolutely critical that Congress approves legislation to grant China Permanent Normal Trade Relations status (PNTR) as soon as possible. As Ambassador Barshefsky said in her testimony before the House Ways and Means Committee there is "no option" to addressing PNTR now. There is no option for United States wheat producers but to have the opportunity to participate in the Chinese market. If we are to achieve the benefits of this long sought agreement and give producers the opportunity to market into this huge economy, China must be brought under the rules based system of the WTO. We have that opportunity with the agreements delivered in April.

By granting permanent normal trade relations for China Congress will be giving nothing away to China, our market is already open. However, you will be fulfilling one of the "unmet promises" of the 1996 Freedom To Farm Bill, that of continuing to provide export markets for U.S. farmers and ranchers. U.S. farmers would rather have open fair markets than receive payments from the government. Farmers want to add to the balance of payments by exporting their products. This point is especially timely and crucial as the U.S. trade deficit reaches an all-time high. Our trade deficit with China, second highest after Japan, has ballooned to \$68.67 billion in 1999 as reported by the U.S. Department of Commerce. The only way to counter this trend is to open markets throughout the world and facilitate the exportation of U.S. products. Bulk commodities such as wheat can have a substantial positive impact on the trade balance as demand for high quality foods continues to rise. The

Chinese economy is poised to reach new heights and as their middle class swells it is imperative for U.S. producers to have fair and unfettered access to this market.

Various people including Ambassador Barshefsky, have stated that it would indeed be ironic if the United States after over 14 years of negotiations to include China in a rules based world trading system would decide not to grant them PNTR. By doing so we would be allowing our competitors to have the benefits of China opening its market—the most dynamic and rapidly growing in the world. U.S. leverage and any means of influencing China under the WTO rules system would be lost and the United States would yield its leadership in the trade arena.

The U.S. wheat industry is looking forward to working with the Chairman, this committee, and others in Congress to make permanent normal trade relations for China happen this year. The wheat industry will do everything it can to mobilize grassroots support, but it is necessary for supporters in Congress and the Administration to exhibit strong leadership and cooperation in order to deliver a positive vote for America's farmers, laborers and industries. This is an opportunity that we can not afford to let slip away. Thank you.

