

CHINA MOST-FAVORED-NATION STATUS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

JUNE 19 AND 20, 1991



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CHINA MOST-FAVORED-NATION STATUS

WEDNESDAY, JUNE 19, 1991

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

The hearing was convened, pursuant to notice, at 10:34 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Riegle, Daschle, Packwood, Roth, Danforth, Chafee, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-24, June 14, 1991]

SENATOR BENTSEN SCHEDULES HEARINGS ON EXTENDING CHINA'S MFN STATUS, FULL RANGE OF CONCERNS TO BE DISCUSSED, CHAIRMAN SAYS

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman, announced Friday that the Senate Finance Committee will hold hearings next week on the President's recommendation that China continue to receive Most Favored Nation trade status.

The hearings will be at 10 a.m. Wednesday, June 19 and Thursday, June 20, 1991 in Room SD-215 of the Dirksen Senate Office Building.

"The President's decision this year to continue MFN trade treatment for China has justifiably provoked intense debate in Congress, given China's continued bad behavior on a wide range of matters," Bentsen said.

"With these hearings, the Committee will have the opportunity to examine the full range of issues facing United States-China relations, including China's human rights and emigration practices, its restrictive trade regime, U.S. economic and commercial interests in trading with China, and questions regarding weapons proliferation," Bentsen said.

President Bush recommended to Congress on May 29, 1991 that MFN status for the People's Republic of China, which has received MFN treatment since February 1, 1980, be extended for a year. Under the requirements of the Trade Act of 1974, this status can be renewed each year if the President certifies that continuation of MFN will substantially promote freedom of emigration. Once the President makes that recommendation, MFN treatment continues automatically unless Congress acts by August 31 to disapprove extension.

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

The CHAIRMAN. Would you please cease conversation, and we will get under way here. Today and tomorrow we are going to hear testimony from the administration and from private witnesses regarding the extension of most-favored-nation status to the People's Republic of China.

Since 1980, the United States has granted most-favored-nation treatment to China, but that treatment has always been conditioned on China's record in allowing people to leave that country freely.

Each year, the President must review that record, and each year since 1980 the President has determined that continuation of MFN will promote freedom of emigration for the Chinese people.

The President has made that determination again this year. It is the Congress' responsibility to review that decision. And in the Senate, that responsibility falls to the Finance Committee.

In 1974, the Congress set freedom of emigration as the standard for determining whether to grant MFN to Communist countries. That standard represents the most basic of human rights. From it flows other human liberties, because no country can allow free emigration, while repressing the democratic hopes and aspirations of its people. Until June of 1989, extension of China's MFN status had proceeded routinely; no bumps.

But the events of Tiananmen Square brought about a dramatic change in the way the American people viewed China. The images we held of China's cultural wealth—of Marco Polo, of Confucian principles, and of the Great Wall—were replaced by visions of tanks, and troops, and guns aimed at Chinese citizens exercising rights which we hold so dear in this country; the right to speak freely and to assemble peacefully.

Since the events of June 1989, the American people and we, as their representatives, have debated whether we should continue to maintain normal trade ties with a government that we watch treat its people so brutally. That is what MFN is. Not special trade treatment, but the normal basis on which we build a trading relationship.

The President's decision to extend MFN for China again this year troubles me not just for that reason, but for a number of reasons. First, China has done little in the last year to improve its human rights record. To the contrary, reports of political repression and harsh sentences for Chinese dissidents continue.

Secondly, China's behavior in a number of other areas such as its restrictive trade practices and reports of weapon sales raise further questions as to whether we should maintain normal trade ties with that government.

I am particularly troubled by what I see happening on China's record on trade. That is what MFN originally was all about. Our trade deficit with China is now our third largest at \$10.4 billion and it's our fastest growing.

Through a complex system of trade barriers and administrative controls, China keeps out our exports, while its exports continue to enjoy wide access to U.S. markets. For example, to export autos to China, a U.S. company must provide two free samples to the Chinese Government, pay \$40,000 for the Chinese to test them to see if they meet China's quality standards—now, that is a standard that Chinese-built cars do not have to meet—and finance a trip to the United States by Chinese officials to inspect the factory. If this is what it means to be China's most favored nation, then perhaps we need to take another look at the ground rules.

Clearly, this administration has not yet convinced the Chinese leadership that there is a price to pay for such activities. If no other message is heard by the Chinese Government, let it be clear that continuation of these policies places China's MFN status in severe jeopardy.

I really do not want what we do in this committee to be just a political statement. I would like to see us push as hard as we can push to turn some of these things around and have the Chinese respond, and have it be effective. We are by far the biggest market in the world. Access to this market is terribly important to other countries, and particularly to the Chinese. In some way, we have to make them understand that they must behave, in a manner consistent with the objectives of democratic principles.

Tomorrow, we are going to hear from Chinese students themselves, as well as human rights activists, and from groups representing U.S. economic interests in continuing trade with China.

Today, we start off with two able representatives of the administration's viewpoint. Hon. Lawrence S. Eagleburger, Deputy Secretary of Department of State, and Hon. Linn Williams, Deputy U.S. Trade Representative, Washington, DC. Gentlemen, we are pleased to have you. Mr. Secretary, would you proceed?

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

STATEMENT OF HON. LAWRENCE S. EAGLEBURGER, DEPUTY SECRETARY, DEPARTMENT OF STATE

Secretary EAGLEBURGER. Mr. Chairman, thank you very much. I appreciate the opportunity to be here today. The President's decision to renew the waiver necessary to extend China's most-favored-nation trade status for another year has again, as you indicated, provoked an intense debate in the Congress not only about the appropriateness of granting MFN, but also about U.S. policy toward China generally. This is understandable.

Even the passage of 2 years cannot erase the terrible images of Tiananmen Square. The United States will always condemn that kind of violence in China, or anywhere else in the world. There should be no misunderstanding about U.S. policy toward China. The promotion of fundamental human rights is and will persist as a cornerstone of that policy.

Top administration officials have stated this forcefully and repeatedly to senior representatives of the Chinese Government. The President was the first major world leader to condemn the crack-down at Tiananmen, and promptly indicated that, in such circumstances, there could be no "business as usual" with the Chinese. The United States today remains alone among Western democracies in maintaining its Tiananmen sanctions against China and in refusing to restore normal relations until China makes substantial progress in addressing our human rights concerns.

Without question, we have taken the strongest measures against China of any country in the world. We do not accept, therefore, the premise that what is at stake in the MFN debate is the administration's concern for human rights in China, or its desire to promote democratic reform.

All Americans—in the administration, the Congress, and the public at large—are in agreement on these matters, as we are on the need to seek a stronger commitment from the Chinese on non-proliferation and on fair trade.

The real issue, of course, is how we achieve these objectives. We firmly believe, for our part, that renewing China's MFN waiver—without conditions—provides our best instrument for promoting positive change and U.S. interests in China.

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

The Chinese Government continues to permit its citizens to emigrate to the United States and elsewhere. In fiscal year 1990, approximately 17,000 U.S. immigrant visas were issued in China, the full number permitted by the United States.

We are aware of a small number of individuals who have been denied permission to travel abroad, apparently because of the political activities of their relatives in the United States. We are pressing this issue at senior levels within the Chinese Government, but such cases appear to be the exception, not the rule, and most relatives of dissidents have been able to leave China.

In our view, there is simply no doubt that China's emigration policy meets the objective of the law on MFN status. While that judgment might end the debate under most circumstances, we recognize that in this case it does not.

Let me turn, therefore, to why the extension of MFN makes sense in the context of our overall China policy. I would urge at the outset that the Congress resist the temptation to seek a middle-ground solution by extending MFN with conditions. We believe such a solution to be illusory and a recipe for failure. Throwing down the gauntlet with a public ultimatum on MFN—indeed, one specific to China—would only make it easier, not harder, for conservative Chinese leaders to claim that national honor and sovereignty precluded any concessions. Our credibility would then require us 6 months or 1 year from now to terminate MFN if China failed to meet each and every condition imposed.

Let us be honest with ourselves. Let us confront today the real issue which the debate on conditionality would only delay for a short period of time—namely, whether to extend MFN on its own merits and without conditions, or terminate it.

As I will explain, the administration supports the extension of MFN because it believes that an open China is key to our eventual hopes for a more democratic China. MFN has become over the past 11 years an underlying structural component of our relationship, which has facilitated our ability to engage the Chinese on a broad range of issues, and has allowed us selectively to apply sanctions targeted to our specific differences.

MFN itself is simply not the vehicle we should use to exert pressure on the Chinese with regard to particular issues. To place conditions on MFN would hold our single most powerful instrument for promoting reform hostage to the reactions of the hardliners in Beijing.

In short, the administration fervently believes that MFN is of fundamental value in promoting positive change in China. That fundamental value will not change 6 months or 1 year from now,

and that is why we also fervently believe that MFN should be extended without conditions.

The phrase "most favored nation" is, of course, something of a misnomer. MFN is the normal basis for trade throughout the world, and the United States currently denies it to less than a dozen countries.

Even many countries with whom we have profound differences and against whom we impose broad trade sanctions—such as Iran, Iraq, Libya, and South Africa—retain MFN status. And, in fact, all Western democracies extend MFN to China. None has proposed to withdraw it because of bilateral political differences.

Prior to our opening of relations with Beijing, we had sought for two decades to isolate the Chinese economically and politically. We had virtually no trade with China, few social or political contacts, and almost no ability to influence its policies. What we experienced, what we saw was a repressive China, a country turned inward and pursuing an agenda on regional issues distinctly against our interests.

President Nixon's historic decision to end the long period of confrontation in United States-China relations began the process of bringing China out of the isolation and into the modern world. It also enabled us to begin to discuss with the Chinese issues of mutual concern. But it was not until President Carter extended MFN to China in 1980 that our relationship accelerated and we truly began to engage the Chinese on a wide range of issues. The granting of MFN also profoundly increased our access to Chinese society, and our impact on economic and political reform within the country.

China was, in 1980, a truly totalitarian state. Despite that, the Carter administration and the U.S. Congress approved MFN for China, not as a reward for its human rights performance, but in order to demonstrate the benefits of trade and commerce, to expose the Chinese to Americans and American institutions, and to encourage the process of economic reform that China's post-Mao leadership seemed intent on pursuing.

The decision to grant MFN and to pursue a policy of engagement at that time when Chinese human rights practices were worse than they are today has helped to stimulate changes within China which few would have thought possible over a decade ago.

Indeed, trade has represented much more than just a series of financial transactions between our two countries. It has led to a phenomenal improvement in living standards for hundreds of millions of Chinese citizens. It has also been a primary channel for contact between Americans and Chinese, and for the sharing of the ideas and values that have contributed to progressive developments within China. We have seen and we have contributed to the emergence of a new generation of Chinese entrepreneurs, managers, technicians, and consumers, all with expectations that ultimately cannot be contained within China's authoritarian political institutions.

Awareness of Western ideas and concepts has spread from small groups of the intellectual elite, to the bureaucracy, the urban work force, and even to the rural population. It is these very forces of

reform that generated the pressures which exploded in Tiananmen Square 2 years ago.

There is no doubt that MFN has played a vital role in building this momentum for change. In large part because of MFN, vast regions of Eastern and Southern China now depend on export markets. A decade ago, China took pride in its economic self-reliance. Today, it is a part of the web of global economic interdependence, with a greater incentive to adopt market reforms, and a greater stake in world stability.

Denial of MFN would inflict serious harm on those within China—whether they be students, intellectuals, workers, managers, or even government officials—who continue to struggle for reform and for a China open to the outside world. It would hurt those segments of the Chinese economy that are the most dynamic, the most Western-oriented, and the most committed to the marketplace. In short, it would visit harm upon innocent millions of Chinese who now look to the United States for support.

There have been, of course, other beneficiaries of our MFN relationship with China. Our own business community has benefitted from China's rapid growth during this period of reform, as have our consumers from the imports that we receive from China. Withdrawal of MFN would increase tariff rates on both sides of the Pacific by as much as 10 times, with damaging consequences for U.S. exporters, U.S. investors, and U.S. consumers.

Beyond the devastating effect on our commercial relationships with the PRC, withdrawal of MFN would have a severely negative impact on Hong Kong, where the United States also has important economic and political interests.

The way to deal with our problems with China, Mr. Chairman, is not to dismantle the structure that has opened up that country to us and contributed to a decade of growth and higher living standards.

Once undone, the rebuilding of our commercial relationship with China would be a long and difficult process, especially as other countries would be quick to fill in behind us. We must seek, instead, to preserve the linkages that we have painstakingly forged with the Chinese over the past decade.

As President Bush recently stated: "No nation on earth has discovered a way to import the world's goods and services while stopping foreign ideas at the border." In our view, a free economy will inevitably bring with it a free society.

All of this is not to minimize the substantial problems that we have with certain Chinese policies and practices. Both you and we are frustrated by the reluctance of China's leaders to take all the steps necessary to heal the wounds inflicted by the brutal crack-down at Tiananmen 2 years ago. Until they do, there will be no "business as usual" in our relationship with China.

Since the tragic events of June 1989, we have sought, by exercising a mix of incentives and constraints, to establish a process of interaction with the Chinese in which each side could address the other's concerns, so as to arrest the steep decline in our relations.

The results of our policy, to be quite candid, have been less than we would have liked by a long shot. But there has been tangible movement in a positive direction. It is simply wrong to assert, as

some have done, that the overall situation in China is worse today than it was 2 years ago.

Some of the positive developments include the following: The majority of those Chinese detained in the 1989 crackdown have been released. Fang Lizhi and his family were permitted to leave China without incident in June 1990, and Fang is now residing in the United States.

The Chinese have resumed the Fulbright Scholar program and the USIA International Visitor program, and are discussing with us the starting of a Peace Corps program in China by late 1992. And Chinese leaders have made firm commitments to stop any export of prison labor products to the United States.

China's human rights record, however, remains deplorable. The stifling of peaceful political dissent, the lack of judicial due process, the lengthy sentences of some on political charges, the restrictions on religious activity, incidents of abusive implementation of birth control regulations, the use of excessive police force against Catholics and Tibetan protestors, and the brutal crushing of the Tiananmen demonstrations, have all drawn deserved condemnation from around the world.

Until we can see sufficient, effective action to address our concerns, we will continue to impose the sanctions that we alone have sustained since 1989. Indeed, today we maintain more sanctions than any other nation against China for its human rights violations.

Turning to the issue of weapons proliferation, we are certainly disturbed by reports of nuclear and missile technology and equipment transfers that would be in violation of internationally accepted guidelines. The Chinese did, however, participate for the first time as an observer at the Nuclear Nonproliferation Treaty Review Conference last August. When we recently raised concerns about China's nuclear cooperation with Algeria, the Chinese Government agreed to assist in bringing this cooperation under IAEA safeguards.

Although we still have not reached agreement with the Chinese on specific guidelines for the export of missile technology and equipment, they have acknowledged our concerns. And the Chinese will be joining us and other major arms suppliers in seeking to control the flow of destabilizing weapons to the Middle East.

Nevertheless, the administration is taking a number of steps to underscore our nonproliferation objectives. In April, the President refused to approved licenses for the export of certain U.S. satellite components to China.

The President has also announced his intention to ban the licensing of technologies and equipment for export to any Chinese company found to exceed international standards in the transfer of missile equipment.

This past Sunday, the White House imposed sanctions against two such firms. At the same time, the President approved limits on the sale of high-speed computers to China, and indicated that he would not waive sanctions on the transfer of U.S. satellite technology to China.

We also have grievances with the Chinese in the trade area. We have noted with increasing concern the growth of the bilateral

trade deficit, as have you, Mr. Chairman, to over \$10 billion in 1990 as China has expanded certain barriers to imports under its economic austerity program.

Similarly, we remain concerned about the piracy of U.S. intellectual property in China and the slow pace of improvements in intellectual property rights protection. Both market access and intellectual property rights are at the top of our economic agenda with the Chinese, and we are pursuing a vigorous dialogue with Beijing on these issues.

The fact of the matter is that we have the necessary policy instruments to address aggressively and in a targeted fashion each of the issues of concern to us, and we are doing just that.

The granting or denial of MFN does not relate directly to any of these problems. Even on the issue of our trade deficit, no economist, to my knowledge, has ever suggested that MFN status can be the cause of such a deficit, or that its denial would solve the problem. We remain convinced that denying MFN to China would not put pressure on the Chinese to change their behavior in specific areas. Instead, it would undercut our ability to engage them and thereby influence their actions. To borrow an analogy from the military, we advocate the use of "smart" instruments targeted on specific problems with China, rather than the use of an instrument of indiscriminate effect, such as MFN.

Mr. Chairman, the debate we are having today on MFN is a healthy one, because it shows the Chinese both how our democracy works, and how concerned we all are with the human rights situation in that country. Our concern with human rights and whether MFN should be conditional on progress in that or other areas, has been a persistent issue for years.

In 1979, the Congress posed the very same issue to then Deputy Secretary of State Warren Christopher when he testified on behalf of the Carter administration in support of the trade agreement with China that led to the granting of MFN.

In response to that issue, Deputy Secretary Christopher made the following statements: "This trade agreement does not imply an endorsement of their human rights practices or endorsement of their human rights policies. It was not conditioned on anything. There was no linkage, to use that favorite word, in 1979. We think that the trade agreement stands on its own feet. It benefits both countries. It was not part of a bargain, but it was certainly part of the normalizing process which is going on." These words ring as true today as they did 12 years ago. MFN is not something to be turned on and off as reward or punishment for particular behavior. It is an underlying structural component of the relationship, as much in our interest as in that of the Chinese.

It makes sense on its own terms, especially when we are dealing with a country as significant as China, the home of over one-fifth of the world's population, and a fellow permanent member of the United Nations Security Council.

That does not mean that we can guarantee a fixed amount of progress on human rights or other issues within a fixed timeframe, but we are confident that, over time, the forces of an open economy and a free market will prove to be irresistible. Our goal is to

remain engaged over the long-term with China in order to foster its return to the path of freedom.

Tiananmen was a political explosion ignited by a decade of economic progress. The government in Beijing contained that explosion—temporarily, we believe—but it cannot shut off the fuel which ignited it. How ironic it would be if we ourselves tried to do just that by forsaking our best tool for promoting China's economic opening to and engagement with the outside world. Denying MFN would work against the forces of economic change which themselves contain the seeds of eventual political reform, and it would play into the hands of hardliners who fear precisely such an outcome.

Cancelling MFN would help the hardliners in what they have been unable to achieve on their own—reassertion of control over the non-state and more progressive sectors of China's society and economy.

Put another way, withdrawal of MFN—or even temporary extension under conditions that might not be met—would risk the gains we have made now and can make in the future and would punish the wrong people both here and in China.

In the end, we ought to decide not on what will express our outrage about human rights or other problems in China today, but on what will continue to permit us to encourage the process of reform in China tomorrow.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

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

The CHAIRMAN. Mr. Williams, if you would proceed.

STATEMENT OF HON. S. LINN WILLIAMS, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador WILLIAMS. Thank you, Mr. Chairman. I would like to focus on what we are doing to improve our market access in China, and the potential effect that rescinding or conditioning China's MFN trading status might have on those efforts.

As with the human rights concerns addressed by Deputy Secretary Eagleburger, the trade issue is not the goal. The administration and Congress share the goal of opening China's market. The issue is whether that goal is helped or hurt by no or conditional MFN.

Since 1980, there has been a change for the better in China's economic systems and its outlook on the world, although there are still serious problems.

The United States and China established formal trade relations and mutually reciprocally granted MFN in 1980. Growth in our commercial ties have helped to change China and to bring it somewhat more into the global trading system.

United States-China trade has grown from \$2.3 billion in 1979 to \$20 billion in 1990. Over the past 5 years, China has become a significant force in regional and world trade. Foreign trade as a percentage of China's GNP rose from 14 percent in 1981 to 33 percent in 1990. We are China's third largest trading partner and its larg-

est export market. China is our 10th largest trading partner, up from 15th in 1981.

In 1990, the United States sold China \$4.8 billion in exports, despite an austerity program that cut drastically into China's global imports in 1990. China continues to be a major purchaser of U.S. wheat, aircraft, timber, chemical fertilizers, computers, and other electronic products. Over 1,000 U.S. firms have invested \$4 billion in long-term United States-Chinese joint ventures. About 500 U.S. firms have representative offices in China, and Beijing is now home to the newest American Chamber of Commerce abroad.

Commercial relations with the United States have exerted some positive influences on China's business and economic practices since 1980. China has shifted away somewhat from total reliance on a strongly centralized economy. It has shown greater tolerance for experimentation, including limited use of market mechanisms in its domestic economy and some gradual decentralization and liberalization of foreign trade practices.

Greater exposure of U.S. business through trade and joint ventures has also changed at the working level Chinese perceptions of how to do business. Many Chinese firms, including some State enterprises, are now seeking to acquire U.S. business management techniques. China has begun to pay more attention to the role of law in international business relationships. It codified laws on contracts, passed its first foreign investment and tax laws, and enacted its first patent and trademark laws. China has shown interest in international organizations, such as the GATT, and the World Intellectual Property Organization.

In only 10 years, China has emerged from isolation to become a participant in the global trading community, aware, if not always responsive to, the community's rules and increasingly sensitive to its criticisms. This transformation is due, in large part, to the many channels of communication that opened up as a result of China's receiving MFN trading status in 1980.

Since 1989, however, China has skewed its trade policies into a more protectionist mode, making it more difficult for U.S. firms to gain access to China's domestic markets.

In 1990, China was the only major U.S. market for goods and services in which we experienced an actual decline of about a billion dollars. We have a substantial and growing trade deficit with China. More important than the existence of the deficit is the fact that the deficit reflects a Chinese decision to resort to protectionism. China's barriers to imports take a variety of forms and cover a broad spectrum. For example, China requires import licenses on many products, and excessive inspection standards and reviews. Import bans and quotas cover products ranging from electronic equipment and machinery to timber and grains.

Under a 1989 austerity program, China expanded centrally-managed or "guidance" planning used to fix import prices and quotas to cover about two-thirds of its trade. It hiked tariffs on many items such as scientific apparatus, cosmetics, processed food, and consumer appliances.

Chinese companies have used false country of origin documentation to transship textiles and apparel to the United States through third countries. China has taken steps to control the problem, but

fraudulent transshipments continue. We are working with China and with other countries through which transshipments occur to strengthen the enforcement.

Another contentious issue is inadequate protection of foreign intellectual property rights within China. China's behavior is of great concern to us. U.S. business and intellectual property associations have complained about China's poor record in protecting copyrights, trademarks, patents, and trade secrets owned by Americans. There is a growing frustration with China's slow, inadequate progress in protecting the rights of U.S. authors, composers, software designers, and others who create and own intellectual property.

We have been actively pressing the Chinese to make changes that will give Americans access to Chinese markets and protect intellectual property rights. Over the last 6 months, we had met with senior trade and intellectual property officials on at least five occasions, most recently in talks held April 10 to 11 and again on May 21.

On April 26th, as a demonstration of our resolve to spur progress, USTR identified China as a priority foreign country under the special 301 provisions of the 1988 Trade Act. The special 301 investigation began on May 26th.

A U.S. Government delegation has just returned from Beijing after meeting with senior officials, not only on intellectual property issues, but on the initiation of serious market access negotiations.

We continue to press the Chinese with all the means at our disposal, and the Chinese continue to negotiate with us because they have an incentive to do so under the framework of the bilateral relationship. MFN underpins this relationship. We believe that discontinuing MFN reduces our leverage in our market access negotiations and ultimately hurts our trade interests. Conditional MFN would have much the same effect on our trade leverage in exports and on the potential for Chinese economic reforms as no MFN.

First, there are implications for U.S. domestic, commercial, and consumer interests. American importers and retailers would suffer business disruption should China lose MFN treatment. Tariffs on Chinese imports could rise tenfold.

In general, tariffs on the 25 most important U.S. imports from China would rise from the present average rate of 8.8 percent to an average tariff rate of 50.5 percent.

Tariff increases would mean much higher prices for lower end Chinese goods. Larger importers and retailers could probably weather difficult and costly adjustments, but small companies dependent on Chinese suppliers might ultimately be forced out of business.

U.S. joint ventures in China would also be subject to non-MFN tariff rates, raising the risk of investment loss in an already challenging environment. Many U.S. joint venture partners made major commitments in China based on the assumption of a long-term, stable economic relationship for exports back to this country. There would also be costs to U.S. consumers, especially poorer Americans, who are primary consumers of low-priced Chinese products.

Second, there would be implication for U.S. exporters to China. The granting of MFN is reciprocal. If the U.S. rescinds China's MFN status, China will certainly discontinue ours. This would disadvantage U.S. exporters who would be subject to prohibitive import duties under China's non-MFN tariff schedule. Major U.S. exports at stake include cereals, aircraft and aerospace equipment, fertilizer, cotton yarn and fabric, wood and wood pulp, electric machinery, scientific equipment, and chemicals.

Higher tariffs on U.S. exports to China would effectively exclude U.S. firms from China's domestic markets by making them uncompetitive with their Japanese and European competitors. Market shares lost would not be easily regained. Foreign competitors not hampered by non-MFN status would be quick to exploit our departure. U.S. firms would have been pathfinders into China's market, only to see their competitors enjoying the benefits of their efforts.

President Bush has made U.S. trade and competitiveness a top priority. Denial of MFN status for China would undermine that policy objective.

Third, there are implications for United States-Chinese Government commercial relationships. MFN and the roles played by U.S. trade and investment in China's economy have enabled us to engage Chinese leaders in consultations on bilateral and multilateral issues important for U.S. economic and commercial interests, even during periods of great tension. On the multilateral side, we have used China's application for GATT membership to continue market-oriented reforms and acceptance of international trade norms.

We have used China's observer status in the recent negotiations on intellectual property to nudge China closer to conforming with international intellectual property protection standards, and to accelerate its joining in international conventions, such as the Bern convention.

Our ability to continue to exert a positive influence on Beijing for many multilateral issues would be reduced if we were effectively to sever our bilateral trade relationship with that government.

The existence of stable, commercial relations with China has also enabled us to consult with China on a variety of bilateral trade issues. Because China is not a GATT member and not bound by GATT trade disciplines, it is important to have as many levers as possible to enable us to engage the Chinese on trade issues. We would do better to use that leverage in specific areas, rather than all at once, with a denial of MFN.

MFN is not really a trade leverage point, it is a relationship point. For example, although we are concerned about market access and intellectual property issues, rescinding China's MFN status would not resolve these problems for us. To the contrary, we fear it would undermine our bilateral relationship and, therefore, result in a loss of leverage. A fourth implication of the denial or the conditioning of MFN status is for the United States as an international trade leader.

Damage to America's reputation as a reliable trade partner may be another consequence of withdrawing MFN status. Our trade competitors will not join us in denying MFN status to China. Of

the roughly 100 nations that grant China MFN status, we are the only ones considering rescission.

Other Chinese trade partners, especially in Asia, have urged that Chinese MFN status be retained. They are concerned that the loss of MFN would hinder China's integration into the regional economy, and they see such integration as important for political stability in Asia.

There would also be an effect on the Hong Kong-United States trade relationship. Re-exports of Chinese goods through Hong Kong underpin Hong Kong's overall trade performance, accounting for 39 percent of its total trade. Most of the 900 American firms based in Hong Kong depend on China trade.

Loss of China's MFN status could cost over 43,000 jobs in Hong Kong's import-export sector—almost 1.5 percent of its total labor force—and result in direct revenue losses of about \$1.2 billion. Hong Kong's growth could be curtailed by as much as 2 percent.

A sixth area of concern is Chinese economic reform. In China itself, a disproportionate burden of MFN denial will fall on the primary engine of economic reform in China, the economies of the southern and coastal provinces. The provinces advocate faster economic and commercial reform.

Joint ventures in these areas—usually with American or Hong Kong partners—are province-owned and controlled. They are rarely associated with China's centrally-controlled state sector economy.

Loss of MFN would hurt this most progressive part of China's economy and strain the commercial and personal interchanges between individual American and Chinese business people that have helped us liberalize trade practices in China over the last decade.

In conclusion, by maintaining a stable commercial and economic relationship, we help those in China who embrace our market and trade principles. China should remain a significant market for our products. Those who engineered the violence in China and the continuing repression are unlikely to bear the economic costs associated with a denial of MFN. Instead, those who suffer will be American businesses and their employees, American consumers, and the people of Hong Kong and the progressive coastal areas of China.

We have very serious trade problems with China. We shall work with Congress and our industry to improve market access and protection of intellectual property, but we get better leverage from the use of the crow bar than from dynamite.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Thank you, Mr. Ambassador. Mr. Ambassador, I appreciate your candor. I do not agree with your basic premise when you state that MFN is not a trade lever, but a relationship. It is not a trade lever if you will ever use it, and they have no concern about your using it.

I have had concerns for a long time about embargoes in trade relationships. I have generally opposed embargoes. My basic principle is that you should not impose an embargo unless you hurt the other fellow more than you hurt yourself. That is the only way it works.

Some losses to us if we deny MFN? That is right. But far more to the other side.

But if they think you will never use that tool, they are not going to pay any attention to it; they are not going to give it any weight. And I think that is the situation today.

I look at a strange paradox where the administration is holding back on MFN for the Soviet Union, but now advocating it for China. We are seeing a dramatic change in attitude of the Soviets on some of these concerns and objectives we are discussing. Now, perhaps the administration is going to change its position on MFN for the Soviet Union. But at least today you are denying it MFN. You are trying to use that as a lever. I frankly do not understand your rationale on China and the Soviet Union.

Ambassador WILLIAMS. If I could explain it.

The CHAIRMAN. You have had 30 minutes to explain it, now let me go ahead for a bit here.

Ambassador WILLIAMS. Oh, I am sorry.

The CHAIRMAN. The Chinese do not seem to recognize any obligation for fair access to their markets. You, in effect, have virtually stated that.

To see China begin to replicate some of the kinds of problems we have had with other countries in the way of protectionism, building and protecting their own market as they come into our markets, gives me a great deal of concern. You say you are pressing them to open up their markets. Specifically what are you talking about? What are you ready to do to respond adequately? Now, Mr. Williams, tell me.

Ambassador WILLIAMS. My turn?

The CHAIRMAN. Your turn. That is what I said.

Ambassador WILLIAMS. On the relationship point, Mr. Chairman. If we take away MFN, or condition it so that it is effectively taken away, what leverage remains? MFN is leverage, but we have other leverage as well.

For example, we have imposed sanctions—\$85 million worth of sanctions—on Chinese transshipments of textiles. We are prepared to use the provisions of the Trade Act to improve our market access. We have said that; we have demonstrated it elsewhere; we are prepared to do so in China.

It is not a matter of not being committed to market access in China. We are committed to it; we are negotiating for it. China was one of three countries designated as a special 301 country. We have a major negotiation now under way with the Chinese, not only in intellectual property, but also on market access.

When you compare the China and the Russian situation, I think one has to consider two factors. First, in the Russian situation, MFN does not exist and, therefore, U.S. companies do not have expectations for MFN where it comes to Russia. U.S. companies have expectations in China.

The CHAIRMAN. Now, you have to be kidding on that one.

Ambassador WILLIAMS. No, I am not.

The CHAIRMAN. Oh, yes. I have talked to too many American countries who are exploring the Soviet market, and they sure expect MFN to be granted. Let me state, the problem is this. I have got a vote on, and I have 5 minutes to get to it.

So we will go into recess for the moment. Senator Baucus has left early, and he will be back, and then we will continue the process.

Ambassador WILLIAMS. Thank you.

[Whereupon, the hearing was recessed at 11:20 a.m.]

AFTER RECESS

Senator BAUCUS. The hearing will come back to order. Senator Bentsen will return shortly. He has asked me, in his absence, to continue the hearing so as to be most productive.

I first want to compliment both you, Mr. Secretary and Mr. Ambassador on your statements. I think they are very cogent, thoughtful statements of the American relationship with China, and also outlining the pressure points that, in fact, will work, as opposed to those that may sound good and may provide good rhetoric, but not get the job done.

Having said that, it is my personal belief that if the Congress is going to unconditionally extend MFN, the administration must go even farther than it has in pressing the various pressure points that you outlined and go farther first in written, specific actions that the administration plans to take and second, in fact, undertake those actions so that more members of Congress are more assured that the surgical approach, the rifle shots, if you will, rather than the dynamite, are actually put into effect.

Along those lines, I would like to ask you what actions the administration would be willing to take to address many of the trade barriers that are already in effect.

And Mr. Ambassador, you have mentioned special 301 with respect to intellectual property. I believe the administration should go further and commence regular 301 proceedings to address other trade barriers that I think are egregious, and that we must begin immediately to remedy. How far will the administration go in pursuing, say, regular 301 or other specific trade remedies that are presently available?

Ambassador WILLIAMS. We will respond aggressively to any petition that is brought to us by an industry, Senator. We have not considered the kind of overall self-initiated 301 that you have suggested. What we have going now are negotiations on market access. Again, we are quite serious about market access and intellectual property, and we are prepared to use the law to the maximum extent we need to.

Senator BAUCUS. Is the administration keeping an open mind so that it is willing to go farther?

Ambassador WILLIAMS. Yes.

Senator BAUCUS. And when will the administration indicate to us the degree to which it will go?

Ambassador WILLIAMS. Well, again, on any Section 301 petition that is brought to us by an industry, we are prepared to pursue that vigorously as we try to in other areas. On the overall market access position, we would like to see how these negotiations continue. I would say it would be a matter of months, probably let us say February or March of next year before we know how much

progress we can make on the market access side. If we are not, we will look for other options.

Senator BAUCUS. What about slave labor imports? What more can the administration do more specifically to stop that?

Ambassador WILLIAMS. What we can do is to try in a better way to identify where slave labor has been used, and where it has, we will do whatever needs to be done to restrict that sort of import to the United States.

Secretary EAGLEBURGER. May I just add to that, Senator? We have talked to the Customs people, we are in constant contact with them trying to police the system. We have, in no uncertain terms, discussed it with the Chinese and have a commitment from them that they will do a better job of policing their own system to try to prevent this. Now, that may or may not prove to be a solid commitment, but we are doing everything we can to follow the process, and if and when we find that there are, in fact, violations of the law, the Customs people, I am convinced—and we have talked to them—will come down on the particular shipments like a ton of bricks.

Beyond that, I am not sure what we can do but, again, it is something we are certainly open-minded on. We want to stop the process, and we think we have a commitment from the Chinese that they will try to do their best to police it themselves.

Senator BAUCUS. As you know, both China and Taiwan are applying for membership to the GATT. And, as I am sure you know, every member of this committee signed a letter in support of Taiwan's membership to the GATT as administration prepared to recommend Taiwan's membership to the GATT.

Secretary EAGLEBURGER. Senator, I do not want this to sound like a waffle, so let me try to walk through it before you come down on me. The administration has made it clear it would like to see Taiwan in the GATT. We have also made it clear we would like to see the People's Republic of China in the GATT. China was, in fact moving in the direction of membership until the PRC in the last year or so—as has already been described—clamped down on a number of their trade practices, and that has certainly slowed the process.

At this stage, the administration is of the view that while the two should not be linked, we would like to see both Taiwan and the People's Republic of China enter GATT at more or less the same time, that we want to see both of them in the GATT.

That, at this stage, Senator, is the farthest I can go other than to say to you it is a subject that is under review, and we keep looking at it. But that is the administration position at this moment.

Senator BAUCUS. I urge you to reconsider, because I think People's Republic of China is far behind Taiwan. It is a little bit unrealistic to take the position that both should come in about the same time, frankly. I think if a country deserves membership, we should recommend that it should be included; if it does not, it should not. And I suggest that administration view on this will have some bearing on some standards of the votes here.

Secretary EAGLEBURGER. I understand.

Senator BAUCUS. Now, what about conditioning multi-lateral loans to China on improved respect for human rights? Is the administration prepared to do that?

Secretary EAGLEBURGER. We have done that, Senator. The only loans that we vote for in the international lending institutions are loans that we call for basic human needs. And if my memory serves me correctly, the various international financial institutions have passed something like 15 loans to the People's Republic of China, which we have voted for nine and against the remainder, on the basis that the nine were for basic human needs—agricultural loans, things of that sort that would help the Chinese people. We continue to maintain that position, and we have argued in those International Financial Institutions against the votes of the others. But in the last analysis, we cannot control their votes.

Senator BAUCUS. But what, there are two that the administration has voted for in the last 6 months? Two infrastructure loans to China, is that correct?

Secretary EAGLEBURGER. I would have to go check it, Senator. Here, just a minute. I can probably tell you.

Senator BAUCUS. Well, we do not have much time here.

Secretary EAGLEBURGER. All right. I will be glad to provide it for the record.

Senator BAUCUS. But again, I think that would go a long way. The more multi-national loans are conditioned on human rights progress—and my time is expired. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. I would like to follow up, Mr. Eagleburger, with the questions on Taiwan.

Prior to doing so, I would like to say that generally speaking I am sympathetic to your approach on MFN. I am not persuaded that revolving MFN that is the best way to try to bring about the kind of reforms that we would like in China. I have been pleased to be working with Senator Baucus on a letter trying to spell out an alternative approach.

But I am concerned that we are not really moving on supporting Taiwan's GATT application largely because of China. We had a resolution in support of Taiwan's membership in the GATT in the Senate last year with 60 members of the Senate on it. I have a similar resolution this year with over 40 cosponsors on it already, and we expect to add to that. It does seem to me that endorsing Taiwan to become a member of GATT is one way of giving a signal to China, but even more important, I think, is recognizing the importance of Taiwan itself. It does not seem fair to me that in essence we are sort of punishing Taiwan and not recognizing something that I think is due as one of the great trading areas of the world. You do have precedence. Hong Kong is a member of GATT. So why can we not move ahead and do something in support of Taiwan? It seems ironical that we have the 13th largest trading area still outside of GATT.

Secretary EAGLEBURGER. Senator Roth, I have stated the administration's position at this point. We hear what you are saying. We have heard what Senator Baucus has said. It is an issue that continues under review, and I will assure you that I will report back strenuously today your views.

But at the moment, the administration's position is as I have described it. It may be that comments such as yours and Senator Baucus' will make a difference in terms of our analysis of this issue in the future. That is the best I can say.

I would also like to say, Senator Baucus, I checked it. We have not issued any infrastructure loans. They have all been agricultural or earthquake. We have not voted for any infrastructure loans.

Senator ROTH. Let me ask you, Ambassador Williams, not a question of foreign policy, but strictly from the trade point of view. Is it not true that Taiwan is our sixth or seventh largest trading partner.

Ambassador WILLIAMS. Sixth.

Senator ROTH. Sixth greatest trading partner. From a trading point of view, does it make sense to have her outside of GATT?

Ambassador WILLIAMS. From a trading point of view, and, as you said, without reference to the political side that Deputy Secretary Eagleburger has stated, it does not make sense to have them outside of GATT. In addition, Taiwan's membership is premised on Taiwan coming in as a developed country.

This would be of tremendous advantage, not only with respect to Taiwan, but with respect to other newly industrialized economies that we would like to see take up the mantle of developed status in the GATT.

Senator ROTH. Exactly. Here we are trying to expand our multi-lateral system of trade. That is the key purpose of the Uruguay Round, I would assume. And to exclude Taiwan because China, a non-GATT member, objects just seems to me very hard to justify under the current circumstances.

Mr. Eagleburger, as I indicated, I am inclined to agree with you on renewing MFN. A better approach than attaching conditions to MFN would be to zero in on areas where we think we could have more of an impact. I wonder, could you outline at this time some of these areas where we think we might undertake that approach?

Secretary EAGLEBURGER. Well, there are a number of different issues, and I tried to describe some in my statement.

Senator ROTH. Unfortunately, we are in and out.

Secretary EAGLEBURGER. No, I understand. Where we have substantial differences with the People's Republic of China, let me just try to outline some of them.

First of all, obviously, on the human rights side, and we have a whole host of sanctions that remain in place with regard to the international financial institution lending, contacts at senior levels within the Chinese Government, and so, there are a whole list of things we still do.

On proliferation issues, which are very serious problems, and where Under Secretary Bartholomew has just been in the People's Republic of China, the issue of sale of missiles to Syria and Pakistan, both of which have been in the news.

These are issues which Mr. Bartholomew discussed in detail with the Chinese leadership over the last few days, and where I indicated in my statement, the President has already on Sunday taken some steps to make it clear to the Chinese that we were not about to participate or let them participate in this sort of proliferation without some activity on our part.

And, as I indicated in the statement, the White House imposed sanctions on two firms in the PRC on Sunday. At the same time, he has approved limits on the sale of high-speed computers to China, and has said we cannot transfer U.S. satellite technology to China. There are a series of these things that he is doing. I could go through the list, Senator Roth, or I could provide it for the record. But the point we were trying to make is that, in fact, there are a number of different areas in which the United States has taken actions—actions far beyond those of anybody else in the developed world, certainly, or in the world—all of them aimed at trying to effect Chinese behavior. I have also said in my statement we have not had as good results as we would like, and I admit that, but we are going to keep at it.

Senator ROTH. Well, my time is up. In closing, Mr. Chairman, I just once more would like to emphasize the importance of reviewing the Taiwan policy. I gather that it is a policy that much of the problem from my standpoint may come from your Department, Mr. Eagleburger, and I would urge that it be reviewed in there as well as elsewhere, because we intend to continue to push on it.

Secretary EAGLEBURGER. Senator, when I come before these hearings, I find out it is always my Department that seems to be the problem. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. Mr. Williams, I am not sure what this leverage is you talk about. On the bottom of page 13 of your testimony, you refer to this MFN as being, "To the contrary, withdrawing MFN would undermine the entire bilateral relationship and result in a serious loss of leverage that may get exceedingly difficult," and so forth. What good is the leverage if you do not use it?

Ambassador WILLIAMS. We have other points of leverage, Senator. The point is, if MFN goes, several things happen. First, we lose export sales, because we lose MFN in China. Second, the Chinese will be able to continue to export to us, for a variety of reasons having to do with their cost structure.

Senator CHAFEE. Well, wait a minute. You point out the tremendous rise in duties that would be assessed on the Chinese exports to us, so presumably, they would not be able to sell to us.

Ambassador WILLIAMS. No. I think the effect of a tariff on an import depends on the percentage of the tariff in the total cost of the good. In some of these goods—estimates vary, but let us say half—the goods will be able to come in because a tariff increase could be absorbed without making the price uncompetitive.

In addition, China's exports to Japan and Europe are growing at around 20 percent a year. What they do not export to us, they will try to export to the Europeans and the Japanese. Will they slow down? Yes. Their export growth will take to year Y instead of year X. Will that bother them? We do not think so. The leverage point is, you can do as we have done in textiles, put specific burdens on textiles because that is your problem; or if you have a problem with telecom, apply sanctions, if that is what necessary to influence behavior in China. But once you have taken away MFN, what is there left to do?

Senator CHAFEE. All right. I see.

Ambassador WILLIAMS. You can ask them to liberalize in order to get MFN back, but then you are running uphill, because by that time they have sought other markets.

Senator CHAFEE. All right. Now, our time is short here. I do not understand this sanction business. Are the sanctions directed at specific products that deal with the arms exports and the nuclear possibilities? In other words, why have we got sanctions on them as far as satellite technology goes?

Ambassador WILLIAMS. Why would that make a difference? I missed the question, Senator.

Senator CHAFEE. Well, why did we choose satellite technology?

Secretary EAGLEBURGER. We chose a number of different steps. There are two specific Chinese companies that have been sanctioned, the reason being that it has been clear to us that they have been engaged in the transfer of missile technology, and they have been sanctioned specifically as companies. In addition, the United States has said we will not transfer U.S. satellite technology to anybody in China, the point being that the Chinese are interested in developing a satellite capability. And at this point we do not think, given what they have been doing in the area of proliferation, that we should be participants in that process and we sanctioned them as well.

Senator CHAFEE. But they are not linked.

Ambassador WILLIAMS. Sir?

Senator CHAFEE. But they are not linked, are they? Is there a link between missile technology and the satellites?

Secretary EAGLEBURGER. Yes. And there is a link in the computers which have also been sanctioned, or the level of computers that have been sanctioned. Yes, there is a linkage to what they have been doing.

Ambassador WILLIAMS. The link, Senator, is also to the launch as well as to the satellite. The Chinese want to get into the launch business, but in order to have something to launch, they have got to have a satellite. In order to do that, they have to have our license.

Senator CHAFEE. Oh, I see.

Ambassador WILLIAMS. If we deny them the satellite, they cannot develop the launch technology through commercial sales, which would put them further into that industry.

Senator CHAFEE. Yes. So they will stay out of that industry, but will it affect going into the missile business?

Secretary EAGLEBURGER. The missiles that they have already built, obviously not. And that is the M-11 and the M-9. Those missiles are already built. The issue is whether they have, in fact, transferred them to the Syrians or to the Pakistanis.

But because they have done that, we act where we can against the future, and that is where the sanctioning of the two companies, for example, becomes important. So the Chinese understand that by continuing this process, we are going to cut them off in terms of future development.

Senator CHAFEE. It seemed to me that the other nations who are trading partners with China would be thrilled at the suggestion that we might withdraw MFN.

Ambassador WILLIAMS. Yes, sir. As a trade matter, they are thrilled, because other countries are happy to sell grain to the Chinese, or airplanes, or anything else. They do not have restrictions on MFN. And, as I mentioned in my testimony, once those markets are gone, we think they are gone for a long time.

Secretary EAGLEBURGER. But as a political matter, they are not necessarily thrilled. The Japanese, for example, have made it very clear they hope we will not cut off MFN because of their concerns about the impact on the behavior of the People's Republic of China over time in the region. So, it works both ways.

Senator CHAFEE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman. Mr. Eagleburger, I have been very concerned about doing something about arms merchandising, particularly in the Middle East, and China's reported involvement in ongoing arms sales, particularly to the country of Syria.

And Syrian is on our list of terrorist countries, and it continues to be a major threat to peace and stability in the Middle East. So, I would like to know not just about Syria, but what are we doing in regard to China's arms sales activity in the Middle East, generally?

Secretary EAGLEBURGER. Well, let me state first, Senator Grassley, that with regard to missile sales to the Syrians, the contention is that they have sold M-9s to Syria. As of this date, we have no evidence that that has, in fact, happened.

It is an issue that has been raised with the Chinese in the past, indeed, by General Scroft and myself on our formerly secret trip. And at that point, we were assured that they had not transferred anything to Syria. Mr. Bartholomew raised it this last week. So, just to emphasize that at this stage we do not have evidence of a sale of M-9 missiles to Syria. That having been said, we have also made it very clear to them that we would highly disapprove of such a sale.

With regard to the general question of Chinese sales of arms to the Middle East, I think the best way to answer that question is to say, as you know, we have proposed an international conference on the whole question of sale of arms to the Middle East.

And, interestingly enough, the Chinese quickly—interestingly enough, as I say—agreed that they would become participants in that conference, the whole purpose of which is to try to gain international agreement to control the sale of arms to the Middle East.

That, I think, is the tool not only with regard to China, but with regard to sale of arms to the Middle East in general that we look forward now to using.

And I would say to you that I think the fact that the Chinese have agreed that they would be prepared to come to that conference is, at least in part, because of their concern over the general state of the relationship and—I will admit it—their concern over the withdrawal of MFN, which can be a lever until you use it, at which point it is no longer a lever.

Senator GRASSLEY. The administration's argument for continuing Chinese MFN is that we have to remain strongly involved with China in order to influence future change and that, if not, we will lose influence. If this argument is going to hold any water, then it

seems to me like we need to have a policy, at least in the works, that will guide American companies doing business there in China towards influencing positive change in China.

And not a completely good comparison, but a place where this has worked effectively for the U.S. Government is with the so-called Sullivan principles in South Africa. Although the situations are different, these nations are both responsible for human rights abuses that we want stopped.

I think it is very important that U.S. companies operating in China should be doing everything possible to promote democratic values, including human rights. I wonder how we can extend MFN and then just hope our presence in China, both private sector as well as public sector, will bring about change.

So, my question to you is—and I suppose mostly to you, Mr. Eagleburger—what private or governmental-sponsored policies will be pursued by the U.S. businesses to facilitate the necessary changes that must take place in China if MFN is extended?

Secretary EAGLEBURGER. Senator Grassley, let me try briefly to answer, and then ask my colleague to answer in more detail. Because I must admit, the subject you raise is not one that I have thought much about in terms of sort of a Sullivan principles approach in the case of the People's Republic of China, and I would like to think about it a little bit more.

In a general way, I would say to you that I think—and I have watched it a bit, personally—that the very fact that American companies are engaged in China that Chinese businessmen have come to the United States, the opening up of the relationship that has occurred over the last decade has, in fact, changed Chinese conduct fairly substantially. And then it regressed in Tiananmen Square, there is no question about that.

But I think the general opening up is probably one of the reasons that, in fact, economic reform has taken place and the political ferment is there. With regard to the specific question, I would really have to think of what the conditions or the requirements might be. But perhaps my colleague has some comments on it.

Ambassador WILLIAMS. My expectation would be that U.S. companies would not have formal policies of human rights, but they would have policies for better business that would have much the same effect. The progressive political areas in China are in the coastal areas and Hong Kong. That is where the trade has been. The trade by our companies has already had a positive influence on the politics of the region.

Senator GRASSLEY. Mr. Chairman, of course, my time has run out. Just let me make a statement. I appreciate, Mr. Eagleburger, that maybe you cannot say that we have certain programs in place or are working with our companies.

The fact that you are willing to think of it and think that maybe it is a possible lever that would be beneficial to our influence on China is very important. And if you can give it some thought and you see that it is a good idea, I guess I would hope that you would pursue that, because I think it has been very effective elsewhere. Maybe it cannot be as effective in China, but let us hope. And we will not know unless we try.

And then lastly, Mr. Chairman, there was one question that I will have to submit for an answer in writing, but I have a very important question on copyrights and patents, et cetera, and violation of that. And I think it would be most appropriate, Mr. Williams, for you to respond to that.

The CHAIRMAN. You may go ahead and ask the question.

Senator GRASSLEY. I would like to have that submitted in writing.

[The questions appear in the appendix.]

The CHAIRMAN. I am going to let Senator Baucus ask another question. You go ahead and ask your question.

Senator GRASSLEY. Thank you Mr. Chairman. In regard to our memorandum of understanding signed by our two countries after China was placed on the priority watch list for failure to offer either product patent protection for pharmaceuticals or other chemicals, as well as for failure to protect copyrights of other U.S. works.

Because of this lack of progress, China was one of only four countries among the 25 on the list to come under review under special 301 in April of 1990. While some modest progress is being made today, can you explain to me where we stand on this issue now, a year later?

Ambassador WILLIAMS. In 1990, we did as you have indicated, Senator. But this year, China was one of three countries that was designated a special priority country, along with India and Thailand.

We are, therefore, engaged in a 6 to 9-month process—depending on how the negotiations go—to resolve our market access problems with China on both of the points that you mentioned, and also other intellectual property points; software and other matters. We do not know how much is lost through black market activities by the Chinese.

The biggest published loss that we are able to discern is in software. The Chinese are clearly pirating software, using it in China, and exporting it. We believe the same is true in other products, including chemicals. It is a substantial problem, not just in China, but elsewhere because of exports by China. China has, however, been designated under this special 301 provision. That puts them in the highest priority category with some statutory triggers that we must meet in the next 6 to 9 months.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. Treasury Under Secretary Mulford has testified before the Banking Committee that our trade deficit with China this year will be about \$15 billion. In round numbers, is that about right?

Ambassador WILLIAMS. We are projecting \$10-\$12 billion, but it could be \$15 billion.

Senator RIEGLE. Fifteen billion. Now, last year it was on the order of what, \$11-\$12 billion?

Ambassador WILLIAMS. Around 10.

Senator RIEGLE. So it is rising.

Ambassador WILLIAMS. Yes.

Senator RIEGLE. Now, that is one of the biggest trade deficits that we have with any country in the world.

Ambassador WILLIAMS. It is our third largest.

Senator RIEGLE. Third largest. It is very disturbing to me, because that trade deficit creates jobs for them and it costs us jobs here. I mean, that is the net effect of what a trade imbalance of that size means. Just to give you an idea of what is happening here at home, in my State of Michigan, we have got 48,000 unemployed workers that will lose their extended unemployment benefits this week. Now, they lose it even though they have not gotten their full 13 weeks extension.

The Governor of our State was in town today, and we met to speak about that. But it is a very serious problem, and we do not really have a job strategy right now to get those people—that is just one of 50 States, obviously—and those in the other States back to work.

And what I am troubled about is the administration is in here every week with an economic plan for some other country. You are in here today with an economic plan, as I see it, for China.

We are also being asked to step up and support an economic plan for the Soviet Union. Three weeks ago was an economic plan for Mexico. We have an economic plan for every country in the Persian Gulf, starting with Kuwait and spreading to all the rest. I see no economic plan for America. We have one for every other country in the world but our own, and we have got substantial unemployment in this country and it is rising. It just went up again. And yesterday, David Mullins, who is the candidate for the Vice Chairman of the Federal Reserve Board tells us that he thinks it is going to rise even further.

And you are in here in a situation where you have got a \$15 billion trade deficit asking to make it easier for China to ship things in here and to take more jobs out of this country and, in effect, take them to China. I just do not understand it. I have great respect for the Chinese people. I have very little respect for the government.

And this is really, as I see it, sort of a sop to the government. I do not see this translating into a kind of change at the grass roots level that really would start to fundamentally alter the landscape in China such as we are beginning to see, at least in part, in the Soviet Union. And I am very troubled about it. I am very troubled about it.

I do not think that we can put all of our emphasis in this government on foreign policy and have an economic plan for every country in the world and no plan for this country, especially when you are exporting jobs. And, in this case, this year, we are going to export \$15 billion worth of jobs to China. That is the net effect of a trade deficit of that size, and it bothers me greatly, because I think what we are doing is we are turning our back on our own people. And I would like to know specifically when we were lobbying China in the United Nations in the Security Council on this vote on the Persian Gulf, was there any discussion whatsoever on economic issues and MFN and other things of that kind, Mr. Eagleburger?

Secretary EAGLEBURGER. No.

Senator RIEGLE. Was there any discussion at all with the Chinese at that time in that context about our economic and financial relationships?

Secretary EAGLEBURGER. So far as I know, Senator, there was no discussion in the lobbying of the Chinese on the issue of the votes in the U.N. Security Council. There was no discussion on any of those issues. It was simply on the issue of Iraq and that vote.

Senator RIEGLE. Well, now, they abstained, as I recall, did they not?

Secretary EAGLEBURGER. That is correct.

Senator RIEGLE. And had they not abstained——

Secretary EAGLEBURGER. They abstained on some, and voted—but they abstained on the critical——

Senator RIEGLE. But on the key vote they abstained, did they not?

Secretary EAGLEBURGER. Yes, sir.

Senator RIEGLE. And had they voted against us, that would have, in effect, prevented us from following ahead with the policy that we wanted to pursue. Would that not have been the effect?

Secretary EAGLEBURGER. That is correct.

Senator RIEGLE. I must tell you that now to come back around and be seeking, in light of the domestic situation in China—I mean, are the dissidents being let out of prison?

Secretary EAGLEBURGER. Some have been, some have not, Senator.

Senator RIEGLE. Well, I gather there are quite a number that have not.

Secretary EAGLEBURGER. That is correct.

Senator RIEGLE. On the face of it, it certainly looks very questionable to me that in a situation like this where we have just been lobbying them on a matter of great importance to our country and they, in effect, acquiesce in terms of the vote that they cast, which actually was an abstention. But now, we are back around with a \$15 billion trade deficit with China and you are asking for a policy here that is virtually certain to increase that deficit.

Secretary EAGLEBURGER. No, I do not——

Senator RIEGLE. I just do not understand how you justify that in the face of the unemployment in this country. And now, I want to say one other thing, and then I want to hear your response, because I have got something else I want to say about it. This over-emphasis on foreign policy—and I think that is what it is, the fact that we have got an economic plan for every country in the world but our own, I think, has tipped us way off balance—and today it is China, and tomorrow it will be some other country. I am deeply troubled about the fact that this is having a job impact in this country, and I want to know how quickly we are going to get that \$15 billion deficit down to zero. Justify that \$15 billion deficit. Let me hear the argument for that.

Ambassador WILLIAMS. Well, I do not want to justify it, because I am not——

Senator RIEGLE. How do we get rid of it?

Ambassador WILLIAMS. The administration is interested in an economic policy with China for our own benefit, not China's. We

are not exporting jobs to China with the deficit. The things that are made in China are high-labor content, low-value added.

They are not things that are likely to be made in this country anyway; they will be made in some other country. The best estimate I have seen is that somewhere around 20 percent of value is added in China. The rest is all inputs. It is an assembly operation. A second point to make is that there are—

Senator RIEGLE. Let me just say to you we have got a lot of assembly-type workers in this country from people who do high-value added work right down to people who do low-value added work. There was a fast food restaurant that opened the other day in Massachusetts. They advertised 11 jobs—now, this is at a low-value added wage rate—they had over 1,100 job applicants.

Ambassador WILLIAMS. In our view, we are not taking jobs to China. If we were to deny or condition MFN status, we would be taking away jobs here. Your State may have import problems, but Senator Baucus' State has got export problems. There are lots of jobs in this country that depend on exports to China. Again, if the Chinese lose their market here, it is a blow to them, but they will make that up. They will sell it to the Japanese and the Europeans.

Senator RIEGLE. Who else do they have a \$15 billion trade surplus with?

Ambassador WILLIAMS. Well, their trade surplus with the Europeans and the Japanese is growing faster than ours; growing at 20 percent a year.

Senator RIEGLE. Do they have a \$15 billion trade surplus with the Japanese?

Ambassador WILLIAMS. No, but we did not either last year.

Senator RIEGLE. Of course they do not. Of course they do not.

Ambassador WILLIAMS. They did not last year, or the year before.

Senator RIEGLE. Did they have with the Europeans?

Ambassador WILLIAMS. Say again, please?

Senator RIEGLE. Did they have a \$15 billion trade surplus with the Europeans?

Ambassador WILLIAMS. No, but again, we did not either. You are looking to the future.

Senator RIEGLE. So we are number one in terms of the size of the trade surplus with the Chinese, are we not?

Ambassador WILLIAMS. Well, probably it is Hong Kong, but we are certainly the leading export market. But the point on exports to their market is, if we lose wheat sales to the Canadians, the Argentines, or whoever, we have lost them. And there are jobs dependent on those exports here. If we lose airplane sales or airplane investments, we have lost them.

Senator RIEGLE. Well, you know you cannot come in here and, in a sense, hide a \$15 billion deficit that is going up from a \$10 billion or a \$12 billion deficit. It may well be \$20 billion the year following. If we get MFN, it may be \$25 billion.

I mean, you cannot come in here and talk about some things we sell over there when that amount is very small by comparison of what they are shipping in here. I mean, that means there is an export not just of jobs, but of capital from this country. There is a \$15 billion drain of capital resources out of this country annually to China. Does that not hurt this country?

Ambassador WILLIAMS. Well, the question, Senator, is whether that money would be paid here or paid to some other country. And I think most economists will tell you it is going to be paid to some other country. Those are not the kinds of jobs that are done in this country, by contrast the jobs we lose on the export side.

Senator RIEGLE. Well, I do not happen to agree with that.

Ambassador WILLIAMS. What we would lose on the export side, we have lost for good. Those are jobs that would be gone to the Japanese or the Europeans and gone forever.

The CHAIRMAN. Senator, I must ask you to summarize. If you would like, I will do a second round for you.

Senator RIEGLE. I thank the Chairman. No, no. I thank the Chair for its indulgence. You have allowed me to go over time, and I appreciate that. I think I have made my point, but I have not heard an answer, quite frankly.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Mr. Chairman. Mr. Secretary, you know as well as anyone under our Constitutional form of government, if we are going to advance public policy in a meaningful way, we must cooperate, the two branches of government, the executive and the legislative. We are not a parliamentary form of government. Our system requires cooperation and compromise between the executive and the legislative branch.

I think that worked fairly well when the administration asked for the extension of fast-track negotiating authority. There are some in the Senate who had a contrary view, but the majority voted to extend fast-track and I believe, in large respect, because the administration cooperated and has consulted with the Congress as we, together, at both ends of Pennsylvania Avenue, attempted to forge the proper policy with respect to the Uruguay Round, the GATT, and the North American Free Trade Agreement. We have a lot more to do as the administration begins to negotiate in those two arenas.

I think this issue is similar. That is, this is an issue—the one before us today—where, again, the administration and the Congress must work together if we are going to craft a policy that is significant, effective, and meaningful.

The ball, I think, is now in the administration's court. I mean, you have heard, and you will continue to hear, of many complaints, objections, problems, that members of the Congress legitimately have with respect to China's policies in its human rights, trade, et cetera. And I am asking you, the administration, whether the administration would be willing to send a letter to the Congress outlining the specific additional actions that the administration is willing to take—the rifle shots, the surgical efforts, if you will—prior to a vote in the Congress on MFN.

Secretary EAGLEBURGER. Senator, the only way I can answer the question is to tell you that that is not a decision for me to make. I will make sure that it is an issue that is considered quickly, and we will try to get you an answer.

I am not even sure what the specific additional actions supplemental to those we are already taking might be, but I am certainly prepared to tell you that I will look at it. I will raise it to a level a pay grade higher than mine. That is the only thing we can do.

Senator BAUCUS. I encourage you to do so. There are ways for, obviously, the Congress and administration to determine what those additional specific items could and should be. I urge you to so commit. It helped secure votes for extension of fast-track negotiating authority when the administration responded. I think it will help here, too.

The CHAIRMAN. Thank you very much, Senator Baucus. Gentlemen, we are appreciative of your testimony. Thank you very much. A tough issue.

We are very pleased to have Senator Biden who is with us this morning, and we look forward to his statement.

**STATEMENT OF HON. JOSEPH R. BIDEN, JR., A U.S. SENATOR
FROM DELAWARE**

Senator BIDEN. Mr. Chairman, I have a very brief statement I would like to make, and I want to thank you for accommodating my testimony.

Mr. Chairman, obviously much emotion surrounds the question of renewing MFN status. And in light of the horrors of Tiananmen Square, those passions are quite understandable. But I would like to urge this committee to craft a resolution on MFN that is, above all, realistic. And by that I mean a resolution setting forth realistic conditions for MFN renewal this year and next.

And I would urge this committee to resist those who would propose legislative language that amounts to a formula for denying MFN status to China and instead, Mr. Chairman, I respectfully suggest that the committee and the Congress adopt a two-part approach.

First, setting out realistic steps on human rights and international behavior that the Chinese must take over the next year in order for MFN to be renewed in the summer of 1992. And second, specific stipulations that if China proceeds to proliferate dangerous new weapons systems, that MFN will be terminated immediately. These stipulations must be clearly defined actions that are so inimicable to the international order and so dangerous in their consequences that we are prepared to terminate China's MFN status immediately. And in that category, I would place the transfer of modern ballistic missiles like the M-9 and M-11 to unstable regions, or to terrorist states, and I have in mind missile transfers to Syria, Iran, and Pakistan.

In the case of Syria, I know that no one in this body can be sanguine about the prospects of Mr. Assad—a man, in my view, just as dangerous as Mr. Hussein—possessing M-9 missiles with a range and accuracy that would enable them to threaten the entire State of Israel.

In the case of Pakistan, I hope no one would deny the dangers of introducing a missile like the M-11 into South Asia where several wars have already been fought, and where both Pakistan and India apparently have nuclear weapons, and where hostility, irrationality, and instability still prevail to this day. And the case of Iran, I believe, needs no elaboration.

In conclusion, Mr. Chairman, let me say that the approach I have outlined, I believe, is realistic, and it is not asking too much

of Beijing to make a hard-headed calculation. Which is more important to China, the tens of billions of dollars referred to by you and others here today that they earn from trade with the United States, or the millions of dollars they earn from sales of dangerous missiles to dangerous dictators?

Politically, an approach such as this will demonstrate our realism and practicality. MFN can be renewed this year, so long as the missile sales do not occur, and MFN can be renewed next year so long as China takes simple and reasonable steps on human rights, trade, and other matters.

And I thank the Chair for giving me the opportunity to take those few minutes to make my point.

The CHAIRMAN. Senator, you have long been concerned with this issue, and we value your judgment and your counsel. That will be noted for the record. I would ask any questions of Senator Baucus.

Senator BAUCUS. No questions.

The CHAIRMAN. Thank you very much for your testimony.

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

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

The CHAIRMAN. Our next panel will consist of Prof. Doak Barnett, who is professor emeritus of Chinese studies, Johns Hopkins School of Advanced International Studies; and Prof. Perry Link, Prof. of East Asia studies, Princeton University; Mr. David M. Lampton, who is the president of the National Committee on United States-China Relations from New York. Gentlemen, we are very appreciative of having you. Dr. Barnett, would you proceed, please?

**STATEMENT OF PROF. A. DOAK BARNETT, PROFESSOR EMERITUS
OF CHINESE STUDIES, JOHNS HOPKINS SCHOOL OF ADVANCED
INTERNATIONAL STUDIES, McLEAN, VA**

Professor BARNETT. Thank you, Mr. Chairman, for the opportunity to testify on what is obviously a very important issue. I have stated in some detail my position in the written testimony that I have submitted to you. I am told I have 5 minutes at the moment, which, for an ex-professor, is almost nothing.

The CHAIRMAN. Dr. Barnett, that gives us more time to ask questions.

Dr. BARNETT. Right. Well, all I can do in these 5 minutes, obviously, is state a few basic judgments and points. Some of them will repeat points that have already been made this morning. Perhaps there is some value in underlining them, and perhaps also, hopefully, some value in hearing them not just from officials in the administration, but from an academic who has been studying and writing about China and United States-China relations for the last 45 years.

Let me state my position right at the start; it is that, in my judgment, the United States should renew MFN treatment for China unconditionally. I hold that position because I genuinely believe that denying it, or even attaching strong conditions, would not achieve the goals that we want to achieve, which I certainly share:

Instead of solving problems relating to China's human rights policies, or its trade policies, or its weapons export policies, I am convinced that it would make solutions in all of these areas more difficult. It would, moreover, hurt friends of ours outside of China, and I think it would adversely affect some broad U.S. strategic and international interests which have not been discussed very much this morning.

The reason for this judgment—and one of the factors that I would stress this morning—is that I believe that in acting to change China's MFN status, we would not just be taking action on trade in a specific way, I think we would undermine our basic trading relations, a point that was made earlier, but, beyond that, I think it would lead to a very major general deterioration in our overall political relationship with China, as well.

Chinese leaders, including its reformers, would see this as a major hostile act, and that they would respond accordingly, not just—as it has been pointed out—in the trade field, by raising their tariffs proportionately, but by taking a harder line on almost all of the issues that we want them to change their policies on. I think it would also probably lead them to be considerably less cooperative in dealing in a wide range of international issues.

As far as the domestic situation with China is concerned, I strongly believe that instead of improving the prospects for reform—for economic and political reform—it would certainly, in my judgment, strengthen the hardliners in China—at least for the short run—lead them to dig in their heels, and try—not for the long run, because they cannot succeed in the long run but in the short run—to clamp down further.

I have little doubt that this would weaken the position of China's reformers, who have gained some of their strength from inspiration and contacts abroad.

The greatest damage in China, as has been pointed out, would be to China's coastal areas, and to its collective and private enterprises, which are now the strongest base for reform in China, which have the greatest ties abroad, and gone the furthest in moving towards a market economy.

Let me say that I personally believe that the underlying forces for reform in China are still very strong, despite the serious setbacks in the last 2 years, and I think they will re-emerge after the old leaders pass from the scene. But exerting the kind of broad, across the board pressure that action on MFN would involve would delay rather than accelerate the reform process.

As also has been pointed out, inevitably there would be some economic costs to the United States, to consumers, to farmers, to industries exporting to China, and to U.S. investors in China. These are important and should not be ignored. But frankly, in my judgment, far more important would be the possible costs the United States would suffer in relation to broad international interests.

I disagree with those who, at one time, thought that China was of great strategic importance, because it was a counterweight to the Soviet Union—which I think tended to be exaggerated—but who now accept as conventional wisdom the idea that China is almost irrelevant to broad U.S. strategic and international interests.

Clearly, it seems to me, the degree to which China is cooperative or obstructive will have very far-reaching effects on many U.S. interests. China's cooperation is obviously required for stability in Korea, and to try to end the conflict in Cambodia. And because it has a veto in the U.N., the United States will need its cooperation in the future if the United States wishes to turn to the U.N. for collective action in crises situation, as I think we probably will.

The CHAIRMAN. Well, Dr. Barnett, I would say you used your 5 minutes very effectively, and we will look forward to the entire statement in the record.

[The prepared statement of Dr. Barnett appears in the appendix.]

The CHAIRMAN. Dr. Link, if you would proceed.

STATEMENT OF PROF. PERRY LINK, PROFESSOR OF EAST ASIA STUDIES, PRINCETON UNIVERSITY, PRINCETON, NJ

Dr. LINK. Thank you, Mr. Chairman. My professional work has been in the field of modern Chinese popular thought, and I think, therefore, that the best contribution I could make is to give you my views on how the Chinese people feel and think about these issues.

And to focus, I want to refer to a letter that Secretary of State James Baker recently sent to members of Congress with an accompanying fact sheet called, "Chinese Attitudes Toward MFN Renewal." The one issue he addresses there is free immigration which is, of course, tied to the MFN issue by U.S. law.

And he states that nearly 17,000 U.S. immigrant visas were granted this year, that this filled American quotas, and that, therefore, restriction of Chinese immigration was not caused by Chinese policy.

Chinese rulers have been using this argument since Zhou Enlai first used it in 1971, but I must say I was surprised to see our Secretary of State endorse an argument that has such an obvious flaw in it. Yes, Chinese policy does not limit the number of Chinese immigrants to the United States, but it has everything to do with who will be among that number. It is an unfortunate fact that virtually the entire Chinese population would accept a U.S. visa if they could. Those who get those visas—who, by the way, include the children of Deng Xioping and top leaders—are only a minuscule fraction of the aspirants.

A moment ago, Mr. Eagleburger was talking about only a few dissidents being involved in this project. That was a shocking statement to me. It betrays an ignorance of a tremendous bottom of an iceberg that Mr. Eagleburger apparently does not know about.

The Communist Party, however, does know about this issue and frequently uses it in their repression of dissent. It is common knowledge in China that one of the punishments of those who dare to speak out is that they are not even allowed to get in line at Western embassies.

Even if they do get a passport, and a visa, and an air ticket, they may not cross the gates at the airports in China without a letter of permission from their political leadership in their work unit.

I omit my examples in my written testimony of this, to move on to a larger point, which is this kind of leveraged intimidation permeates all of Chinese society. Communist Party Secretaries all

across China hold the power not only of travel permission, but employment, housing, education, medical care, access to rationed goods, permission to marry, bear children, divorce, and even can write reports that send people to prison. They use this power constantly to enforce conformity. For a long time, there has been a popular idiom in the Chinese language that when an official harasses a citizen, it makes him wear small shoes. And then when the official comes up with a fancy excuse to make his harassment seem justified, the Chinese people say he makes you wear small glass slippers, because they are invisible, but still pinch your feet.

So, when Deng Xiopeng says, look, Western immigration quotas are full, therefore, China allows free immigration, what he is actually doing is forcing millions of Chinese to wear small glass slippers. And when Mr. Baker endorses this specious argument, Mr. Baker is holding the shoe horn for Mr. Deng.

Mr. Baker's fact sheet also refers to two surveys of Chinese public opinion among Chinese students in this country, and Chinese people in China showing nearly unanimous support for MFN.

The U.S. survey shows that 12 percent favored Mr. Baker's position, but Mr. Baker does not point out in his letter to you, gentlemen, that 60 percent in that same survey favored adding conditions. As for the survey in China, it is hard to evaluate. It does not distinguish the key question of addition conditions, or not; it gives no actual numbers or percentages. But there are reliable polls of Chinese public opinion on this. At the Psychology Department of Beijing Normal University in spring 1989 during the demonstrations, a poll showed that 96 percent of the Beijing populace in a random survey supported the student demonstrators at Tiananmen. One percent were opposed, and the other 3 percent gave no response.

In May of 1990—the last time MFN was an issue—the hardliners in Beijing ordered the Communist Party Youth League to do a survey among Beijing University students in order to get the “right answers” for their use in their own propaganda.

They did a survey of 453 Beijing students, and it was a multiple choice survey. And I am going to read to you just a few of the responses. Our mood—the students overwhelmingly chose “depressed.” Our view of the future—“despair.” Treatment of intellectuals—“getting worse and worse.” (And they were saying this in spite of the political pressure being put on them.) Why does everyone want to immigrate? “Because they have to. There is no future in China.” And then a very relevant one for your considerations today. What motivates the economic sanctions that foreign countries are putting on our government? Answer: “Humanitarianism.” Both of these surveys were suppressed in China because they showed the wrong answers. I am happy that they are not suppressed in our context, and I hope you will bear them in mind when you read Mr. Baker's fact sheet that says one student that he has found at Beijing University thinks that the sanctions are economic blackmail.

I heard a bell ring, so I'll skip another—

The CHAIRMAN. That is right, Dr. Link.

Dr. LINK. May I go on, or should I—

The CHAIRMAN. No, Doctor. We will take your entire statement in the record. You gave us some interesting numbers and surveys. We will look forward to discussing them.

[The prepared statement of Dr. Link appears in the appendix.]

The CHAIRMAN. Mr. Lampton.

STATEMENT OF DAVID M. LAMPTON, PRESIDENT, NATIONAL COMMITTEE ON UNITED STATES-CHINA RELATIONS, NEW YORK, NY

Mr. LAMPTON. Mr. Chairman and distinguished members of the Committee on Finance, I welcome the opportunity to give you my personal views this morning.

This debate, as we all know, has its origins in the unnecessary and excessive violence of mid-1989 in China and the subsequent repression there, and Chinese policies in the realm of trade, unfair trade practices, and proliferation of weapons and atomic technology.

I am not here to defend those policies, but I do want to focus clearly on the following question: What American policy best defends and promotes our values and interests and is consistent with our nation's capabilities?

Cutting through all the rhetorical underbrush, a decision to end MFN treatment for China would be a tragic blow to the cause of economic and political reform in China. It would further delay the improvement of civil and human rights in China; it would reduce American influence at a critical time of change in China; it would damage disproportionately the most reform-minded and entrepreneurial portions of the Chinese economy; it would strengthen the dead hand of the Chinese state-run enterprises; it would hurt most, and first, the courageous intellectuals and the people we are most concerned about in China who are staying there trying to change that system as best they can; it would unilaterally harm American economic interests as Japan and Europe rapidly renew and expand their ties with Beijing after almost a 2-year slow-down in the wake of the Tiananmen bloodshed; and, it would damage prospects for economic growth and stability in both Hong Kong, and, I would like to add, in Taiwan. I will come back to that point briefly later.

Before addressing the factors which generally have been ignored in the debate over MFN extension—and I will focus primarily on what has not been mentioned—I do want to reiterate two points.

First, not a single nation with which I am familiar is even considering imposing additional heavy sanctions on China which withdrawal of MFN treatment would certainly be. No other nation is going to cooperate in taking such drastic economic steps vis-a-vis China.

The principal result will be to injure American consumers who would pay \$6 billion in extra duties—assuming the same goods were purchased—and unilaterally disadvantage American firms, particularly those that have invested over \$4 billion in China.

Second, rather than use MFN as a shot-gun, we ought to be talking about how to use our available rifles, as has been mentioned this morning. If we are concerned with unfair trading practices and piracy of intellectual property—which we certainly all are—we

ought to be using our 301 provisions vigorously; I would add that the administration is moving in that direction. If we are concerned about Chinese weapons and technology transfers—which we all certainly are—then let us vigorously use technology control and diplomacy.

With respect to those considerations which have not been adequately considered to date—in my written testimony I point to four—let me just tick them off here:

One, China's path of economic development through integration into the global economy and domestic entrepreneurship is consistent with American interests, values, and capabilities to a far greater degree than the path that requires massive external financial assistance, such as the Soviet Union is suggesting.

In my written testimony, I point to the considerable progress which the Chinese have made in economic reform with less than 40 percent of China's national income now coming from state-owned enterprises. This contrasts sharply with the situation in the U.S.S.R., though we must acknowledge that in the Soviet Union, political reform has progressed considerably further than it has in China where, indeed, it has suffered a dramatic setback.

Two, there is mounting evidence that those individuals who are suffering under current policy in China do not want the United States to withdraw MFN. I heard what Professor Link said before me, and I provide considerable evidence in my testimony to the contrary.

Recently, a poll was undertaken at Peking University, an institution that played an instrumental role in the "Beijing Spring" 1989. This poll revealed that 65 percent of the students surveyed opposed economic sanctions against China by any nation.

Three, denying MFN to the PRC will adversely affect Taiwan's economic interests, and greatly retard the development of economic ties between the China mainland and Taiwan, ties which enhance Taiwan's security.

Four, finally, the rising U.S. trade deficit with China, in considerable measure, represents the fact that Taiwan and Hong Kong have exported part of their trade surpluses with America to China by moving labor-intensive industry from Hong Kong and from Taiwan to the mainland.

Thank you, Mr. Chairman.

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

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

The CHAIRMAN. Well, we have seen some diametrically opposed views that were very well expressed from their point of view.

My problem, gentlemen, is that I have another meeting I am already delayed in attending, and I want to ask my colleague to complete the hearings.

Senator Riegle.

Senator RIEGLE. You gentlemen, I would assume, were all in the room for the earlier discussion with the two administration witnesses. Were you at all surprised, any of the three of you, by China's vote in the U.N. in abstaining on the Persian Gulf matter?

Dr. BARNETT. Well, I was not surprised, like everyone, and certainly like those in the U.S. Government, I was hoping that they

would vote for the last two resolutions approving the use of force. But it was obviously a major decision to China, and they agreed to acquiesce to, but not state positive approval of, the use of the force. They have long had a position which has opposed the use of force in these kinds of situations, so this was consistent with what they have felt in the past.

And it was a rather major decision for them to go along in general with the action that the U.N. took. And they facilitated it—without their approval and abstention in these votes, it would not have been possible to build the coalition that we did.

Senator RIEGLE. Well, clearly that is the case. Now, are the Chinese pretty good negotiators? I mean, are they pretty blunt and frank in their private conversations about what people want from them and what they want from other people?

Dr. BARNETT. I think both the Chinese and we, in dealing with each other, are pretty good negotiators.

Senator RIEGLE. Yes. Well, let us assume we are, but there is nothing to suggest that they are shy and self-effacing on hardball geo-political questions and economic questions, is there?

Dr. BARNETT. Not at all.

Senator RIEGLE. What would your view be?

Dr. LINK. Not at all. That is right.

Senator RIEGLE. So I think it is probably fair to conclude—not having been part of those discussions—that those discussions were probably inclusive of lots of bilateral issues, would they not have been?

Dr. BARNETT. The discussions in the U.N.?

Senator RIEGLE. I am talking about the discussions between the United States and the Chinese officials at that time.

Dr. BARNETT. No, I would not think so at that time in the U.N. It would seem to me that the discussion then would have focused primarily on our immediate pressing objective of organizing a coalition that could act in the Gulf.

Senator RIEGLE. But what would the Chinese have been interested in from their point of view? If they were going to find their way to acquiesce to a policy that we very much wanted, does logic not tell you that there might have been something on their agenda that they might have been interested in being part of the discussion?

Dr. BARNETT. Yes, it was very obvious, and they got a partial response. They wanted to restore a somewhat higher level of contact with the U.S. Government, and as a result, the Foreign Minister was invited to Washington.

Senator RIEGLE. Exactly. And that happened very shortly thereafter, did it not?

Dr. BARNETT. Right.

Senator RIEGLE. And so, it looks as if there was a little bit of give and take there. I mean, that is certainly the impression one would draw from a distance.

Dr. BARNETT. I would agree with that.

Senator RIEGLE. Now, is it not just as logical—I mean, they have very pressing economic problems, do they not, China?

Dr. BARNETT. Yes. Yes, they do.

Senator RIEGLE. Now, where is the logic in thinking that economic issues would not have had any part in those discussions?

Dr. BARNETT. Well, I think that economic issues are extremely important, that we are going through a very complex process of bargaining with China on a wide range of such issues, and we are applying quite strong pressure on China. But removing MFN or establishing conditions that are strong would be tantamount to a delayed removal, it seems to me, and would be an assault on our basic relationship of a kind which, frankly, we have not directed at any other country.

Your concern about the trade deficit with China and our general trade deficit is a very important one, but we have used MFN to deal with this problem with any other trade country—for example, we certainly have not used this kind of sledgehammer in dealing with Japan, which has been our most serious problem, or with Taiwan and Korea.

Senator RIEGLE. Is Japan a democracy?

Dr. BARNETT. I would say Japan is a unique form of Japanese democracy, yes.

Senator RIEGLE. Yes. Well, would you say it is a little different than the Chinese version of democracy today?

Dr. BARNETT. Of course.

Senator RIEGLE. Yes. Vastly different. I do not think we can take these questions out of the context of what we have seen over the last couple of years in terms of the movement of many people toward democratic processes and reforms in China and what has happened as a result of that. There are a lot of people that lost their lives, there are a lot that are in prison, there are a lot that are in hiding, and others that have fled the country.

I am hard-pressed, actually, to find another government on earth today that—it is a rather small group that have been, I think, as brutal in terms of their internal suppression of people as the Chinese have been.

Now, there are other governments that have been. Certainly, Saddam Hussein is a model of that kind of suppression, and there are others. But certainly China, I would think, would rank right up there with the others in terms of what we all saw with our own eyes. Or did I miss something?

Dr. BARNETT. The shortcomings of China in the political field are obvious, and they are well-known. The question is what kind of policy on our part will, over time, encourage progress in the right direction? That is the crucial issue. There is not very much debate about the fact that there are serious human rights problems in China.

There is another side of the picture, though, which was only mentioned in passing in the earlier testimony. Even today, China is way ahead of the Soviet Union and Eastern Europe in economic reform, despite the retrogression in the last 2 years.

Senator RIEGLE. Well, I am not surprised to hear that.

Dr. BARNETT. Yes.

Senator RIEGLE. Let me talk economics.

Dr. BARNETT. Right.

Senator RIEGLE. I mean, that is sort of where I come from in terms of my interests and my background and training. Any coun-

try that is running a \$15 billion trade surplus with another country is going to have some economic gain from that.

The Soviets do not have a \$15 billion trade surplus with the United States these days. I am sure they would love to have one, and if they had one, it would be very helpful to that government and to Gorbachev and his people would be greatly helped if they had a \$15 billion trade surplus.

The Chinese leadership hierarchy is greatly helped by that trade surplus in raw economic terms—tremendously helped. I do not think it is helpful to us. I think it quite helpful to them. I mean, it is awfully hard to argue that you can sort of reduce it into an abstraction that then, “poof,” disappears. A \$15 billion trade deficit and its effects in this country, they are very material. Now, we heard the last witnesses say, well, that kind of work is not work we would do in this country. I have had people come up to me in Michigan—and I am talking about highly-skilled workers as every bit as smart as you and me and anybody in this room—and who are willing to do just about anything right now because they are quite desperate.

I mentioned that 48,000 of them are losing their unemployment benefits at this time, and they do not know how they are going to feed their families and be able to maintain the ownership of a car where they might go to a prospective job site, or to even keep a roof over their head. And they want to work. And they are quite willing to do work that is now being done by Chinese workers, albeit at much lower rates in China. They would be quite happy to do that work here if there was a way for them to do it, because they desperately need work.

Now, you do not need work, and I do not need work at the moment because we have jobs. I quite suspect if we did not have jobs and had no way into the job market right now, our view might be quite different.

We might say to ourselves, why are we sending all of these jobs out of the country, \$15 billion worth net in a 12-month period to China, when we have got literally millions and millions of people in this country unable to find work even at the level of the minimum wage.

Mr. LAMPTON. Senator, your point is very well taken. I think, though, that there is one thing that can be said about this, and that is that much of the surplus that China is now generating is because Hong Kong and Taiwan are no longer doing those jobs; Taiwan and Hong Kong have become too expensive places for those jobs to be done.

Senator RIEGLE. How does that help the United States?

Mr. LAMPTON. Well, simply the American consumer is able to buy products that he is not going to be able to buy if they are not made in a low-wage area. Even Hong Kong and Taiwan are far too expensive for that amount of labor to be placed into those goods—toys, low-end clothing, shoes.

Senator RIEGLE. Let me ask you this. Take it the next step out. I mean, you all are people with important academic qualifications and standing. If we have a trade deficit with every country—let us say we had a trade deficit of \$15 billion with every country.

And if the argument at the first level of analysis is, we get cheaper tee shirts, or whatever it is we have coming in, how long can any country run persistent large trade deficits with the rest of the world and still maintain their own standard of living in their own job base?

Mr. LAMPTON. Well, you are absolutely right. And I think that means we have to develop job training programs so we can do more high-value added work and give good jobs and high paying jobs to our people.

Senator RIEGLE. Did you hear anything said about that by the administration witnesses when they were here?

Mr. LAMPTON. No, but I—

Senator RIEGLE. Even in response to that question when that question was raised. I mean, they had the opportunity to be as creative in their thinking as you just were to say well, maybe there is a way to cope with this problem if we want to go down this track, and that is to not leave American workers out in the cold.

Mr. LAMPTON. Well, I personally agree with the line of thought that you have just expressed. I would just point out, though, that we have to recognize that China's economy is now becoming one that is increasingly embracing Hong Kong, Taiwan, and certainly South China—it increasingly is becoming one big economy.

And it is, in effect, an artifact of administration. If you look at that whole economy (PRC, Hong Kong, and Taiwan) from 1987, we had a \$26 billion deficit with that economy in 1987. We now "only" have a \$24 plus billion deficit. Actually, the deficit with that economy is dropping now.

Senator RIEGLE. Well, let me tell you why it is dropping. It is dropping for two reasons at the present—I mean, there are a host of factors in it. We are in a recession right now, and so when we have a recession, we tend to buy fewer things, and we are buying fewer foreign goods. So, the level of imports coming in is just less because we have got such a slack economy. In addition, in our current numbers—we are getting some of the payments coming in rather late, but still coming in for people chipping in to Desert Storm, which is being counted into the numbers, as well.

The very serious problem that we face in this country—and we have got to cross connect the geo-politics to the economics—because we are not going to have a lot of hearings in this room 5, 10, 20 years from now on great American adventures in foreign policy if we do not rebuild our own national economy.

Countries that do not pay attention to things at home lose their ability to be world leaders, and that is happening to us, in my view. Because there is just too much evidence of economic erosion at home, and the fact that we are sort of drunk on foreign policy, quite frankly—I do not aim that at you, but as a national government effort these days—and we are paying very little attention to domestic policy initiatives that would maintain our economic strength to allow us to play the world leadership role that we aspire to. And we are not discussing it in those terms, and more and more we are sort of walking away from our own people. And the disillusionment out there among our own people—not well-situated as we all are at the moment—not only without jobs, but without health care and a lot of other things that we would not tolerate

for a day, or we would have great anxiety about if suddenly our health care were gone, or the coverage for our families—and here we are in this room without any sense of a program to restore economic strength in this country.

And no matter how powerful the argument is, I do not think you can try to take and help bring China into the modern world, to the extent that we can have some influence in that.

I do not think you can advance that proposition off the foundation of a \$15 billion a year bilateral trade deficit, which has just come up from \$10 or \$12 billion, and in all likelihood is going to go even higher, according to the administration witnesses who were just here. With MFN in the picture, you cannot then turn around and say, let us just do this, sort of in the abstract, without a direct working connection to the economic realities here in the United States.

Mr. LAMPTON. But Senator, we want to preserve not dollar and a quarter an hour jobs for the American people, we want to give them \$10, \$12 jobs.

Senator RIEGLE. We do not have enough of either kind. That is the problem. We do not have enough of either kind. There are not enough jobs today at the minimum wage, and there are even fewer jobs available—in terms of those that would seek them—at \$10.50 an hour.

Our problem is pervasive up and down the wage scale. We have a serious economic problem in America, and I do not think any witness today can address this substantial question that has major economic implications to it that feed into our economy and not address it in the present context. I mean, you would not let students get away with that. I mean, you just would not let students get away with that. Students that do that do not get A's or A-pluses.

Dr. LINK. I agree with you, Senator, entirely. And I would like to relate the discussion back to the Chinese economy and its problems for a moment. A moment ago, Mr. Barnett said that the economic reforms in China were doing very well, and that was true in the early 1980's. They eventually ground to a halt beginning—

Dr. BARNETT. Do not misquote me. I said they were ahead of the others.

Dr. LINK. They are ahead of the others. I will say they were doing very well, and I did not mean to misquote you. They were doing very well, and they ground to a halt because political reform would not budge. The Chinese people have been clear, ever since the death of Mao. We want, they say, both political reform and economic reform. And Deng Xiaoping's formula throughout the 1980's was to say you can have economic reform, but you cannot have political reform. And that is what did in the economic reform. And this is one of my big problems with the MFN issue.

When the American administration says that we are going to give you MFN and help the economic reform but withhold any conditions that could push political reform forward, they are essentially endorsing this formula that Deng Xiaoping has tried and has been proven to fail. That is what the history of China in the 1980's tells us.

The other comment I want to make about the economy and how it relates to Hong Kong is that I was very surprised when Mr. Linn

Williams described the potential loss of MFN as a big blow to Hong Kong. This is farfetched, because there is a big blow looming in Hong Kong—a tremendous one as we all know—and it is the date July 1st, 1997 when sovereignty goes back to the People's Republic of China.

Already thousands per week of Hong Kong's most talented entrepreneurs and all kinds of capital are fleeing Hong Kong. Why? Because they are afraid MFN to China will be withdrawn? No. Because of the looming takeover in 1997. The only hope for Hong Kong and its economy is political change in Beijing, and that is just one more reason why we should use every leverage we can, including conditions on MFN to try to push political change in Beijing.

Senator RIEGLE. Gentlemen, let me just ask you this. Our time is getting away from us here, because we must get on to other things. But let me ask each of you if the Chinese had exercised their veto in the Security Council and said no to the Persian Gulf War Plan, do you believe the administration would be promoting MFN now?

Dr. BARNETT. I think it is very possible that they would not be. I think that would have been a major divergence of policy on a fundamental international issue that would have had profoundly adverse effects.

Mr. LAMPTON. I think it is highly unlikely, but I should say that China also did this because, in a larger sense, it wants to re-integrate itself into the community of nations. Also, if you look at its pattern of votes in the U.N., China frequently abstains rather than vetoes, just as a pattern.

Senator RIEGLE. It looks to me as if China wants the best of both worlds. They want to be able to integrate with the world and take advantage of the pluses, and suppress their people at home and maintain a feudal-type political system with a lack of democracy and the kinds of freedoms that we would associate with a modern nation. My concern is that we not facilitate that. I am concerned on two levels. I have stressed the economic today. I also think there is a moral level involved here. And a lot of people inject their own view of morality in these complex discussions of international relations and important international questions. But presumably we do stand for something.

And we went out under the banner of certain human values when we fought the war in the Persian Gulf, and if you set aside restoring the Emir of Kuwait and oil revenues, and certain other rather kind of crass elements of the puzzle, the broader argument given was that we were trying to help people—generally speaking—get to a freer system and kind of out from under suppression and repression. And that was the rallying cry, and we lost some American lives. We lost some from my State. Fortunately not as many as we might have, had the war not gone in the way that it did. But presumably we were there on behalf of some human values. And I think there ought to be a very large dose of human values in these bilateral policy decisions.

Dr. BARNETT. Could I make one last comment on specifically that issue?

Senator RIEGLE. Sure. Yes, of course.

Dr. BARNETT. I make the comment in my written testimony that I believe from all the conversations I have had with a fairly wide number of intellectuals and reformers I know in China that they believe that action on MFN would set back the reform movement and their interests. That was based on my own personal experience. On the way to the hearings this morning, I was given two statements which I think strongly reinforce this.

One is a letter to the U.S. Senate by five very leading Chinese reformers who are in this country, including a former personal assistant to Zhao Ziyang, who say, "We are a group of former Chinese officials. We are among those who initiated and implemented the reforms of the past decade. After the events of 1989, we lost or left our government posts and are currently studying or working in the United States. Based on our experience, we support President Bush's proposal to renew China's most-favored-nation status. The termination of this status will damage the cause of economic reform." I am just jumping through it. They go on: "We also believe that the attachment of human rights conditions to a renewal of MFN is the wrong way to further human rights in China," and so on. This second—

Senator RIEGLE. Well, let me just stop you.

Dr. BARNETT. Yes.

Senator RIEGLE. And I am happy to put those in the record, because we have got lots of groups on both sides that—

Dr. BARNETT. Well, it happens to support my own personal statement.

Senator RIEGLE. No, no. I understand, and I appreciate that. And we will make it a part of the record, and any other statements of that kind on either side that want to be presented.

Senator RIEGLE. I think time is a'wasting. I think people's lives and liberties are a'wasting every single day. I think these feudal governments are hanging on to power with every device that they can lay their hands on. I have not talked with a large number of Chinese dissidents. I have talked to some.

I have talked with a very large number of dissident persons from different parts of the Soviet Government, and they say exactly the opposite. Almost to a person they say exactly the opposite. They say if you do not keep the pressure on, things do not get better.

And, you know, Yeltsin is here today. We met earlier today and, in effect—not in effect, but in plain language, he made precisely the same point. Now, maybe he is right with respect to their situation in the Soviet Union, and a different view would prevail in China.

Dr. LINK. Could I interrupt there? This is—

Senator RIEGLE. No. Let me just finish. I think what is happening is that as the days go by, and as the weeks go by, and as the months and years go by, people's lives go by. And I think it is a bad situation there with respect to human rights. I do not think the economics are justified from the point of view of this country, and I want to see things move in a better direction. I have been to China, and I have met and talked with lots of Chinese people while there.

Alex Eckstein, who was a great friend and mentor of mine at the University of Michigan, was probably as instrumental in helping to

bring about the establishment of a modern-day relationship with China as any person in our country, and I loved him dearly and learned a great deal from him.

Mr. LAMPTON. He was a former Chairman of the National Committee, Senator.

Senator RIEGLE. I know he was. And he cannot speak for himself, so I am not going to try to put any words to him or attribute to him his view of things as how he might see them now. But I know this, that he was profoundly a humanist, and I know that the notion of tanks rolling over people trying to express the most elementary and basic human rights that you have to express during your lifetime if you are going to make your life count for something, would have been as appalling to him as they are to me. The people who did that are running the show. And I think they are still running a very brutal operation.

Dr. BARNETT. He was one of my closest friends. I worked very closely along with him in the 1950's and 1960's on China. He was a humanist; I am a humanist. He believed it was essential to establish relations with China at that time, even though the Maoist regime was incredibly bad in terms of all the issues we are talking about. But he believed that contact was the way to have an influence on the country—

Senator RIEGLE. I think we all believe that.

Dr. BARNETT. And he was right.

Senator RIEGLE. Yes. I do not know of anybody—there may be a few around here that want to discontinue contact, I am not one of them. I think we ought to have contact. That is very different. That is very different than taking a situation where you have got a \$15 billion trade deficit with a nation operating as they are in today's context and applying on top of that a trade practice that can only have the effect of causing that deficit to increase further and not in return for that. And I am troubled about the backward look, because I suspect that MFN is, in part, pay back time for U.N. votes. That is my opinion. I think that is part of what we are seeing here. And in a sense, when I asked you the question had they voted the other way in the U.N. would be seeing this, and you thought not, which is another reflection on that very same issue.

I am much more interested in what happens in the future. And I am much more interested in what is going to happen to the quality of life and for people in China, generally, and in this country, than I am what happens to a ruling elite. And I am very troubled about the situation as it stands today. I do not think it is moving very fast.

Dr. LINK. Senator, your impulses are entirely correct, and I want to go on record as a China scholar here that tells you that. When you say that other places and other people who have been under repression have reacted in certain ways, you are quite right. And if you listen to voices like Andrei Sakharov, or Elie Wiesel, or Vaelev Havel, or Nelson Mandela, they all say the same thing.

They say please do bring pressure. Please do not be idle bystanders. Please do raise moral issues that are based on our common humanity. And it is wrong, and it disturbs me greatly that our administration has a second standard for China, and that our Secretary of State puts out a fact sheet that tries to teach us that the Chinese

people are somehow different from all of these other people. When you and Professor Barnett talk about what Chinese students and intellectuals think, both of you have been to China, both of you have talked with some, you are talking in my special field. This is what I work on, and not just from surveys, from countless talks and work in my daily work every day. I can tell you there is no question that Chinese people are human beings as well and react in these same ways and want us to bring pressure.

Do they want MFN? Yes, they want MFN. Do they want it at any cost? No. What is most important to them? To bring political change to leverage their government in a better direction. MFN is one way to do that. The ideal for them would be to that. The ideal for them would be to have both.

Senator RIEGLE. I am not sure what other levers we have. I mean, that may not be a very perfect one—

Dr. LINK. It is not perfect, but it can be used.

Senator RIEGLE. But it is obviously one that matters to them. It is obviously one that matters to them. You almost have to have one that matters to them in order to be able to do something with it.

Gentlemen, I must stop because we must get on to something else, but I have great respect for all three of you and for the views you have expressed. And the great thing about a democracy such as ours is that we can exchange views and pool our thinking and discuss these issues and to try to reach some sort of larger collective judgment as to what seems to be right. But I appreciate what you have said, and the committee stands in recess.

[Whereupon, the hearing was recessed until 10:00 a.m., Thursday, June 20, 1991.]

CHINA MOST-FAVORED-NATION STATUS

THURSDAY, JUNE 20, 1991

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

The hearing was convened, pursuant to recess, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus and Grassley.

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

The CHAIRMAN. If you will cease conversation, this hearing will be under way.

We are pleased this morning to have the very distinguished senior Senator from the State of California as our first witness. Senator Cranston, if you would proceed?

STATEMENT OF HON. ALAN CRANSTON, A U.S. SENATOR FROM CALIFORNIA

Senator CRANSTON. Thank you very much, Mr. Chairman. I thank you for the opportunity to testify before you on the pressing issue of whether or not to renew the People's Republic of China's most-favored-nation trade status.

My reasons for introducing a resolution of disapproval were many.

First, I have been deeply concerned about reports concerning the deteriorating human rights situation in China and Tibet since the massacre in Tiananmen Square when tanks rolled over the democracy movement.

Second, I have been concerned that the Chinese are continuing to export missiles and to provide nuclear and chemical weapons technologies to the Middle East.

Third, I have been concerned about Chinese efforts to destabilize Southeast Asia by continuing to provide arms, reportedly including tanks, to the Khmer Rouge in Cambodia.

Fourth, I think we have all become concerned about the growing trade deficit with China and reports of Chinese use of slave labor to produce goods exposed to our country and of violations of American intellectual property rights.

I believe it is of national importance that we debate these issues in the Senate; and thus, I introduced by measure to ensure that such a debate will occur this year.

For the past 2 years, my Subcommittee on East Asian and Pacific Affairs of the Foreign Relations Committee has held hearings on Sino-American relations. Last year's hearings focused mainly on the serious lack of improvement in China's human rights conditions.

This year's hearings covered a wider range of issues, including trade problems and weapons proliferation, reflecting the lack of Chinese responsiveness to international concerns.

The testimony I have received confirms my view that there is much that China could do and should do if it wishes to receive special trading privileges.

In the past, we have condemned Chinese behavior but have failed to use our leverage to extract concessions. Deng Xiaoping's words after the 1979 arrest and trial of the Democracy Wall activist continue to echo loudly. He said, "We arrested Wei Jingsheng and put him behind bars, and the democracy movement died. Even though we haven't released him, it didn't tarnish our image abroad."

It is time to take whatever steps are necessary to cause China to make firm commitments and to take immediate actions, if they want trade concessions from us. The time for promises is past.

China's atrocious human rights record confirms how little their behavior has changed despite international condemnation: extrajudicial killings continue; torture and ill treatment of prisoners continue; arbitrary detention of individuals who peacefully exercise fundamental human rights continue.

Unfair trials characterized as "verdict first, trial second" continue; harassment of prisoners, once released, continues; and the use of slave labor in China's gulags for the export of goods to the United States and elsewhere continues.

The Chinese response to these charges has been to ignore, deny, or belittle their importance.

China's record on weapons proliferation is dismal. Throughout the 1980's, China secretly provided weapons to South Asia, South Africa, South America, and the Middle East. These arms transfers, including nuclear and chemical weapons technologies, have undermined world security and international efforts to control the proliferation of weapons of mass destruction.

Most recently, China has reportedly arranged sales of M-9 and M-11 missiles to Syria and Pakistan. Both are capable of delivering nuclear warheads distances ranging approximately between 200 and 400 miles. China has also transferred to Saudi Arabia CSS-2 missiles with a 1,500 mile range and with a nuclear payload capacity.

At the same time, China has been secretly aiding Algeria to develop a nuclear facility since the mid-1980's, according to administration testimony before my subcommittee; but it was only on April 30, after the press disclosed the existence of this program, that the Chinese admitted their involvement.

We have repeatedly told the Chinese, privately and publicly, to halt their efforts to export weapons of mass destruction—to little or no avail. The world may pay a stiff price for its stern talk but weak action.

We have been down that road before—with Iraq—and with grievous consequences.

When the issue was raised about imposing sanctions against Iraq before its invasion of Kuwait, the State Department testified, "You attempt to remain engaged, to argue, to dissuade, to bring moral pressure to bear. Sanctions would not improve our ability to exercise the restraining influence."

On June 12, recently, Secretary Baker testified that missile sales are "one of the reasons we say it is important to remain engaged with the Chinese and not cut them off."

Time and again, Mr. Chairman, the administration has expressed its concern about Chinese military sales. Time and again, Chinese merchants of death have returned to the world market place. Why?

As Dr. Gary Milhollin of the University of Wisconsin testified before my subcommittee a few days ago:

"China is motivated mostly by money. Its leaders understand profits and losses. If they can make more money by selling nuclear missile technology to developing countries than they lose from penalties imposed by the United States, they will continue to sell the missiles.

"Like any good businessman, they will maximize their profits. To change China's behavior, we have to make China lose more in U.S. trade than it will gain by selling weapons of mass destruction."

I know, finally, Lloyd, that the issue of trade is of particular interest to your committee. Over the past 5 years, we have watched our trade deficit with China rapidly increase. China's trade surplus with the United States, as you well know, has grown from \$3.5 billion in 1988 to \$10.4 billion last year.

Some predict it will increase to over \$15 billion this year, making China second only to Japan as our largest deficit trading partner.

When we established relations with China, American businessmen dreamed of discovering a market of over a billion people for their goods.

Ironically, it is Chinese businessmen who have discovered the dream of the American market. Much of the trade we have had with China has been disadvantageous to us.

The U.S. Trade Representative reported in April that China failed to provide adequate and effective protection of intellectual property rights.

Two prominent American companies, IBM and Disney, have been victims—among others. Disney has withdrawn from China as a result of copyright infringement. Chinese companies have sold computers using a false "IBM" trademark. Lotus, a Massachusetts computer software company, has also been a victim of this pirating.

The International Intellectual Property Alliance, a coalition of firms involved in publishing, films, recorded music, and computer software, estimates the value of U.S. property boldly copied and blatantly resold in China in violation of trade practices at \$418 million.

It is time to end China's free ride on America's knowhow.

In the final analysis, what we are asking from China is no more, nor no less, than the type of responsible behavior in human rights, in security, and in trade that is to be expected from any nation

that is an accepted member of the civilized international community.

We are not asking China to abide by American standards or Western standards, but by international standards. These are standards established not to hurt nations but to help and protect them.

If China does not want to live up to these standards, it should understand it will be treated as a pariah nation. A vote against most-favored-nation status sends a clear warning to China about the consequences of further intransigence. I hope that your committee will send that message.

The Chairman. Senator Cranston, you have had a long-time interest in this; and your viewpoints are particularly interesting to us. And of course, your resolution is before this committee and is a subject of consideration in our hearings.

We are most appreciative of your starting our hearing this morning. Thank you very much.

Senator CRANSTON. Thank you a very great deal.

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

The CHAIRMAN. We will next have a panel consisting of Dr. Chen, who is the president of the Independent Federation of Chinese Students and Scholars, Arlington, VA; Ms. Holly Burkhalter, Washington director of Human Rights Watch, Washington, DC, on behalf of Asia Watch; and Mr. John Kamm from Hong Kong.

Dr. Chen, if you would proceed with your testimony?

I would like to tell each of you that your oral statement in the beginning will only be 5 minutes. We will take your entire statement for the record. We do this in order to have more time to question you.

Dr. CHEN. I understand. Thank you.

STATEMENT OF DR. XINGYU CHEN, PRESIDENT, INDEPENDENT FEDERATION OF CHINESE STUDENTS AND SCHOLARS, ARLINGTON, VA

Dr. CHEN. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, on behalf of the Independent Federation of Chinese Students and Scholars, thank you for allowing me to appear before you today so that I can share the views of the majority of students and scholars studying and living in the United States.

My name is Xingyu Chen, and I am presently serving as the President of IFCSS. In 1989, I received a Ph.D. in Engineering Mechanics from the University of Wisconsin. Our national organization represents more than 42,000 Chinese students and scholars at over 200 universities across the United States.

We support conditional renewal of legislation establishing key human rights conditions which should be satisfied in order for MFN status to be granted to China in June of 1992.

This position was taken only after extensive consultation with not only our own membership but also with other major Chinese pro-democracy groups in the United States.

Professor Fonito also indicated his support for this legislation in his testimony before the House Foreign Affairs Committee on May 29, 1991. I also have a letter here signed by numerous Chinese dissidents that I would like to have entered into the record.

The CHAIRMAN. That will be done.

[The letter appears in the appendix.]

Dr. CHEN. Our goals are to achieve the respect for human rights, democratic reforms, and economic progress in China. President Bush's recent decision to unconditionally renew MFN for China will not help us achieve these goals. This decision is just another step in a failed policy toward China.

In the 2 years since the Tiananmen massacre, the Bush administration has pursued an accommodationist policy and the Chinese authorities have responded by not only continuing but intensifying the crackdown on China pro-democracy activists.

At the same time, the Congress has been unable to enact into law conditional MFN. This inability to respond to the step up of transgressions by the Beijing regime sends the wrong message to China. Not only can hard-liners expect toleration of their present and future human rights abuses, but also those actions can be carried out with impunity.

In addition, the Chinese people need to know that Americans, as leaders of the free world, will stand by them as they have stood by the Eastern Europeans in their quest for freedom and democracy.

Now, more than ever, the Congress has the responsibility to depart from this failed policy and at long last sharply condemn the Chinese Government's authority for their increased human rights transgressions.

For this reason alone, the Congress should at the very least impose human rights conditions on any extension of MFN extended for China.

The moral imperative will never be stronger than when coupled with forced labor and trade concerns. It is clear that if there was ever a time when the congressional role to enact the law must exist, it is now. The only credible approach at this time in imposing human rights condition in the renewal of MFN is to lay out in the proposed legislation.

These conditions should require the Chinese Government to account for and release political prisoners, improve the most fundamental human rights, such as freedom of speech, assembly, and association, stop persecution of Catholics, Protestants and Buddhists.

U.S. policy to date has strengthened the hardliners in Beijing. If this policy continues, they can argue in internal debates that repression at home will not incur any long-term economic consequences. However, the imposition of conditions will do just the opposite and will strengthen and moderate their ability to argue that total repression has external costs.

Furthermore, it is our best judgment that the Chinese Government can, will, and should meet human rights conditions if imposed with MFN. Inasmuch as the conditions we have outlined above cannot be met by the Chinese Government during the period of reform in the 1980's, it took steps toward addressing those issues.

Second, in spite of assertions to the contrary, it is our belief that the hardliners want very much to keep MFN because they are dependent upon the currency it generates, especially in the next couple years, when China's foreign debt service peaks.

They would, therefore, be willing to meet reasonable conditions in order to preserve this trading status.

The CHAIRMAN. Just summarize, please.

Dr. CHEN. In our view, conditions of renewal will not isolate China, but rather will engage them in a dialogue with the United States in important human rights concerns. It is within this framework that the United States should be pursuing their bilateral relations with China.

This will enable pressure to be placed upon the Chinese leadership by preserving links to progressive forces. The students and dissidents in this country are the last ones who want to see China isolated.

The CHAIRMAN. All right.

Dr. CHEN. Thank you very much.

[The prepared statement of Dr. Chen appears in the appendix.]

The CHAIRMAN. Ms. Holly Burkhalter is the Washington director of the Human Rights Watch. We are pleased to have you. Would you proceed?

STATEMENT OF HOLLY J. BURKHALTER, WASHINGTON DIRECTOR, HUMAN RIGHTS WATCH, WASHINGTON, DC, ON BEHALF OF ASIA WATCH

Ms. BURKHALTER. Thank you very much, Chairman Bentsen. Thank you for your personal interest and that of your excellent staff and the close attention that the entire committee has paid to this important issue.

I am going to quickly summarize Asia Watch's concerns about the human rights conditions in China today; but I think you are very familiar with what happened immediately after Tiananmen Square.

This situation since then is not only no better, but it is quite a bit worse. The roundup of prisoners continues. Asia Watch has a list of about 1,100 political prisoners; over 1,000 of them are still in jail. Some have been tried and subjected to very cruel long sentences.

The show trials of early 1991 that swept up about two dozen of the democracy movement leaders, including Chen Ziming and Wang Juntao, who received an extraordinarily cruel 13-year prison term for their entirely peaceful activities that we were all watching with such hopes in 1989.

There are a number of secret trials that are not publicized in China that continue to this day. We are aware, for example, of an engineer who was active in the democracy movement who just last month was sentenced to a 20-year prison sentence for his democracy movement activities.

And if we can look back to the experience of the great Wei Jingsheng democracy movement 10 years ago, we can be certain that this engineer, who has a 20-year term, will serve absolutely every

day of his sentence because that appears to be the way these political sentences go in China.

We recently learned as well, for example, something that was not publicized in China; but we learned about it through our network of friends, of the smashing of a peaceful democratic human rights group in Shanghai. The sentencing to 11 and 15 years of some editors of a dissident journal, all of which happened just within the last couple of months.

My friend and colleague has mentioned the increasing assault on the Catholic Church and the Protestant Church, again just within the last couple of months.

The abuses in Tibet and also in Inner Mongolia, which is almost not known at all to the outside world, but which received news of recently from Asia—continues; and it appears that democracy movements there have been crushed as well in much more recent months.

Asia Watch recently released new information about the problem of forced labor, which I believe you are familiar with. We managed to get our hands on some previously secret high level Chinese documents, which show that Chinese prisons in the export sector—in particular, in Jiangsu—and Guangdong—are being used to produce items for export.

This is a problem of unprecedented severity and the fact that the authorities are deeply involved in pushing the labor reform gulag to produce items for export is deeply, deeply distressing because it suggests that MFN may actually be inadvertently subsidizing the cruel use of prisoners—many of them political prisoners—to produce items that Americans are now buying, without ever knowing, of course, how they are being produced.

Unfortunately, the Customs Service investigation appears to be going on at an absolutely deadening pace. Ordinarily, we would expect the Customs Service under the new provisions of the trade bill to deal properly with this, and start excluding categories of goods that we know are being produced by prisoners. And apparently, the Customs Service is not yet quite convinced that forced labor is occurring and that items are entering this country.

We join our Chinese friends in calling for conditions on MFN, if it is to be renewed. We don't believe China even deserves MFN at all; but if the Congress, in its wisdom, intends to grant MFN for another 1-year period or 2 years or 6 months—or whatever the Congress decides—it must send signals to the Chinese that some movement on these human rights issues is absolutely required.

I won't go through a detailed laundry list of conditions that must be met; but we would certainly, at Asia Watch, like to see significant and measurable progress, first and foremost, in the cases of prisoners, who must be released or there must be some sign that the Chinese are beginning to deal with that problem.

We think there must be some action on the use of forced prison labor to produce items for export. We would very much like to see some access to Chinese places of detention for human rights groups and humanitarian groups, such as the International Committee of the Red Cross.

I think of all the things that the Chinese could do—we are not asking them to change their system of government or anything

else—but if they would merely let in human rights, medical delegations, and humanitarian groups, such as the Red Cross, it could make a great deal of difference in the lives of the prisoners there.

I must say, in conclusion, that reading the text of the statement of Deputy Assistant Secretary of State Eagleberger in this morning's paper, I think there is almost nothing more damning that I have seen said about China than his remarks that if we placed human rights conditions on MFN, the Chinese flatly will not meet them.

We have heard it now from one of the top officials of the State Department that the Chinese are absolutely not going to be moved by anything; and I think that about sums it up for me.

If the Chinese are not going to move even a millimeter on these human rights questions, then MFN will eventually have to be terminated all together. Thank you, sir.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Kamm, I have all the organizations of the other witnesses listed, and their background and experience. Tell me what brings you here.

STATEMENT OF JOHN KAMM, HONG KONG

Mr. KAMM. Yes, sir. I am an American businessman based in Hong Kong, sir. I was the President of the Chamber of Commerce last year; but I have been doing quite a bit of work on human rights as a private citizen over the last year. And that is how I am appearing today.

The CHAIRMAN. We are pleased to have you.

Mr. KAMM. Since the debate over China's MFN status began last spring, I have visited China on 10 occasions to work on human rights problems. Representations to officials in Guangdong and Shanghai have contributed to the release of a number of student leaders.

In Beijing last week, I went before the Supreme Court and won assurances that they would soon release two leaders of the workers movement in Hunan Province. This case was brought to my attention—

The CHAIRMAN. Are you an attorney?

Mr. KAMM. I am not, no.

The CHAIRMAN. And you went before the Supreme Court?

Mr. KAMM. I went before the Chinese Supreme Court on a case that Asia Watch brought to my attention, sir, and won assurances that they would release two leaders of the workers movement.

I have spoken to audiences of several hundred people in Qingdao and Guangzhou, focusing on the relationship between MFN and human rights. And my efforts have resulted in the first detailed study of human rights conditions in a single Chinese province, copies of which I have brought with me today.

From this work, I have drawn a conclusion which I would like to share with you. Human rights conditions vary greatly from place to place in China. In ultraconservative Hunan Province, for instance, the Li brothers—this case I have been working on—were

detained in defiance of government policy that pro-democracy activists who fled China could return without fear of reprisal, while elsewhere, no such detentions have taken place.

In Chengdu, Wuhan, and Changshu, which are cities in the interior, troops were used to quell peaceful demonstrations. But in Guangzhou, Shenzhen, and Fuzhou, which are cities along the coast, there were neither deaths nor injuries resulting from government efforts to quell the protests.

In Hebei Province, Catholic priests have been arrested and whole communities subjected to terror. In Guangdong, not a single priest is in jail, and the house church movement is flourishing.

There appears to be a direct and positive correlation between the extent of the locality's interaction with the United States and its human rights record. My study of Guangdong Province bears this out.

Guangdong is by far the province most dependent on the American market, with as much as 20 percent of its GDP dedicated to producing goods for American consumers. It is also the province where economic reform is most advanced. Fully one-quarter of industrial output is made by joint ventures and private enterprises; less than one-third of foreign trade is handled by corporations connected to the central government.

About 75 percent of all American citizens of Chinese descent trace their origins to this province.

It comes as no surprise then that Guangdong Province has the best human rights record of all China's 29 provinces and municipalities. And I want to stress here that I am not saying it has a perfect record; I am talking in relative terms.

It has the fewest number of political prisoners, and hardly any religious prisoners. No violence was used to quell the protests in 1989. There have been no reported executions for crimes arising from the protests.

With respect to freedom of movement, religious freedom, right to strike, and uncensored reception of foreign media, the situation in Guangdong is demonstrably better than elsewhere.

The simple fact is that the province which benefits most from MFN—and which would suffer roughly half the damage if MFN were removed—is precisely the province where the rights of the individual are best observed.

And we can date the onset of the progress to the time when America opened her market to producers in the province. MFN has encouraged respect for human rights; I believe its removal would damage human rights.

Activists with whom I work in China agree. I have brought their testimonials with me today. They supplement statements to Western journalists by such leading dissidents as Zhang Weiguo of Shanghai.

Workers, leaders, students, and intellectuals in China want MFN debated, not removed. As for the argument that they do not know that another option exists—namely conditional renewal—this is simply not true.

They know full well that Congress is debating such a move, but have concluded that such a debate only begs the question. Will revoking MFN benefit or harm human rights?

If it will harm human rights, then why start down a road which leads to its likely loss?

Now, I would like to come to a conclusion and summarize a bit. What I am saying is that I believe there are some creative alternatives to improving the human rights situation in China, which do not involve revoking MFN. And what I would like to do in the question and answer period is possibly go into some of those proposals, sir. Thank you very much.

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

The CHAIRMAN. Well, why don't we start right now?

Mr. KAMM. Okay.

The CHAIRMAN. What do you think we can do to improve China's human rights policies?

Mr. KAMM. Well, this comes out of the initiative of Senator Baucus. What I think would be a good way forward would, first of all, be for the State Department to significantly expand its annual report on human rights to include details by province—in other words, a section on each province.

Based on that research, we would rate the provinces according to their human rights records. For those provinces, for instance, that are especially involved in the persecution of the Catholic Church, they would be rated obviously as a more egregious offender than a province that is trying not to pursue religious persecution.

Now, with that list, once we have rated the provinces, I would then cut off all American aid to projects, including multilateral assistance to projects which take place in those provinces that have been essentially blacklisted. Even more significant, if you look at the way the provinces of China benefit from the economic relationship with the United States, you see that the coastal provinces are the ones that benefit from the trade relationship; but the interior provinces, where the human rights records are worse, actually benefit more from aid programs and from tourism.

Now, if we could put together a detailed accounting, province by province, of where the most egregious violations take place, I think the next step would be to institute—and I recommended this to Asia Watch in Hong Kong—what I call a human rights travel advisory.

And we would advise the American people where the situation is the worst, and I think that will hit hardest in the tourism area.

The CHAIRMAN. Do you think that the individual provinces have that much authority? Can they be influenced to that degree, apart from the overall central control?

Mr. KAMM. Based on almost 20 years of experience, sir, out there, I would have to say that the power of the provinces to get around central policies that they don't agree with is pretty impressive.

There is a saying in Guangdong: You have a policy; I have a way around it. Now, I don't know any other way to explain the fact that throughout China, you have got the Catholic Church being persecuted; but in Guangdong, you don't. And in Guangdong, the Pope is prayed for at masses; his picture hangs in churches. It is quite extraordinary.

Now, there seems to be quite a bit of leeway at the provincial level to get around central policies. The central government can in-

tervene; and indeed, if we follow this kind of a selective targeting approach, what will happen is the provinces which do follow central government dictates are going to be the ones that are hit.

And that will engender tension between the province and center.

The CHAIRMAN. Mr. Kamm, that is an interesting proposal. That is the first time I have heard any of our witnesses make that kind of a recommendation. Dr. Chen, how do you react to that?

Dr. CHEN. I would first like to respond to Mr. Kamm's statement that people in China indeed know the difference between conditional renewal and revocation. Recently, we have a friend, whose name is Mr. Gaushin, escape from China. He is currently studying at Boston University.

When he came here, he said he would like to see MFN not be revoked because he believes renewal will provide good for the Chinese people. And he was informed wrongly by some people saying that there are only two choices: revocation or unconditional renewal.

And we approached him and introduced to him the third choice, and that is conditional renewal. After extensive discussion, he completely understands the problem now and supports conditional renewal.

The CHAIRMAN. Now, we had so much debate last year in this country about what has happened with human rights in China; and it was understood—it had to be understood—that there was conditionality to this, that MFN status could be revoked. Why, do you think, have the Chinese leaders not responded to it?

Do they think that we just wouldn't revoke it, or that they would lose face and therefore they have to stand up to us? What is it? Explain it to me.

Dr. CHEN. The Chinese Government will not do anything, the claim that it is under pressure from MFN conditions.

The CHAIRMAN. And you think they mean that? Do they mean that?

Dr. CHEN. No. The reality is that they will do something. Last year, when the Congress was debating human rights conditions and attaching them to MFN, we know that the Chinese Government released several hundred of political prisoners; and they freed Professor—and they said they would never release him, never let him walk out of the embassy; and they did release him.

The CHAIRMAN. I see my time has expired. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. I apologize to the panel for my absence. I was unable to hear your testimony. I am wondering though—and Mr. Kamm has somewhat touched on this—in addition to using MFN as a tool, what other measures can this country appropriately take to help further human rights progress in China.

Now, Mr. Kamm has mentioned some. I am wondering whether either of the other two witnesses have any other ideas that we could undertake in this country.

Ms. BURKHALTER. Could I just make a quick comment about Mr. Kamm's creative and interesting discussion of a human rights travel advisory, increase in reporting by the State Department on the various provinces, and targeted sanctions against them?

First of all, I love the idea of a human rights travel advisory; and there are a couple of other countries I would like to put on the list. If the State Department is going to get into the business of directing tourism, we have lots of suggestions. But it is an interesting and appropriate suggestion.

In terms of trying to enhance reporting of the various areas in China, we would of course be all for that; but there is a major impediment to that, and that is the question of access.

Asia Watch can't get into these areas. The International Committee of the Red Cross can't get near places of detention and, more importantly, labor camps, which is a vast, vast system, which may hold millions of prisoners.

Nobody can get near those places, and it would be grand if the State Department or the Embassy or Asia Watch or Amnesty International or what have you could get in to actually try to provide some sense of the differences; but at this point, we can't.

Senator BAUCUS. I don't have a lot of time. That is not the issue. The issue is not the degree to which they are violations. The issue is, once we have determined the violations, how can we best effect policy changes in China so that there are fewer violations. That is the issue.

Ms. BURKHALTER. Certainly. I agree.

Senator BAUCUS. That is the question I asked.

Ms. BURKHALTER. The question—among the things that were suggested by Mr. Kamm, other than ending MFN, was a better way of monitoring. And I am saying that you can't monitor better unless the Chinese let you in; and I don't think it is plain that the human rights situation in any of those provinces are all together that much better because we don't know anything about forced labor.

Senator BAUCUS. I must say to you: You are not answering my question. Let me restate the question. The question is: What can we do to enhance improvement?

Ms. BURKHALTER. Among the other things that can be done, in addition to MFN, would be continuing a policy at the World Bank to oppose loans to China. I believe we should do much more with our allies.

The administration basically gave the green light to the Japanese and others amongst our allies to go ahead and continue with their own programs. We would like to see the United States toughen up a bit at the World Bank.

We would like to see an end to programs such as the ones Mr. Kamm discussed about promoting economic activities in some of the most repressive areas. We would want to see the administration clamp down harder on exports, particularly high technology exports, and continue some of the sanctions that this Congress approved last year.

Senator BAUCUS. Dr. Chen, what else?

Dr. CHEN. Yes. The rulers of this country continue proliferation of forced labor and trade deficit and free immigration; they should all be enforced.

But to improve human rights at this moment, we believe MFN is the only leverage.

Senator BAUCUS. But my question is— Did you say there are no other levers? I mean, the other two panelists have suggested other levers; do you disagree with them?

Dr. CHEN. The other leverage—they should have their own law to be executed, or they have no approach other than to combine those leverages with MFN so that we have a better approach to the Chinese Government.

Ms. BURKHALTER. I have one more. The other leverage that I think must be looked at much more carefully is selective ban on importation of categories of items that we know to be produced by forced labor.

I mean, Dynasty wine, for example. It is very clear; it is produced in prisons. The Chinese don't even pretend that it is not. You can go any store in Washington, DC, and pick up a bottle. It is getting in; we know it is being produced by prisoners.

The Customs Service has to start following its own regulations on forced labor under the Smoot-Hawley Act, and we should go after textiles and categories that we know are being produced in these areas.

That is short of MFN, but it would get selectively at items that are being produced or classes of items that are being produced by prisoners.

Senator BAUCUS. Mr. Kamm?

Mr. KAMM. Yes, again, this is based on experience. Now, last year when I testified in favor of keeping MFN, I said before Congress that any capital I gained with the leaders in Beijing I would spend on resolving human rights problems.

I have a lot of faith in the ability of the average American individual when put in a situation where he knows something is going on that is wrong, to bring that to the attention of the Chinese authorities.

I know, and based on experience, that if you go to Chinese authorities and you bring up specific cases, you can get some action.

Now, this human rights travel advisory would put in the hands of average American tourists—let's say Catholics who go into an area—a tourist group—they are sitting down at a table with an official; and for an hour and a half, they are talking to that official about the fate of priests and bishops who are in jail.

Put the information in the hands of the American people and see what happens.

Senator BAUCUS. Thank you very much, Mr. Chairman. Regretfully, I must leave; this hearing is very interesting. But I am chairing another hearing on another subject.

The CHAIRMAN. Too bad. I was going to give you another round.

Senator BAUCUS. Thank you very much for your testimony. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus. Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman. I regret I was unable to hear your testimony. I had to be in a subcommittee of agriculture regarding issues that are important to my State.

This issue is very important to my State also. It is a tough issue, and we want to make sure that American leadership brings about a great deal of change through moral persuasion. And yet, how do

we deal with certain societies that aren't the same around the world?

I looked internally for some leadership on this matter; and Xiao Xing, who was one of the last four hunger strikers in Tiananmen Square, who spent 6 months in a Chinese prison, and what he had to say:

"Cancelling MFN would help the hardliners in what they have been unable to achieve on their own: reassertion of control over the non-State and more progressive sectors of China's society and economy."

I would like to ask how each of you might respond to that statement?

Dr. CHEN. I would like to respond.

Senator GRASSLEY. Please do, Dr. Chen.

Dr. CHEN. Senator, Mr. Gao Xing, as many other Chinese people living in China, they didn't know the difference between conditional renewal and renewal. And precisely, they didn't know what the conditions were.

And I just said briefly a moment ago that after we discussed this with him and told him the conditions concerning human rights improvements, he changed his attitude. His support is for conditional renewal right now.

Senator GRASSLEY. Yes.

Dr. CHEN. And many Chinese dissidents who are living in this country, most of them, who are aware of the issue, support conditional renewal.

Senator GRASSLEY. Mr. Kamm?

Mr. KAMM. Again, I look at the situation as: If MFN is taken away, which provinces get hurt? And I know that about half of the damage will take place in Guangdong. And based on my research, Guangdong has, among the provinces, the best human rights record; and it is run by the most reform-minded government.

Now, if you are going to hurt an area that has got a reform-minded government, I have to think that the hardliners that oppose those reformers are going to be benefitted; and the guys who are running the province are going to be the ones that are hurt.

So, in answer to people in China not knowing there is another option, the State propaganda machine has been railing against conditional renewal for the last 2 months in China, in the Chinese press.

Now, most Chinese people who read their own newspaper know that Congress is debating conditional renewal. What they look at is not so much the process; it is the result. If conditional renewal increases the chances that MFN will be revoked, then they don't favor going down that route.

I think they would much prefer our trying to find other selective sanctions that hit the hardliners and those places with the most egregious violations.

Senator GRASSLEY. Realistically, if MFN is denied or extended with conditions, do you expect the Chinese Government to cave in and agree to reform?

Ms. BURKHALTER. I think it is unrealistic to expect that anything the United States does in this matter—pro, con, halfway—is going

to make us see change in Chinese behavior. Asia Watch thinks that the whole debate on MFN and particularly the possibility of placing some kinds of human rights conditions on it will be used as a lever to get some human rights changes.

I would love to see change in human rights and democracy in China; but I think it is unrealistic to expect that. I think that will come to China, but it is going to be over the long haul; and it is going to be something that the Chinese people bring upon themselves.

I do think, however, that this kind of a debate and the whole activism on both sides of the Hill is helping, probably on the margins, to try to spring some prisoners, etcetera.

As my colleague mentioned, the course of this debate last year, the very serious efforts—particularly on the House side—resulted in at least a couple hundred releases; Professor Fang came out, etcetera.

In my personal opinion, the Congress is really being asked to do the administration's job. Thanks to people like you in the U.S. Congress, who have looked at this carefully and closely and made it clear to the Chinese that it is a very, very tough decision—even for a Senator from Iowa, my own State—I think you are doing what the administration should have been doing all along.

The President of the United States should have said that MFN was not going to come cheap and that we have to see more. He did not do that; so, the Hill has to take up the slack. But thank goodness, someone is doing it. I think it is going to help release some prisoners.

Senator GRASSLEY. Thank you.

Mr. KAMM. I would like to make an observation here. Again, I have been traveling in China quite a bit and working on MFN practically nonstop for about a year and a half.

When the Chinese Government says that they will not accept conditions, what do they mean by that? That is the question. What do they mean—they will not accept conditions?

Who we give MFN to is an internal affair of the United States. We can give MFN to anybody we want. And the process by which we decide who gets MFN is our internal affair as well.

In fact, as you well know, it is Congress putting conditions on the President's ability to give MFN that is at stake here. Congress itself is not going to try and check on the conditions. The President is the one who makes that determination.

So, what does it mean when the Chinese say they do not accept conditions? I think there is a tug of war going on right now in China about this question; and I honestly believe that there is a faction in the Chinese Government that is looking for an excuse to renounce MFN, just as Ceasescu did in 1988. There is a faction that is looking to do that.

Dr. CHEN. I agree with Mr. Kamm on this subject; there is a faction. But there are always factions among the Chinese Government; there are moderates and hardliners. We all know that. And the conditions imposed on MFN, we are just helping those moderates to argue with the hardliners that brutal policy has its cost.

And we have to improve in certain areas in terms of gaining MFN; and MFN right now is so crucial to China because they have

huge deficit. The payment needs to be paid in the next couple years.

Mr. KAMM. Just real quickly on that. There is a letter that has been sent by five leading Chinese dissidents who are also officials in the Chinese Government that has been sent to each member of the Senate. And these five officials support continuation of MFN and are against conditions.

I want to read the sentence: "Cancellation of MFN status is the last thing the Chinese remaining reformers want, while the acceptance of written conditions would mean political suicide for them." And I agree with that.

I don't think in the councils of the Chinese Government officials can support conditions.

Dr. CHEN. I have also a letter with 24 former Chinese leaders now in exile. They support conditional renewal; and I know those five people, and they are not human rights activists in the United States. I can say that clearly. Those people are human rights activists; and formerly, they were Chinese leader assistants or reformers or activists.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Mr. Kamm, let me better understand you. You said you had spent a year and a half working on MFN. You go before the Supreme Court of China and you are not an attorney. You are trying to get some Chinese released.

Do you represent any company? Is there some company that is paying your salary while you do all of this?

Mr. KAMM. Yes, sir. I work for a company, but they allow me to pursue this work.

The CHAIRMAN. Is it in their vested interest?

Mr. KAMM. I think it is in the interest of all American companies.

The CHAIRMAN. I didn't ask you that.

Mr. KAMM. Yes. Yes, sure it is, sir. If MFN were to be removed, my company would certainly lose sales to China, I am sure.

The CHAIRMAN. What is your company?

Mr. KAMM. Occidental, sir. We are based in Dallas. Occidental Chemical. We ship a lot of chemicals to China. We produce a lot of chemicals in the Houston area, which are shipped to China.

And I am sure that if MFN were revoked, that we would lose that business. But given the amount of time I spend on it and given China's relative importance in our overall business, I would have to say that the company isn't supporting this simply out of its own interests.

Sales to China are a small portion of our overall business, sir.

I am doing this because I honestly believe that it is the right thing to do.

The CHAIRMAN. I must say, Mr. Kamm, on your side of that argument, I doubt it helps your company much if you appear before the Chinese Supreme Court to get one person released. I don't see the economic return to your company from that.

But I just like to know where people are coming from when they testify before this committee.

Mr. KAMM. Sure. In this case, the reason I spent so much time on that case—and Asia Watch brought it to my attention—is I

think it is a very important case because these two individuals, sir, left China after June 4; and then, the Chinese Government stated the policy that those people could return without being prosecuted. And when they went back, they were picked up.

That strikes me as being a pretty serious human rights violation; and so, I took it upon myself to try and get them out. And they have now agreed to release them. I am calling every day up to Beijing to keep their feet to the fire on it, and I hope they release them over the next few days.

The CHAIRMAN. Dr. Chen, I asked you before, and I don't really think I got a response: When the Chinese Government knows MFN is conditional—and in effect, that is what it has been—and we don't see a serious response, particularly on trade; when I see a replication of what we have seen in some other Asian countries, which have both a rigged market and a protectionist market—at least until they develop economies of size—why have we not seen any deterrence from that course of action on the part of the Chinese Government, even with this conditional MFN?

How do you respond to that? Do you think they don't take us seriously?

Dr. CHEN. I think it is because the conditionality has not become law yet. The Chinese Government learned from last year's debate that the Senate was not going to take this issue seriously because it wasn't even getting into the Senate's discussion last year. And they responded to the host debate by a series of actions.

And now that the Senate has decided to discuss the issue, the Chinese Government has started their second round of persecution. And I think if the issue becomes law because of legislation, the Chinese Government will respond.

Ms. BURKHALTER. Chairman Bentsen, can I make a quick comment on that?

The Chairman. Yes.

Ms. BURKHALTER. My colleague just handed me a note reminding me that Li Peng created a committee in March 1991 to deal with the MFN question. And the information that our Asia Watch China specialist has is that the directive to the committee was to "fight hard for MFN and to make concessions if you have to."

It strikes me as no surprise whatsoever that in public statements, both in China and in statements here in the United States, the Chinese are going to ardently oppose any conditionality whatsoever; and they don't want to show signs that they are responding to U.S. pressure.

The CHAIRMAN. Ms. Burkhalter, I understand that. I think that is standard in negotiations; but I am trying to look for concrete results. I have seen some in human rights; but insofar as trade policy is concerned, I sure haven't seen much.

Thank you very much. We have some other witnesses. Thank you for your contribution. It has been helpful.

Our next panel will consist of Mr. Don Vaughn, who is the president and chief executive officer of the M.W. Kellogg Co., on behalf of the Emergency Committee for American Trade; Mr. Ron Rivinius, who is president of the National Association of Wheat Growers; Mr. Warren Williams, president of the American Chamber of

Commerce in Hong Kong; and Mr. William Simon, managing director of Odyssey International Ltd. in Hong Kong.

Mr. Vaughn, your company has been a long-time participant in work in China, have they not?

Mr. VAUGHN. Yes, sir.

The CHAIRMAN. I am looking forward to your testimony. Would you proceed?

STATEMENT OF DON VAUGHN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, M.W. KELLOGG CO., HOUSTON, TX, ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. VAUGHN. Thank you, Mr. Chairman. I am pleased to be here to testify on behalf of the members of the Emergency Committee for American Trade in support of extension of MFN trade status for China. I have submitted my full statement for the record and offer the following summary.

The M.W. Kellogg Co. is a unit of Dresser Industries. My company provides engineering and construction services in the hydrocarbon and petrochemical industries, and has been active in the People's Republic of China since 1973.

In the past 18 years, we have designed and assisted in the construction of over 25 projects with a value in excess of \$1 billion. These projects convert China's natural resources into products that help the well-being of the average Chinese citizen, such as nitrogen-based fertilizer, to ensure the ability to feed their people.

Since the beginning of our activities in China, there has been slow but steady progress in the ability of the Chinese managers to adapt to Western commercial thinking. Our company has established programs to train Chinese on our work procedures and management techniques, both in China and in our home office in Houston, TX.

Our company has sponsored U.S. students for U.S. university education. We believe our direct and continuing relationship has had a very positive impact on China's progress, not only to modernize certain industrial sectors, but also in cultivating pro-Western free market thinking.

There is a serious struggle ongoing in China, and we are hopeful that a progressive transition will occur where all Chinese people will enjoy guaranteed individual liberties. We are encouraged that the long-term commercial involvements will accelerate the economic and social transition within China while preserving a vitally important export market for U.S. companies.

We believe that engagement with China is more likely to influence China's policies in human rights and other areas than is the degree of disengagement that would follow the denial of MFN trade status.

Since 1980, a number of ECAT member companies have made direct investments in China, as well as made several billions of dollars in export sales to China annually. These businesses' opportunities would obviously be hurt by the loss of MFN.

China has enormous market potential for the United States, with a quarter of the world's population and an economy that is tilting toward more openness. As witnessed by our company's experience

over the last 18 years, it is important that U.S. firms have the same opportunity as their foreign competitors to conduct business in China.

With the withdrawal of MFN, there is every reason to believe that our Japanese, European, and other competitors would benefit through picking up market share lost by U.S. firms.

The major allies of the United States have the same feelings as America about recent events in China. None, however, is proposing to eliminate MFN trade status for China. They view such an action as contrary to their national interest.

Unlike the United States, our allies do not invoke unilateral economic sanctions. U.S. businesses have legitimate grievances with the Government of China. We are concerned, for example, about intellectual property rights, import licensing restrictions, and, most recently, the possibility of prison-made goods being exported to the United States.

We understand that each of the above matters is being addressed by our government, and we support aggressive use of appropriate U.S. trade statutes.

In short, we believe that the existing authorities in the arsenal of U.S. trade laws are adequate to resolve ongoing commercial differences that we have with China. We encourage their full and expeditious use.

In concluding, I would like to note that the economic well-being of Dresser Industries and the other member firms of ECAT and their employees depends to a very large degree on their sales in overseas markets. Without these markets, their ability to compete in the United States and abroad with their global competitors would be substantially diminished with consequent job losses for their employees.

In Dresser Industries, over 900 jobs would be lost if MFN status were denied to China. We urge the Congress to approve the extension of MFN trade status to China without additional conditions.

A grant of conditional MFN in and of itself would create the uncertainty that would stifle commercial relations. Rather than do this, we in the business community would like to see the Jackson-Vanik provisions amended to provide for 3- to 5-year grants of MFN status rather than the annual grants as under current law.

Thank you very much, sir.

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

The CHAIRMAN. Mr. Rivinius, if you would proceed, please?

STATEMENT OF RON RIVINIUS, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, DC

Mr. RIVINIUS. Good morning, Mr. Chairman. I am Ron Rivinius; I am president of the National Association of Wheat Growers. On behalf of the NAWG, I thank you for the opportunity today to comment and give you a brief summary on an issue which is of such extreme importance to the U.S. wheat producers.

For America's wheat farmers, the question of whether or not to extend China's most-favored-nation trading status is a black or white decision. A vote in favor of continued MFN to China is a vote

to keep our Nation's wheat farmers in business. A vote against China's MFN is a vote to change the U.S. wheat industry as we now know it.

The United States has been an active exporter of wheat to China since the normalization of relations in the late 1970's. Chinese purchases of U.S. wheat have increased fairly steadily through the 1980's.

In 1988 and 1989, China emerged as the largest importer of U.S. wheat. It has maintained itself as our number one customer since then and promises to remain a major market for U.S. wheat through the end of this century, barring any disruption of current trade flows.

We believe the bestowal and extension of MFN has played a significant role in improving our trading relationship with China and in promoting the use of American wheat.

U.S. wheat exports to the PRC prior to the granting of most-favored-nation trading status averaged less than a million metric tons per year. In many of those years, the Chinese bought no wheat at all from American farmers. Since 1980, annual U.S. wheat exports to China have averaged about 4.9 million metric tons.

The past decade of farm legislation has resulted in U.S. farmers becoming more market-oriented. Let me stress the key word here, which is "market." The health of the U.S. wheat industry is vitally dependent on strong exports and a reliable access to markets.

The United States competes mainly with Canada, Australia, and the European Community for the Chinese wheat business. It is our understanding that none of these countries nor any of China's other trading partners are currently considering revoking China's MFN status.

Past experience with China demonstrates to us that pursuing such a unilateral policy against China will have devastating, long-term consequences for U.S. wheat growers.

A recent Congressional Research study entitled "China's Most-Favored-Nation Status—U.S. Wheat Exports" supports our view. The CRS report estimates a short-term wheat price plunge of about 27 cents per bushel in the event the United States breaks off trade relations with China, and if China refuses to purchase U.S. wheat.

It suggests that the longer term price effect may be even larger due to the negative physiological effect on the markets of losing the U.S. top foreign wheat market. In addition to the price impact, the loss of China as a U.S. wheat market would result in reduced overall farm cash receipts and lower aggregate farm income.

Furthermore, other commodities would suffer due to the increased competition from wheat farmers, who would plant other crops.

Using 1990 wheat production data, CRS concluded that combined Federal Government and wheat sector costs of more than \$740 million would result in the event China's MFN status is discontinued and China retaliates against the U.S. wheat exporters.

At this time, China is our best market. It is certainly one that we cannot afford to lose. We of the National Association of Wheat Growers respectfully urge Congress to support the renewal of MFN trade treatment for the People's Republic of China.

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

The CHAIRMAN. Mr. Williams, you are President of the American Chamber of Commerce in Hong Kong, I understand. We are very pleased to have you.

STATEMENT OF WARREN W. WILLIAMS, PRESIDENT, AMERICAN CHAMBER OF COMMERCE IN HONG KONG, HONG KONG

Mr. WILLIAMS. Good morning, Mr. Chairman. Thank you very much for the opportunity to be with you.

I bring, I suppose, what is a somewhat different perspective to the discussions. I have just traveled halfway around the world to be with you and only to do that. And despite my somewhat advanced state of jet lag, I hope I can contribute constructively to this conversation.

The perspective of our members is different also in the sense that all of us live—it is the largest Chamber of Commerce outside the United States, by the way—

The CHAIRMAN. I have met with your Chamber of Commerce.

Mr. WILLIAMS. We have had the pleasure of welcoming you and hope to have that pleasure again, sir.

The CHAIRMAN. Thank you.

Mr. WILLIAMS. All of us live and work in Hong Kong, just a few miles from the Chinese border. Every day, the newspapers and the radios and all of the public information media—in virtually everything we do—we are exposed to China's influence.

To some of us, who have chosen to make Hong Kong our home—and that is the case for my family and me; and I am very much an American—and we are looking ahead 6 years to the time when we will be part of China.

Now, I mention this only to point out that nobody in the whole world is more interested in the outcome of this debate than those of us who live and work in Hong Kong today.

We see this not only as a resolution of whether or not MFN will be extended, whether or not MFN will for the first time be used, if you will, as a weapon for various purposes, but also it is a question of whether or not China will continue to emerge from its position of isolation gradually into the international community.

That is what this is really all about. Whether we like what they do or not, China is a member of the United Nations Security Council. They are a nuclear power. They are the largest nation in the world, and they are a communist dictatorship; and that is why we are having all of the problems.

Now, Mr. Chairman, I and my members share all of the concerns that have been aired here today. All of the concerns about human rights, we are worried by the exacerbation of these concerns with the reports of convict labor. We are alarmed by the sales of nuclear weapons and some nuclear technology to some fairly strange people.

The failure of China to protect intellectual property rights is something that has to be addressed. And there is a wide array of tariff and nontariff trade barriers that obstruct not only American companies but foreign companies, probably more American compa-

nies than others, from anywhere near equal participation in China's markets.

All of these things have to be addressed. So, showing those concerns, I suppose the big question is: What are we going to do about it? And that, in our mind, then translates into the question: What are we trying to accomplish?

Now, if the answer to that question is that our objective is to improve human rights in China, then we would have to suggest to you, sir, that the removal of MFN, or the continuation of MFN with conditions attached that China may or may not accept—probably would not accept the conditions—really would not accomplish that objective.

If we withdraw MFN, human rights in China will not benefit.

If the objective is to encourage the Chinese to stop their missile sales and nuclear sales to people we don't like as well, then it is doubtful that a withdrawal of MFN or even a conditional continuation of MFN, in our opinion, would serve to accomplish that objective.

So, it gets right down to, I suppose, what a lot of business decisions consist of, and that involves a risk/benefit balance, a judgment, a cost/benefit balance. What benefits are we seeking? What cost are we willing to pay for it? What benefits are we seeking? What risks are we prepared to sustain in order to get them?

We support the continuation of MFN because it is a cornerstone of a very important relationship: the bilateral relationship between the United States and China. If that cornerstone is destroyed, China is driven back 30 or 40 years, or however long, into a posture of isolation.

We feel that a withdrawal of MFN will benefit the hardliners in the north because it really represents just about the only chance they have to assert their ideologies centrally.

Recent events in other parts of the world, sir, have shown us the effectiveness of so-called "smart bombs," bombs that will inflict maximum damage on the designated targets and minimum peripheral damage. Figuratively speaking, let's use some smart bombs here, sir. Thank you very much.

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

The CHAIRMAN. Mr. Simon?

**STATEMENT OF WILLIAM N. SIMON, MANAGING DIRECTOR,
ODYSSEY INTERNATIONAL LTD., HONG KONG**

Mr. SIMON. Thank you, Mr. Chairman. I appreciate the opportunity of addressing the committee.

I, too, bring what I think is a different perspective. I am an entrepreneur; I went to Hong Kong in 1976 with about \$1,000 in my pocket and a consultancy agreement to keep me alive. And I began a business that involved mountaineering products, technical ski wear, outdoor equipment, tennis and golf sports apparel basically, that are all on the high end.

My idea was to build sophisticated labor-intensive products that could not be made in the United States or Western Europe, for example; and gradually, after making probably every mistake you

could make at least three times—with a hard head, not listening very well—I was able to build a successful business. And China has played an important part in that business.

But as the business has grown, over the years we have become—my company, Odyssey—the largest manufacturer of high-end sports and outdoor apparel in the world. We started buying and starting up American companies.

And the success I had in China and Hong Kong allowed me to buy American outdoor companies like The North Face and Sierra Designs and Frank Shorter Sportswear and so forth, and to work with companies and become the major supplier to Eddie Bauer and Land's End and L.L. Bean and other American companies.

And gradually, we found that it is possible to make high quality garments in the United States. So, we have been buying and starting up American factories aggressively over the last few years; three during the last year, two in Utah, one in Arizona. A new factory in Dallas is opening next week.

And we intend to continue buying American facilities and starting new facilities and creating jobs in the United States.

It was the success that we had, starting a business as an entrepreneur in Hong Kong and China that allowed me to do that.

In 1976, I visited China for the first time. I was nervous; it was a little scary. The Chinese communists were the enemy. I went to the Canton Trade Fair and sat across the table from eight men and women who were dressed alike, looked alike, very reserved, no smiling faces.

And I said I wanted to buy down sleeping bags; was that possible? And they said: If your interest is to buy down sleeping bags—goose down sleeping bags—it must be due to America's imperialist aggression in Korea that a market was created in the United States. I didn't know what to make of that, sir, but what I said was: Look, I know that we have different ideologies; I know that the gulf that separates us is thousands of figurative miles, and filled with mistrust and uncertainty and fear and curiosity.

And I said that perhaps in some small, even infinitesimal way, if we could do business together, if we could build something, perhaps that working side by side we could close this huge gulf of misunderstanding.

And I have to tell you that, although it was difficult, there were barriers on both sides of the water, particularly as there were no diplomatic relations at that time, we managed to succeed because both parties worked together.

I felt that the earth was moving during the late 1970's and 1980's as one thing after another that was not possible became possible; we created businesses. We are now working with 75 factories in nine provinces. We work in other places in Asia, and as I have explained, our work is expanding quickly into the United States.

The Chinese people have been changing because of trade relationships, because of thousands of American and Chinese businessmen working side by side. Our freedoms, our ideals have rubbed off. The Chinese want to emulate Americans.

I don't have to tell you, Senator, that democracy is truly contagious. In the late 1970's, if you went to Tiananmen Square, facing Chairman Mao's portrait at the head of the square were four huge

posters of Marx, Engels, Stalin, and Lenin, the founders of the Chinese communist ideology, the system upon which Chinese communism was built.

After MFN was granted in 1980, and after Deng Xiaoping began reforms in China, those four posters disappeared. And if you stand in Tiananmen Square now and you gaze 8,000 miles West to the Soviet Union and to Eastern Europe, you can see the foundation of Chinese communism crumbling.

In my relationship with thousands of people, made through more than 100 trips to China, I don't know anyone—including communist party members, senior officials, middle level managers and supervisors—who believes in the Communist myth any more.

I believe that they want our freedoms, that they want our system of free enterprise. I believe that we are winning the battle to introduce our way of thinking and acting. I implore you not to make the tremendous mistake of withdrawing MFN or approving MFN with conditions, sir.

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

The CHAIRMAN. Well, Mr. Simon, you obviously have a large vested interest in this situation. Let me ask you a question. When you are speaking about the acquisition of American companies, in the total of those companies, have you had a net increase or a net decrease in jobs in the United States?

Mr. SIMON. Increased by 650 persons during the last 2 years, sir.

The CHAIRMAN. Out of a total of how many?

Mr. SIMON. Of the total Odyssey companies in the United States?

The CHAIRMAN. Yes.

Mr. SIMON. Yes, 1,500 total.

The CHAIRMAN. How many U.S. jobs did you have before in the United States in those companies?

Mr. SIMON. There were 850 existing jobs. We created 650 new jobs.

The CHAIRMAN. Mr. Rivinius, I understand your concern. I have always felt that we shouldn't put an embargo on another country unless we hurt them more than we hurt ourselves.

And with that kind of philosophy, I opposed the soybean embargo by Nixon on Japan; and we saw \$1.5 billion invested by the Japanese in Brazil in soybean production, now a major competitor.

I opposed President Carter's embargo on wheat, and we watched the Canadians and Argentinians put the plow to more lands.

I opposed President Reagan's embargo on the pipeline and watched the Japanese develop economies of size in competition with Caterpillar.

Having said that, we still have a problem. We have a rigged Chinese economy, not an American economy, and one that has put substantial restrictions on our products going into China. We are seeing a major increase in our trade deficit with China; and we sure don't have the freedom of access there that we afford to them.

Mr. Vaughn, you said we have other tools, but MFN is a tool. I don't look on MFN just as a relationship; I also look on it as a concession made for opening of markets, although we have free riders in the process, too.

The dilemma we face is how far can we push them. I think if we revoked MFN, that would be too abrupt—we would probably end up with more damage than gain.

But what I am personally considering are some conditions, seeing how far we can go, and getting some kind of result for human rights, on the shipping of missiles, and certainly on the problem of trade. Ought we not to try? Do you want to respond?

Mr. VAUGHN. Yes. Mr. Chairman, I think I can speak for the majority, if not all, of the businessmen that are represented in ECAT. We don't disagree with the objectives of trying to improve our relations with China such that we can improve the human rights issues, the market issues and the military export of weapons issue.

They are all vitally important, and we support the objective of trying to make improvement on what China is doing. However, we do not believe that eliminating most-favored-nation status would at all have a positive effect in any of those areas, for many reasons; and you have heard those reasons.

But we also feel very strongly that the conditions of MFN—

The CHAIRMAN. But, Mr. Vaughn, we also saw that just the debate and the consideration of China's MFN status last year had a positive effect in the release of some students from prison.

Mr. VAUGHN. I think that one of the great strengths of our system is the fact that we do have open debates. I sometimes, as a businessman traveling around the world, have some personal concerns when you pick up the paper and see whatever is being debated and very openly and opinions being expressed. But clearly, it is one of the great strengths of our system.

We are not against the debate of this matter at all. However, MFN is not a privilege. It is a status that we extend to about 150 countries in the world. To take it away from the largest country in the world—to disengage rather than to engage—none of that in my opinion would be wise.

We have seen a tremendous change in China and the gentleman from Hong Kong was very eloquent about his personal experience in securing change by working one-on-one with the Chinese. We too have seen that. Our customers is the Chinese Government, by the way.

The CHAIRMAN. And how about the situation where, right now, we are denying MFN to Russia? And we see a change taking place there.

Mr. VAUGHN. Sure. Will we not grant them MFN eventually?

The CHAIRMAN. Eventually, I think we will.

Mr. VAUGHN. Well, we granted China—

The CHAIRMAN. But right now, we are not; and we have sure seen a lot more opening up, change taking place there in the last 2 years; however we have seen the reverse action taking place in China. How do you explain that kind of a foreign policy?

Mr. VAUGHN. I think the change we have seen in Russia is a precedent that we should take some positive reaction to. I have not met the individual, American or foreign, who would have believed the change that has happened in Russia in the past 18 months.

But we had a struggle, and we prevailed in the competition. Part of that competition was between our free economy system and the socialist system. Change did occur.

I believe there is also great change in China. In the 18 years that we have worked in China, there has absolutely been——

The CHAIRMAN. How about in the last two? Have you seen it better or worse?

Mr. VAUGHN. I think we have seen it slow down since the Tiananmen Square situation and the alarm that the democracy movement made to the existing regime in China. I think clearly that they were concerned by it and frightened by it and tried to regain control of their system again; and that has had a delaying effect. But I think it is only a delaying effect. I don't believe China can go back to where it was 20 years ago. I don't believe it can go back to where it was 5 years ago.

And certainly, in respect to Tiananmen Square and the rest, and I am not defending the Chinese Government and their conduct in human rights. It is not defensible. But there have been changes made. They have released a lot of the prisoners.

They are in dialogue, with us, and I think that is critical. I don't see how we can do anything if we don't have dialogue.

The CHAIRMAN. Mr. Simon and Mr. Williams, I understand where you are coming from; and we appreciate very much, Mr. Williams, your making this long extended trip and how much you have at stake.

Furthermore, and we are concerned about Hong Kong; but we are primarily concerned about ourselves.

Mr. Rivinius, I am still in the grain growing business; and I understand your problem. We want to keep those markets open; but as we see that kind of a market control by the State, and we see it replicating some of the problems we have had with other protected markets—the example which we all know of U.S. rice farmers not even being able to sell a bag of rice today in Japan—I don't like to reward that kind of behavior.

Mr. RIVINIUS. You know, in my statement, the last two farm bills have turned agriculture around into a production agriculture, which we feel that the U.S. economy very much needs—production agriculture. But we need those markets.

Our competition, which is the Canadians, the Australians, and the EC, are just waiting for the opportunity to get into the Chinese market, when we are not there. And we have set aside thousands and millions of acres in CRP and crop set-asides, and the world production hasn't changed at all. Somebody else has simply picked up that production.

Now, we think that the U.S. wheat industry is at a very critical point here if we keep shrinking and giving up these markets. We don't know where the wheat industry will be 5 years from now if we deny them most-favored-nation status and they retaliate, which they had done in 1983.

The CHAIRMAN. We don't know where the wheat industry is going to be if we continue to see the European countries heavily subsidize their production, and then subsidize exports, and then dump their stock and break world prices. That is one of the reasons that I so strongly supported fast track renewal for the negotiations on GATT.

Mr. SIMON. Mr. Chairman, may I add a comment, please, about the surplus?

The CHAIRMAN. Yes.

Mr. SIMON. I know that you personally are very concerned about the trade surplus, and I listened to Senator Riegle yesterday; and I know that the Congress is concerned about this very quickly widening surplus with China.

I believe that the way the United States looks at the figures is somewhat misleading because, in China, most of the raw materials used in the export of products to the United States is of non-Chinese origin.

I believe, most of the raw materials come from the United States, Japan, Switzerland, Hong Kong and other countries and are assembled in China. We can't buy computer software from China; we have to buy labor-intensive products that utilize China's sets of hands, sir.

In our case, only 30 percent of the value of the \$60 million that we import into the United States is of Chinese origin. I believe that the vast majority of Chinese imports into the United States contain less than 35 percent Chinese value. Looked at this way, the trade surplus may not exist.

I have to tell you: it is very difficult to buy products from China. China doesn't have the infrastructure, the sales and marketing systems that the Japanese and the Taiwanese have. So, when you go there, it is almost like pulling teeth to buy something; you have to help them.

The CHAIRMAN. Mr. Simon, I have been there. I understand those concerns.

Mr. WILLIAMS. Mr. Chairman, may I pipe in with something?

The CHAIRMAN. Yes.

Mr. WILLIAMS. Three comments, if I may. In the first place, I read the newspaper where they reported that you see MFN very much as a lever in our trade relations. I agree with that.

And I think the fact that this discussion is taking place so prominently and the fact that the debate on MFN last year and this year is receiving so much publicity—and believe me, it is receiving publicity in China as well—every day in the papers in Hong Kong, in both the English language in the Chinese paper and in China.

The Chinese media, and in fact the Chinese Government, are all over us in Hong Kong. For some reason, they see the American Chamber of Commerce as some sort of a pressure point on this in the middle of all of this posturing.

But in answer to the question: How can we influence what China does and the way they behave?, we are doing it right now. And I think that it is only a matter of degrees.

The second thing is on a different subject. When you mentioned Hong Kong, that is very dear to our own hearts obviously. But I would just like to highlight the fact that, in addition to everything else that Hong Kong is, Hong Kong is also the headquarters of the U.S. business in Asia. There are 21,000 Americans there; and even though it is a British colony, there are only 17,000 Brits.

You have got 581 multinational corporations there, and 252 of them are American; and the Brits only have 77. The Hong Kong per capita consumption of U.S. goods is higher than any other foreign territory, outside of the Americas.

Last year, per capita consumption of U.S. goods in Hong Kong was \$1,179.00 per person; and that compares with \$308.00 for every Japanese consumer, \$205.00 for every Korean—and this won't surprise you—\$234.00 for every European.

The CHAIRMAN. \$350.00 for every Mexican.

Mr. WILLIAMS. Is that what it is?

The CHAIRMAN. I know your numbers; I have been living with this problem for some time. [Laughter.]

Mr. WILLIAMS. Yes, sir.

The CHAIRMAN. Gentlemen, thank you very much. We appreciate your testimony.

Mr. WILLIAMS. Thank you, sir.

Mr. SIMON. Thank you, Mr. Chairman.

Mr. RIVINIUS. Thank you, sir.

Mr. VAUGHN. Thank you.

The CHAIRMAN. That concludes our hearing for today.

[Whereupon, at 11:29 a.m., the hearing was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF A. DOAK BARNETT

Mr. Chairman, thank you for the opportunity to testify today. The issue you are considering is a very important one. Your decisions on whether we should continue normal trading relations with China by renewing its Most Favored Nation (MFN) treatment, or should deny it such treatment, or should attach major conditions to it, will have far-reaching consequences. It will, in my opinion, affect not just trade but our basic relationship with China and many other U.S. interests and relationships.

Let me state right at the start what my basic judgments are and then discuss the basis for them. I believe that denying MFN treatment to China or attaching major conditions to it would not achieve the goals of those proposing such action and would have serious adverse consequences that would endanger the foundations of our overall relationship with China, would damage the interests of innocent bystanders who are important to us, would have undesired side-effects on many other U.S. interests, and would complicate many multilateral international relationships. I strongly believe, therefore, that at the present time the United States should renew MFN treatment for China unconditionally.

First, let me emphasize that I share the concerns of Congress about the human rights issues, trade problems, and proliferation questions involved in U.S.-China relations. The massacre of civilians in Beijing in June 1989 and the subsequent suppression of dissent in China clearly have required strong U.S. condemnation. The mounting problems in our economic relations with China—the large deficit in our trade, China's inadequate protection of intellectual property rights, and reports that some prison-made goods may have been exported to the United States—must be squarely faced and dealt with effectively. And the U.S. government must convince China that its own interests demand that it carefully restrict the sale of both medium-range missiles that could endanger the stability of volatile regions and nuclear technology that could be used to build nuclear weapons if not subjected to international safeguards.

However, I strongly believe that denying or restricting MFN would not solve these problems; I am convinced, in fact, that it would make their solution more difficult. Moreover, the United States has alternative, more traditional means to deal with these issues, and these are likely to be more effective in the long run in achieving our goals. I also believe that insufficient attention has been given to many of the adverse consequences and side-effects that could result from denying or restricting MFN for China, and I think it is important to assess all the possible consequences.

It is apparently assumed by some that the United States can take such action to try to compel China's leaders to resolve the specific issues that concern us without, somehow, endangering the overall U.S.-China relationship. I believe that this is a serious misjudgment. The leaders in China, including reformers as well as conservatives, in my opinion, will regard it as an major, hostile, anti-China act and will respond accordingly. They are fully aware that we have denied MFN only to Communist regimes which we regarded as enemies posing serious threats in the context of the cold war. In no case have we denied it to countries classified as friendly to penalize them for human right violations (not even those countries with the most egregious human rights records) or to press them to change trade and arms control policies to which we object. The Chinese can be expected to retaliate not simply raising their tariffs but also by reducing ties and contacts across-the-board. One must assume, also, that they are likely to be less cooperative in dealing with a wide range

of bilateral and international issues. It is important to recognize, also, that the resulting deterioration of Sino-American relations would probably be prolonged because the restrictions imposed by both sides would not be easily turned on and off. Consequently, the task of repairing and restoring normal relations, even when more moderate leaders and policies emerge in China, is likely to be difficult and take considerable time.

The first and most obvious impact of denying MFN to China would be economic. It unquestionably would damage China's economy very seriously. However, it would also have adverse effects on some American economic interests and would impose severe costs on areas on China's periphery such as Hong Kong. It is estimated that the landed cost of Chinese exports to the United States would rise by an average of about 40 percent and that as a result the level of these exports (which was over \$15 billion last year and may approach \$20 billion this year) would decline by at least \$3 billion to \$6 billion. (Some experts estimate that the decline would be higher, in the range of \$10 billion.) China might well lose as many as two to three million jobs. Whatever the correct figures are, there is no doubt that the results would be a major body blow to the Chinese economy. It important to recognize, also, that the areas that would be most badly damaged would be those that are in the forefront of economic reform in China, especially Guangdong province adjacent to Hong Kong but also Shanghai, the Yangzi valley, and other coastal areas which are well on the road to integration into the international economy. The sectors of the economy that would be hurt the most would be the market-oriented and export-oriented collective and private enterprises that now constitute the most dynamic elements in the Chinese economy and are the strongest base for reform.

On the U.S. side, it is estimated that exports to China would drop by between \$2 billion and \$3 billion (to roughly half of the present level of about \$5 billion). Consumer interests would suffer as a result of rising prices for the kind of low-cost consumer goods imported from China, and American grain farmers and producers of civilian aircraft, fertilizers, and chemicals would be adversely affected by reduced sales to China. Congress can and obviously will decide what weight to give to these costs, but clearly they should not be ignored.

In terms of American interests, however, more important than the economic costs would be the possible effects on broad American political and strategic interests. Some years ago it was conventional wisdom that good relations with China were of great strategic importance because China served as a counterweight to the Soviet Union. This was sometimes exaggerated, but it clearly did have considerable validity. However, the situation has obviously changed fundamentally as a result of the end of the cold war and the reduced significance of U.S.-China-Soviet triangular relations. As a result, the conventional wisdom today seems to be that China has little, if any, relevance to broad American strategic and political interests. This view is plainly wrong, in my opinion; it reflects a short-sighted view of both U.S. interests and China's role in the international community. Good relations with Beijing are in fact still important to many U.S. interests, and because China is the largest, most centrally-located, and militarily the strongest indigenous power in Asia, deteriorating relations with it could seriously complicate the pursuit of many American goals.

China's policies will continue to be major factor influencing the prospects for stability or instability on the Korean peninsula, which remains the most dangerous potential flash point in the world. In recent years, Beijing's policies—including its efforts to restrain North Korea, develop extensive trade and non-official contacts with South Korea, and encourage North-South detente, and, most recently, its decision to facilitate the entry of both Koreas into the United Nations—have generally paralleled those of the United States and have contributed to stability in Korea. Any reversal of these policies would set back the constructive trends now underway.

Chinese cooperation is also essential for a viable settlement of the conflict in Cambodia. China has not yet gone far enough in dissociating itself from the Khmer Rouge forces and ending all military support to them. Nevertheless, it has played an active and generally constructive role in the international negotiations aimed at working out a basis for a settlement, and its continued cooperation is a prerequisite not only for ending the conflict in Cambodia but also for stabilizing the entire Indo-China peninsula.

Throughout East Asia, in fact, the prospects for stability could be adversely affected by a deterioration of U.S.-China relations. In Hong Kong, Taiwan, and throughout Southeast Asia, conflictual U.S.-China relations would create major new uncertainties about the future. There concern on the part of many governments about whether or not Beijing would in such circumstances adopt less conciliatory policies toward regimes closely linked to the United States.

Deteriorating U.S.-China relations would also have important global implications. As one of the five permanent members of the U.N. Security Council, with the power to veto major actions, its cooperation is required for the United Nations to take effective collective action to deal with major crises. Throughout the 1980s, China played an increasingly active and constructive role in the United Nations, including U.N. arms control and crisis management efforts. In the Gulf crisis, even though China abstained on the votes authorizing the use of force, it voted for all the other resolutions, and without its cooperation the United States could not have built the broad international coalition under U.N. auspices that was a key to our policy. Similar situations undoubtedly will arise in the future. Moreover, U.S. policy-makers increasingly recognize the need to work through the United Nations, when possible, in dealing with crises, relying on multilateral rather than unilateral actions. Among the many reasons for this are the economic constraints which now limit the U.S. ability to act alone. Whether or not the United States is able to sustain friendly relations with the Chinese government will obviously influence the degree to which China will be inclined to be cooperative in the United Nations' future crisis management and peacekeeping efforts. China's cooperation will also be essential if the international community is to deal effectively with long-term global issues relating to the environment, population, and many other problems. For example, no solution to the global problem of air pollution can succeed without the active participation of China because it is one of the world's largest producers and consumers of coal. All of these factors must be weighed in judging the potential costs of taking actions that could lead to a major deterioration of U.S.-China relations.

In considering the MFN issue, it is also important to recognize that, if we deny MFN to China, we will be acting alone; none of our major allies will take parallel action. Although in 1989 the European Community and Japan imposed sanctions on China that were similar to ours, last year they removed them, and they have now restored normal ties with Beijing and are actively promoting increased trade, investment, and exchanges. This is not, in my opinion, because they are indifferent to human rights and the other issues that concern us, or because they are simply pursuing narrow economic interests; it is at least partially because they recognize—correctly, I believe—that good relations are necessary to elicit cooperative Chinese policies and desirable to support long-term trends toward economic reform and political liberalization in China. If we deny MFN treatment to China, there will be a major gap between our approach to China and that of our major allies. This will not only reduce the possibility that U.S. economic pressure on China might have the kind of effects that proponents of denying MFN hope for; it is likely to create strains in our relations with the EC and Japan.

The most damaging effects of a dramatic drop in U.S.-China trade will be felt in Hong Kong, which is one of the most dynamic centers of free enterprise in the world and a place where the United States has a large economic stake. Roughly 70 percent of China's exports to the United States are handled by Hong Kong; its businessmen have invested heavily in south China; and its fate depends heavily on that of adjacent Guangdong province. According to some estimates, a U.S. denial of MFN treatment to China conceivably could cut Hong Kong's GNP growth rate almost in half. No one proposing action on MFN wishes this to happen, but it would be an unavoidable consequence. Hong Kong already faces a uncertain future as the 1997 date for its return to Chinese rule approaches, and it would be ironic, indeed, if attempts to exert pressure on China resulted in the destabilization of Hong Kong. Hong Kong's businessmen and officials have urged the United States to avoid taking actions so damaging to them; their pleas should be heeded.

There could also be some adverse effects on Taiwan's interests if MFN treatment is denied to China. Instead of reducing its trade and other contacts with the mainland during the two years since the Tiananmen crisis, Taiwan has increased the flow of trade, investment, and travelers to China fairly dramatically. An increasing number of Taiwanese businessmen have been transferring labor-intensive industry to Fujian and Guangdong provinces; This has been possible because both Beijing and Taipei have been attempting to work toward mutual accommodation by expanding informal ties. Denial of MFN treatment to China would adversely affect Taiwan's new economic interests there, and privately Taiwanese express some concern about this. There is also concern that deteriorating U.S.-China relations might lead Beijing to reassess its current relatively conciliatory approach to Taiwan.

One of the most important questions to ask about the consequences of denying MFN treatment to China, obviously, is what effect it will have on future economic and political trends in China itself. I strongly believe that, instead of encouraging a return to moderation, economic reform, and political liberalization, it is likely to have the opposite effect, reinforcing, at least in the short run, the hardliners in Beij-

ing and delaying the return to more active reform. This judgment is based on my assessment of both the present situation and the underlying forces at work in China.

Since the start of Deng Xiaoping's reform policies in the late 1970s, China has been undergoing a dramatic transformation, a "second revolution." Throughout the 1980s, until its economic crisis of 1988 and its political crisis of 1989, China was in the forefront of reform in the Communist world and was the leader among developing countries in economic growth. Since 1988-89, it has been in a period of serious regression, but this should be viewed essentially as a short-term setback. All available evidence indicates that the process of reform in China cannot be fundamentally reversed.

Reform changed the Chinese economy between 1978 and 1988 in far-reaching ways. In that period, GNP grew at an average annual rate of close to 10 percent; per capita incomes increased two- to three-fold; and there was a dramatic increase in China's trade and other foreign economic relations that changed it from an autarkic society into a significant participant in the international economy. Even more important, the economy underwent major structural changes, and despite the setbacks of the last two years, China is still far ahead of other Communist countries in its progress toward economic reform. In the 1980s, agriculture was decollectivized; new incentives were introduced in both the agricultural and industrial sectors; and a great deal of economic decision-making authority was decentralized, some to provinces and local governments and some to enterprises. The proportion of the economy subject to direct central planning was reduced from about two-thirds to roughly a third; markets of various sorts grew rapidly until their share of economic transactions exceeded that of the state trading system; ownership was diversified and semi-private and private enterprises became the most dynamic elements in the economy; the output of state enterprises' as a percentage of total industrial production dropped from about four-fifths to about a half; and the state budget's share of GNP declined from about a third to roughly a fifth (and the central government's share of that declined greatly). Even though by the late 1980s the Chinese economy was only half-reformed, it was very different from what it had been before 1978. The biggest challenges in the reform process, it is true, still lie ahead. These include comprehensive price reform, monetary and fiscal reform, and basic reform in large state industrial enterprises. I believe, however, that China will move to attack these problems, under post-Deng leaders if not before.

Political change was considerably slower than economic change in the 1980s. Relatively little basic structural political reform took place. However, there were more significant political changes than is often recognized; and these altered the political climate. Political controls were relaxed, the force of ideology declined; the role of the party was reduced, the flow of information through modern communications and the media increased greatly, and a great deal of open debate was tolerated. Moreover, as a result of the economic changes, Chinese society was becoming increasingly pluralistic.

The crisis in China in 1988-89 was in large part the product of these changes. The side-effects of reform created serious problems. Rising inflation, growing corruption, and increasing inequities created widespread dissatisfactions and social unrest. In late 1988, the regime adopted an economic austerity program designed to bring inflation under control, which it did, but at the cost of exacerbating many other causes of dissatisfaction. Rising expectations outpaced even the rapid rate of growth, and the loosening of controls made the expression of discontent possible. It was trends and problems such as these that led to the student protests in 1989, which evoked wide popular support in major cities. Debate over how to respond to mass demonstrations split the leadership and culminated in the clampdown and massacre in June, followed by repression of unrest.

The use of force and attempt to reestablish tighter political control was dictated by a small group of octogenarian leaders, the last survivors of the revolutionary generation in China. The most conservative among them also insisted on retrenchment in economic reform, as well as attempts to revive ideology and reindoctrinate intellectuals. As a result, during the past two years attempts have been made to recentralize and cut back the growth of collective and private enterprises. What is striking, however, has been how limited the effects have been. There has been no basic reversal of economic reforms; it has simply not been possible even for conservatives to turn back the clock. In fact, since last year the pressures to move ahead with economic reform have resulted in some cautious new reform experiments. The reestablishment of political control appears on the surface to have been more successful in this period, but only in a very superficial sense. Although the new controls have inhibited open expression of unorthodox opinions, privately people are re-

markably frank in stating their views, and although the time devoted to reindoc-trination has increased, the results seem to have been minimal and, if anything, counterproductive.

China today is a country in transition, holding its breath, waiting for the party elders to pass from the scene. Its leadership is deeply divided. Although conserva-tive proteges of the elders are temporarily in the ascendancy, very few of the re-gime's most committed reformers have been purged (and as a result of a sweeping generational change in the Chinese leadership throughout the country in the 1980s there are now large numbers of relatively young technocrats occupying key posi-tions at all levels). The underlying forces for further economic reform in China clearly remain strong (the fact that even the conservatives have found it necessary to respond to pressures from below demonstrate this), although the divisions in the leadership have made it impossible to agree on a new strategy of comprehensive reform of the kind China needs.

The succession at the highest levels of leadership in China could last for some time, and could well involve intense struggles. However, as the elders die, one by one, the balance within the leadership will steadily change. Personally, I have little doubt that what will eventually emerge is a new leadership that is essentially tech-nocratic and pragmatic and that the new leaders will respond to pressures within China, from below, by attempting to move ahead with economic reform.

It is highly likely, however, that political reform will continue to lag behind eco-nomic reform. Even the reformers in China now seem to be preoccupied with the need for political stability, fearing that unstable conditions would create a backlash that would set back reform rather than move it forward. Their caution is rooted in China's past experience but it has been reinforced by their reactions to what they see as emerging chaos in the Soviet Union, which they are determined to avoid. Yet, I believe that the new technocratic leaders who will emerge from the succession in China will prove to be pragmatic realists who will move away from repression and toward cautious political liberalization because they will recognize that this is essen-tial for China's modernization.

A key question for U.S. policy is whether, in light of the current situation and forces at work in China, an attempt to exert strong external pressure on the present Chinese leadership by ending MFN treatment or attaching significant conditions to it would enhance the near-term prospects for more active economic reform and po-litical liberalization or lead China's leaders to dig in their heels and harden their policies to the extent they can.

I believe that it would almost certainly be the latter and that the consequences would delay rather than accelerate reform. This kind of pressure would strengthen the hardliners' arguments that repression is justified to combat externally-instigat-ed subversion. It would weaken the position of the reformers who have looked to the outside world for inspiration and found support for their views from their contacts abroad. It would also seriously damage the most market-oriented and trade-oriented sectors of the economy whose entrepreneurs have exerted the strongest pressures from below for further reform.

Many Chinese intellectuals and students now in this country favor such pressure; I know some of them and respect their views. However, I believe that they misjudge what the full consequences of denying MFN treatment or attaching major condi-tions to it would be. I also know many reformers and intellectuals still living in China, who will bear a major part of the burden of revitalizing reform; and without exception those I have seen on recent visits to China or have talked to when they have visited the United States have told me that they believe U.S. pressure of this sort would damage the prospects for reform; they urge that the United States in-crease trade and contacts of all sorts, and avoid actions that will reduce our links with China.

The ability of the United States to influence developments within China is obvi-ously limited, but we can have some influence. However, as was convincingly dem-onstrated in the period from 1978 to 1988 when the tremendous growth of U.S. con-tacts of all sorts with China strongly supported the process of reform, to have a sig-nificant influence it is necessary to stay engaged and to try to strengthen our links throughout Chinese society; a reduction of trade and other contacts will simply di-minish our influence.

To return to a point that I made at the start of my remarks, MFN is by no means the only, or the most effective, instrument of policy that we can use to address the specific human rights, trade, and weapons sales issues that trouble our present rela-tionship with China. Through diplomacy and political representation, legal means, and economic pressures targeted at specific issues rather than at our overall trade relationship, we can and should continue to press China to modify those policies to

which we object. Our representations on human rights abuses have produced some results, even though far less than desired, and in my opinion continued diplomatic and political representations are more likely to be productive in the long run, even if only gradually, than severe sanctions that produce a defensive Chinese counter-reaction. Our trade act (including its super 301 and other provisions), as well as many other laws, provide numerous mechanisms to deal with specific trade issues, and they can and should be used to resolve them. We can and should, also, in collaboration with our allies, exert pressure on China to accept broadly-endorsed international standards regarding the export of medium-range missiles and nuclear technology and work to persuade the Chinese that it is in their interest to join, or at a minimum to accept explicitly the basic provisions of, the Non-Proliferation Treaty and Missile Technology Control Regime. Taking sweeping actions that will lead to a major reduction in trade and endanger our basic relationship will make it less likely that we will be able to deal effectively with these problems.

Finally, let me comment on the proposals to attach strong conditions of various sorts to MFN. I recognize that these will be the focus of much of the debate in the weeks ahead. The underlying assumption, it seems to me, is that by imposing such conditions we can increase our pressures on China without seriously endangering our basic relationship. I believe this is a serious misjudgment. If significant conditions are imposed, the Chinese leaders will probably regard them as tantamount to a decision to deny MFN treatment after a short delay, and they can be expected to react accordingly. I believe, therefore, that the probable consequences, and costs, would be comparable to those I have already discussed. (I also believe that many American businessmen would react the same way and begin to pull back from involvements in China.)

Linking the MFN issue to the question of Taiwan's entry into GATT also could have very negative consequences without achieving the desired result. Since the question of GATT membership has no intrinsic relationship to the question of MFN treatment, China would view such a move simply as a punitive action against China, since, as is well-known, it maintains that China should be the first to gain entry into GATT. Clearly, Taiwan deserves to be in GATT, and there is no doubt in my mind that it eventually will be. However, the majority of the present members of GATT almost certainly would not approve acceptance of Taiwan before China if, in practical terms, this would result in the exclusion of China for the indefinite future, which under existing circumstances it would. The problem still is, therefore, as it has been ever since both China and Taiwan expressed the strong desire to be in GATT, to work toward an ultimate solution that brings both of them in. Although this is not possible at the present time, it will be eventually. If the United States now links the GATT issue with the question of MFN treatment for China and unilaterally presses for Taiwan's immediate acceptance into GATT, this in all likelihood will simply contribute to a further deterioration of U.S.-China relations without actually gaining entry for Taiwan into GATT.

To sum up, let me repeat what I said at the start, that I strongly believe that U.S. interests will be served best if we continue to grant MFN treatment to China, without conditions. We should stay engaged and attempt to maintain a normal relationship. While doing this, both the Administration and Congress should, in cooperation, vigorously pursue our human rights, trade, and non-proliferation goals as they relate to China through diplomatic, legal and other means that we already possess, but avoid endangering our basic relationship by denying it MFN or attaching strong conditions to it.

PREPARED STATEMENT OF SENATOR MAX BAUCUS

The Congress is falling into an annual ritual of threatening to revoke MFN trading status for China.

Each year, we review a long list of grievances we have with the Peoples' Republic of China. And each year we consider revoking MFN status for China because of these grievances.

In my opinion, this is a destructive and unproductive cycle.

GRIEVANCES WITH CHINA

This year our list of grievances is long.

Though there are subtle signs of improvement, China continues to abuse the basic human rights of its own citizens and those of Tibet.

Credible reports have come to light that China is exporting goods made by prison labor to the U.S. in violation of U.S. law.

There are indications that China is selling dangerous weapons and nuclear materials to other countries.

And finally, China has raised new barriers to U.S. exports and has allowed piracy of U.S. intellectual property.

MFN IS NOT THE RIGHT TOOL

Each of these problems is worthy of serious concern and justifies strong action. But we cannot hope to resolve every bilateral issue on the back of MFN.

We should keep in mind that the term Most Favored Nation status creates the false impression that it is a special benefit granted only to our closest friends.

In fact, we extend MFN trading status to almost every nation, including South Africa, Iraq, and Libya. Because of the Generalized System of Preferences, the Caribbean Basin Initiative, and free trade agreements, more than 100 nations actually enjoy better than MFN treatment.

Denying a nation MFN is not merely denying a nation a special benefit. Rather, it is a severe unilateral trade sanction—one that no other nation has even considered imposing on China.

If MFN for China were revoked, tariffs on Chinese products would rise to Smoot-Hawley levels—as high as 110%. More than \$20 billion in trade with China would be cut off virtually overnight.

Unfortunately, as we learned from the Soviet Grain Embargo, such unilateral sanctions do not hurt their intended targets nearly as much as they hurt us.

In this case, we would not hurt the hardline Chinese Marxists that ordered the massacre of Chinese students. Those Marxists shun ties with the West. If we cut off trade with China, we would only lend credence to their argument that China cannot depend on ties with the West.

Instead, we would hurt those Chinese in southern China and Hong Kong that are working to build stronger ties with the West and bring about reform in China. We would undermine the very elements in China that we should be seeking to help.

We would also seriously damage U.S. exporters by revoking MFN. China would surely retaliate against the prohibitive new U.S. tariffs by cutting off U.S. exports. This would mean the loss of U.S. exports of wheat, aircraft, fertilizer, and many other products to China. Canada, Australia, the EC, and Japan—all of whom will continue to extend MFN to China—will happily move in to replace U.S. exporters in the Chinese market.

Hundreds of millions of dollars in U.S. exports and tens of thousands of U.S. jobs would likely be lost.

OTHER TOOLS

If MFN were our only tool to address our concerns with China, we might consider the harm to Chinese progressives and the loss of U.S. exports as necessary evils.

But MFN is not our only tool.

Instead of using the MFN blunderbuss, we should address our concerns with China through carefully targeted rifle shots.

For example, we have already initiated Section 301 cases against China to address its piracy of intellectual property. Other Section 301 cases could be initiated to address Chinese trade barriers.

The U.S. could use existing law to clamp down on forced labor imports from China.

The U.S. could also stop giving China veto power over U.S. policy toward Taiwan. The U.S. could support Taiwan's effort to join the GATT. This is a step that every Member of this Committee—both Republican and Democrat—have long advocated on trade grounds.

Supporting Taiwan's GATT application would send a strong message to China, boost our friends in Taiwan, and help U.S. exporters that are seeking opportunities in the Taiwanese market.

Other steps are possible to address human rights and arms sales concerns.

I am now circulating a letter which outlines a number of carefully chosen rifle shots to address our concerns with China. I plan to send this letter to the President tomorrow.

CONCLUSION

Some in Congress are now moving forward with legislation to deny MFN to China.

As noted, I believe that denying MFN is not the best approach.

But unless the Administration steps forward and demonstrates a willingness to work with Congress to address our mutual concerns regarding China, I believe this legislation will pass Congress—perhaps with enough votes to override a veto.

In the debate on extension of fast track, the Administration and Congress were able to work together in a constructive fashion.

I hope that the same pattern can be repeated in the debate over China MFN.

But the ball is now in the President's court. Unless the Administration demonstrates a willingness to work with Congress, we are headed for a dangerous show-down over MFN for China.

PREPARED STATEMENT OF SENATOR LLOYD BENTSEN

Today and tomorrow we will hear testimony from the Administration and from private witnesses regarding the extension of most-favored-nation (MFN) trade status for the People's Republic of China.

Since 1980, the United States has granted most-favored-nation treatment to China, but that treatment has always been conditioned on China's record in allowing its people to leave their country freely. Each year the President must review that record, and each year since 1980 the President has determined that continuation of MFN will promote freedom-of-emigration for the Chinese people.

The President has made that determination again this year. It is Congress' job to review that decision. And in the Senate that responsibility falls to the Finance Committee.

In 1974, the Congress set freedom-of-emigration as the standard for determining whether to grant MFN to Communist countries. That standard represents the most basic of human rights. From it flow other human liberties, because no country can allow free emigration while repressing the democratic hopes and aspirations of its people.

Until June of 1989, extension of China's MFN status had proceeded routinely. But the events of Tiananmen Square brought about a dramatic change in the way the American people view China. The images we held of China's cultural wealth—of Marco Polo, of Confucian principles, and of the Great Wall—were replaced by visions of tanks and troops, guns aimed at Chinese citizens exercising rights which we hold so dear in this country, the right to speak freely and to assemble peacefully.

Since the events of June 1989, the American people, and we as their representatives, have debated whether we should continue to maintain normal trade ties with a Government that we watched turn so brutally on its own people. That is what MFN is—not special trade treatment, but the normal basis on which we build a trading relationship.

The President's decision to extend MFN for China again this year troubles me for a number of reasons. First, China has done little in the last year to improve its human rights record. To the contrary, reports of political repression and harsh sentences for Chinese dissidents continue. Secondly, China's behavior in a number of other areas, such as its restrictive trade practices and reports of weapons sales, raise further questions as to whether we should maintain normal trade ties with such a Government.

I am particularly troubled by China's record on trade. Our trade deficit with China is now our third largest, at \$10.4 billion, and our fastest growing. Through a complex system of trade barriers and administrative controls, China keeps our exports out while its exports continue to enjoy wide access to the U.S. market.

For example, to export autos to China, a U.S. company must provide two free samples to the Chinese Government, pay \$40,000 for the Chinese to test them to see if they meet China's "quality" standards (a standard that Chinese-made cars don't have to meet), and finance a trip to the United States by Chinese inspectors to inspect the factory. If this is what it means to be China's most favored nation, then perhaps we need to take another look at the ground rules.

Clearly, this Administration has not yet convinced the Chinese leadership that there is a price to pay for such activities. If no other message is heard by the Chinese Government, let it be clear that continuation of these policies places China's MFN status in severe jeopardy.

Today we will hear first from Administration witnesses, and then a panel of academic and foreign policy specialists. Tomorrow we will hear from the Chinese students themselves as well as human rights activists, and from groups representing U.S. economic interest in continuing trade with China.

PREPARED STATEMENT OF SENATOR JOSEPH R. BIDEN, JR.

Mr. Chairman, thank you for your courtesy in allowing me to testify this morning. I mean it when I say I will be brief.

Much emotion surrounds the question of renewing MFN status for China. And in light of the horrors of Tiananmen Square, those passions are understandable. But I would urge this committee to craft a resolution on MFN that is, above all, realistic. By that I mean a resolution setting forth realistic conditions for MFN renewal this year and next year.

I would urge this committee to resist those who would propose legislative language that amounts to a formula for denying MFN to China.

Instead, Mr. Chairman I would respectfully suggest that this committee and the Congress adopt a two-part approach.

First, we should lay out realistic steps on human rights and international behavior that the Chinese must take over the next year in order for MFN to be renewed in the summer of 1992.

Second, specific stipulations that if China proceeds to proliferate dangerous new weapon systems, then MFN will be terminated immediately. These stipulations must be clearly defined actions that are so inimical to the international order and so dangerous in their consequences that we are prepared to terminate China's MFN status immediately.

In that category, I would place the transfer of modern ballistic missiles—like the M-9 and M-11—to unstable regions or terrorist states. I have in mind missile transfers to Syria, Iran, or Pakistan.

In the case of Syria, I know that no one in this body can be sanguine about the prospect of Hafez Assad—a man just as dangerous as Saddam Hussein—possessing M-9 missiles with ranges and accuracies that would enable him to threaten the entire state of Israel.

In the case of Pakistan, I hope no one would deny the danger of introducing a missile like the M-11 into South Asia, where several wars have already been fought, where both Pakistan and India apparently have nuclear weapons, and where hostility, irrationality, and instability still prevail to this day.

The case of Iran needs no elaboration.

In conclusion, Mr. Chairman, let me say that the approach I have outlined is realistic. It is not asking too much of Beijing to make a hard-headed calculation. Which is more important to China—the tens of billions of dollars they earn from trade with the United States or the millions of dollars they earn from sales of dangerous missiles to dangerous dictators.

Politically, an approach such as this will demonstrate our realism and practicality. MFN can be renewed this year so long as these missile sales do not occur. And MFN can be renewed next year so long as China takes simple and reasonable steps on human rights, trade and other matters.

Thank you.

 PREPARED STATEMENT OF HOLLY J. BURKHALTER

Thank you for holding this important hearing, Chairman Bentsen. We welcome your attention to the important issue of human rights in China and the question of Most Favored Nation (MFN) status for China. Hearings like this one, and the continued attention of the members of this Committee and its staff people to human rights in China are important means of keeping pressure on Beijing and encouraging human rights improvements.

Asia Watch, as you know, has monitored human rights in China closely. We have published dozens of prisoner lists and reports on China's deteriorating human rights situation since the Tiananmen Square crackdown two years ago. Asia Watch recently released our newest, most comprehensive list of those arrested during and after the June 1989 crackdown.¹

Asia Watch's Position on MFN: In determining our position on MFN for China, Asia Watch has been guided by a number of factors. First, we are an organization which respects U.S. law, and we take seriously the Jackson-Vanik emigration conditions on MFN. As we stated in testimony before this Committee a year ago, if the

¹ Our new list contains information on 1,100 individual cases, of whom well over 1,000 are still in imprisoned. This list is far from exhaustive. As near as we know, this is the largest list of known political prisoners, but it is clear that there are many thousands of political prisoners still unaccounted for.

letter of the law were to be applied to China, MFN would have to be revoked. Notwithstanding recent protestations from Chinese authorities about larger numbers of Chinese granted travel documents, emigration from China is not free. The process of the police handling requests for travel documents which we described to you in our testimony last year remains the same. And, as mentioned last year, the government has placed special impediments on the right of travel for scholars and students.² Moreover, we are aware that family members of Chinese dissidents who are living in the States have not been permitted to join them. The wife of one investigative journalist, hoping to join her husband abroad, was notified by China's Ministry of Public Security that her application for permission to study overseas was denied under Article 8, Section 5 of the Administrative Law on Exit and Entry, which states that "those people will not be permitted to leave the country if, as determined by the relevant authorities of the State Council, they could potentially harm state security and greatly damage our national interests." And another dissident's wife was told by her work unit, Chinese Academy of Social Sciences, that a new State Council document prohibits from going overseas all family members of those on the government's most wanted list and those who "escaped overseas" after the June 4 incident. Asia Watch is aware of cases of family members of dissidents who have had their passports forcibly confiscated, and visa applicants who have been repeatedly interrogated, had their homes searched, and who have been forced to make confessions. China is not in compliance with the Jackson-Vanik standards, and the granting of MFN has not had the effect of contributing to a liberalization of emigration practices.³

Asia Watch has broader concerns than the right of Chinese to emigrate, of course. We are much more concerned about the right of citizens to remain in their own country without fear of gross abuses of human rights. China's real shame is not that people can't leave, but that its independent scholars, democracy advocates, and organized workers have either been *forced* to flee or are silenced, hiding, or imprisoned within China. We welcome the fact that the MFN debate has been broadened to include issues beyond the question of emigration, and we wholeheartedly believe that China's trade status should be conditioned upon its performance on a number of human rights issues, including political imprisonment, torture, forced labor, and human rights in Tibet.

Asia Watch is not in a position to endorse any particular legislative approach, but we insist that if MFN is extended this year that measurable, effective, and meaningful human rights conditions should be clearly spelled out in legislation. Moreover, Congress must be committed to ending MFN if those improvements are not made within a specified time frame. Asia Watch has previously taken the approach that if MFN is to be granted it must only be granted conditionally.

New revelations about the Chinese Government's exploitation of prison labor in the export economy complicates the MFN question even further. Official documents reveal that at least some of the Chinese goods which are exported to the United States under the normal tariff regime available through MFN are made by prisoners. It is not unfair to suggest that the MFN actually subsidizes a cruel labor gulag.

This year the Congress must take a very tough approach on the question of MFN to China. MFN should be conditioned upon China's compliance with the following conditions: prompt accounting for all those detained,⁴ demonstrable progress towards releasing all political prisoners in China and Tibet, an end to the export of goods made by prison labor and the practice of holding prisoners beyond the completion of their sentences for the continued exploitation of their labor, and the opening up of labor camps and prison factories for international inspection.⁵ Before MFN is

² The State Department's 1990 Country Report on Human Rights notes that the State Education Commission enacted new journalists regulations in February 1990 requiring college and university graduates who had received free postsecondary education to repay the cost of their education to the State by working for 5 years or more before being eligible for passports to abroad for study.

³ The Jackson-Vanik provision prohibits MFN trade status to those non-market economies which deny citizens the right or opportunity to emigrate, to join family members, impose more than a nominal tax on visa documents, or penalize would-be emigrants with taxes, fines, fees, or other charges. The President may waive the standard if he determines that such a waiver will substantially promote the objections of the section.

⁴ The Chinese must provide names, not just numbers. Recently, the State Department was informed that 1,806 were arrested in Beijing, 21 defendants of this group are still awaiting trial, and the rest have been tried and/or released. This does not constitute accounting. There is no way to check such numbers, which appear to Asia Watch to be extremely low.

⁵ Under Section 307 of the Trade Act, (the so-called Smoot-Hawley provision) importation into the US of items made with forced or prison labor is prohibited. If imported items are found to

extended, China should be required to commit itself to meeting these conditions by specified dates.⁶

If China does not meet these conditions and MFN status is removed, it should be made clear to China's leadership that the decision was made reluctantly and painfully, and that a good faith effort to release political prisoners and address the forced labor problem will result in swift reinstatement. Most China scholars agree that retaining MFN is important to China's leadership and that they would be under considerable internal pressure to repair the damage to China's economy and relations with the U.S. by taking actions that would lead to a restoration of MFN.

Summary of Human Rights Concerns: The imprisonment of Chinese citizens because of their political views is China's largest human rights issue, and the issue which should be at the forefront of the MFN debate. An exact total of those imprisoned following the events of June 1989 is impossible: estimates ranged from several thousand to 30,000.⁷ Less than 1,000 have been reported released (though only a handful of their names were given) and we know of 50 officially announced judicial executions.

It is interesting to note that the debate over MFN this year and last year does not appear to have resulted in leniency. The past six months have been characterized by the biggest wave of dissident trials since the summer of 1989. Several dozen of the principal student and intellectual leaders of the 1989 Tiananmen movement have been subjected to trials totally lacking in due process, and sentenced to terms of imprisonment with hard labor ranging from two to 13 years. And on March 26, 1991, Tao Siju, the Minister of Public Security, gave the lie to earlier reassurances by Chinese leaders (to visiting foreign dignitaries) that the trials of Tiananmen dissidents were now basically over," when he declared to China's parliament that the nationwide hunt for all those placed on police "wanted lists" after June 4, 1989 would continue.

Additional evidence that the crackdown continues can be seen in the arrests of three groups engaged in organizing peaceful underground resistance activities which have been smashed by the authorities during the past nine months. The leaders of one such group (former students at Qinghua University and Beifang Communications University) Chen Yanbin and Zhang Yafei were tried in Beijing on March 5, 1991 and given prison sentences of no less than 15 and 11 years respectively. The two were charged with attacking and slandering the leadership of the Chinese Communist Party through their work on the dissident journal Tieliu, including distributing the journal in residential areas and university campuses. There were no accusations of violent or armed activity brought against Chen Yanbin, Zhang Yafei and their group.

Another recent case involved the destruction of a human rights organization. Some time in late 1990 or early 1991, a group of intellectuals in Shanghai formed the *Study Group on Human Rights Issues in China*, reportedly led by Gu Bin, a student at the Shanghai Chemical Industry Special School and Yang Zhou, a 50-year old intellectual who had participated in the 1978-81 democracy movement, and served three years in prison in connection with the Wei Jingsheng case. The group was the first human rights organization, to our knowledge, to have formed since the Tiananmen democracy movement was smashed. On April 5, 1991, Gu Bin was secretly arrested and on April 18, 1991 Yang Zhou was also secretly arrested. Both are still held incommunicado in Shanghai. Up to eight other members of the group are

have been made with forced labor, the Customs Service is required to suspend imports of that class of goods. This mechanism, however, is inadequate for dealing with the case of China. As long as China denies that its prisoners are producing items for export, attaches misleading labels to packages, and prohibits outside inspection of its labor camps and prisons, there is no way for the Customs Service to make a determination as to whether goods are produced in prisons or labor camps.

⁶ The question of inspection is particularly important. In a recent appearance before the Senate Foreign Relations Committee, Deputy Assistant Secretary of State Richard Solomon stated that the U.S. had been granted access to forced labor facilities. However, it is our understanding that the State Department has been denied access to at least one facility named in our report, and has been allowed to visit only one other facility where forced labor is not used. Nor does the U.S. have agreement from the Chinese that U.S. officials may visit any facility on demand. Neither the International Committee of the Red Cross nor human rights groups such as Asia Watch and Amnesty International have access to Chinese jails and forced labor camps.

⁷ Asia Watch collected the names of 860 political prisoners in September 1990, and we know of some 900 others anonymously cited in official Chinese press reports as being detained. These figures were only a portion of the total jailed, however. For example, the authorities admitted to having officially detained over 3,000 activists in Jiangsu Province alone during a three day period in July, 1989. Clearly, the numbers detained were in the thousands, and most have been unaccounted for.

also believed to have been arrested in mid-April. Their fate and names are unknown. Asia Watch is also aware of a third case involving a democracy activist, Liu Xianbin, who was secretly arrested in April 1991. His "crime" was apparently that he had tried to publish an underground magazine on his college campus.

It is important to note that none of these three recent and important cases of underground pro-democracy activists were reported in the Chinese media. Clearly, the authorities wish neither the Chinese public to know anything about these recent examples of renewed pro-democracy activity in China, nor the outside world to find out about the secret arrests of those involved and the brutal suppression of these unofficial groups.

Other evidence of the continuing repression is the major new offensive brought against religious believers in late 1990. Those within the Catholic church who bear allegiance to the Pope have borne the brunt of the crackdown. It has been reported to Asia Watch that close to 150 bishops, priests, and laymen have been arrested or "invited" to take part in a "study camp" for unspecified periods of time during this latest crackdown on the church.⁸ In addition to the imprisonment and harassment of church personnel and lay believers, the importation of religious literature, such as church-approved Bibles, is curtailed, conversion for those under the age of 18 is officially proscribed and party members are forbidden to join the Church.

The number of persons actually charged with counterrevolution or political crimes is not known, since, as noted above, the authorities do not publicize all such convictions. Moreover, Asia Watch's recent discovery of a secret party directive gives us reason to fear that many more dissidents have been arrested and even executed during China's eight-year-long anti-crime campaign.⁹ A 1983 secret Party directive reveals that political dissidents have all along been one of the principal targets of the eight-year-long campaign. The directive lists "seven types" of criminals who are to be the main focus of the crackdown: "The seven types of criminal elements should all be dealt resolute blows and given severe and prompt punishment . . . Those requiring severe punishment must be sentenced heavily, and those who deserve to die must be executed." The first six categories contain no surprises; they all refer to the major "common crimes" which have always been publicized as prime targets in the campaign. The confidential 1983 document lists, however, a previously unknown "seventh category" of criminals upon whom expedited death sentences may be passed, namely: "Active counterrevolutionary elements who write counterrevolutionary slogans, flyers, liaison messages and anonymous letters . . ."¹⁰

Article 103 of China's Criminal Law specifically excludes these and similar activities, which fall clearly under the heading of "counterrevolutionary propaganda and incitement" as defined in Article 102 of the law, from the range of "counterrevolutionary" crimes punishable in extreme cases by the death penalty. The recent discovery of the "seventh category" and a Chinese government policy of secretly detaining non-violent political dissidents and permitting them to be executed—a policy which, given the sheer scale of the anti-crime campaign since 1983, must rank as one of the best-kept secrets in CCP history—requires human rights groups and others to now rethink all previous assessments of the scope and extent of both political imprisonment and judicial executions in the People's Republic of China today. As mentioned above, Asia Watch has logged a total of 50 officially reported executions arising from the June 1989 events, all ostensibly on charges of "common crimes" such as murder, assault on PLA troops and burning of vehicles. But how many of the thousands of pro-democracy demonstrators rounded up by the army and police after June 4, 1989 who have done no more than "write counterrevolutionary slogans, flyers, liaison messages" and so forth may actually have been executed in consequence of their acts? Since the August 1983 Party directive has never been made public, the policy described above is clearly a secret one; so by definition, any

⁸ It is our understanding that there are some 152 additional Catholics who are imprisoned. Congressman Chris Smith took up this list of imprisoned believers with the authorities during his recent trip to China.

⁹ This extraordinary campaign has involved thousands of prisoners who have been subjected to summary trials, then sentenced to death and executed. The official total of those arrested in the anti-crime campaign's most recent phase alone, between May and September 1990, is 986,000.

¹⁰ "Decision of the Central Committee of the Chinese Community Party to Strike Severe Blows Against Criminal Activities," dated August 25, 1983. The document previously regarded as having supplied the authoritative legal basis for the ongoing "crackdown on crime" campaign is the September 2, 1983 "Decision of the Standing Committee of the National People's Congress Regarding the Severe Punishment of Criminal Elements who Seriously Endanger Public Security." In practice, however, policy documents issued by the Communist Party authorities often take precedence over laws or resolutions passed by the National People's Congress.

reporting of such executions will have been scrupulously excluded from the public domain. At the very least, however, it is clear that the mere existence of this Party document poses a major, life-threatening challenge in China to the exercise of the fundamental human right to free expression.

The Chinese authorities have released several dozen political prisoners in recent months, perhaps to offset the international attention and condemnation it received for the January and February trials of pro-democracy movement leaders. Those released include alleged "black hand" Chen Xiaoping and firebrand literary critic Liu Ziaobo, who were convicted but then immediately "exempted from punishment" by the court and freed. Also released was Han Dongfang, leader of the Beijing Autonomous Workers Federation. Han was released on April 28, 1991 from the hospital into the care of his family, suffering from a severe case of undiagnosed and untreated tuberculosis. He has been informed by the authorities that legal proceedings against him have not yet been dropped and that he may be reimprisoned if and when he recovers.

Asia Watch is aware of two other cases of student leaders who have been released from prison who are suffering from tuberculosis. Xiong Yan, released in January 1991, is reportedly now living at home, but his medical condition is deteriorating as he cannot afford the huge hospital fees needed to secure proper medical treatment. Also suffering from extremely advanced and acute tuberculosis is recently released student leader Wang Xing, who headed the All-China Students Autonomous Federation. He too is reportedly unable to meet the medical bills required for his recovery.

Asia Watch welcomes the releases of prisoners and urges that all charges against them be dropped. As the three cases of released pro-democracy leaders who now suffer from tuberculosis demonstrate, however, their cruel confinement ruined their health and their young lives. We fear that thousands of others may have suffered the same fate. Released pro-democracy prisoners have reported that prison conditions are appalling, with prisoners shackled hand and foot throughout detention, and dozens of prisoners jammed into each tiny cell, beatings and torture frequent. Influenza, lung infections and other diseases are common in the prisons, and mental illness from constant duress has become common.

Another abusive phenomenon in China which should be at the top of the Congress's agenda during this year's MFN debate is the issue of forced labor. No one knows precisely how many prisoners are in China's labor camps and reeducation camps, because the Chinese do not permit international human rights groups to inspect forced labor camps or prisons (save for the occasional "model prison" tour of thoroughly unrepresentative facilities.) Estimates of the numbers of prisoners in the forced labor camps range from one million to twenty million. The government of China sentences vast numbers of persons to "reform through labor" (which is a criminal sanction imposed by the courts after trial). Many others suffer "reeducation through labor," an extrajudicial punishment involving imprisonment for up to three years and imposed by the police.

Asia Watch recently obtained a number of secret official documents which describe the extensive use of forced labor in the export industry. The authors (prison officials or officials of provincial Bureaus of Labor Reform) extol the cheap labor costs in prison factories—said to be ten to twenty percent lower than other factories—and call upon labor camp managers to "deepen their understanding of the importance, necessity, and feasibility of labor reform work units developing a foreign-oriented economy" and to "unearth talent from among the convicts" to enhance production of goods for export.

Additional documents translated by Asia Watch last week further demonstrate the emphasis which the government places upon production of items for export in forced labor camps. The 1988 Yearbook of Local Historical Records of Shandong Province states: "For more than thirty years, the reform-through-labor enterprises have exported to 81 countries and regions in five continents: mechanical, founding, printing, mining, equipment and materials as well as farming by-products including meat, eggs, furs, leather, oils, etc., in exchange for a large amount of foreign exchange." The 1989 Shandong Yearbook boasts that "[i]n 1988, the reform-through-labor production in Shandong earnestly carrying out the important strategic plan of the Party's Central Committee to speed up the economic development in the coastal regions, made a great effort to develop foreign-oriented economy by fully utilizing ways and through various channels Shandong's advantageous conditions in opening its doors to the outside world . . .

An April 22, 1991 issue of Business Week reveals just how big the forced labor/export industry is. One of the forced labor camps mentioned in the official documents is the New Life Weaving Factory. According to Business Week, New Life's cumulative foreign-exchange earnings from 1983 to 1988 were \$28 million, which

made it a top provincial textile company in China. The Business Week article describes the use of forced labor in production of textiles, wine, shoes, electronics, and machinery. We will probably never know just how many Chinese exports are produced by prisoners because the authorities deliberately obscure the origin of products for exports. Names of prison factories are given innocuous sounding names, and foreign firms are usually kept in the dark as to the real producers of items they purchase.

Of particular concern to Asia Watch is the fact that among the millions of inmates of labor camps are large numbers of political and religious detainees and other prisoners of conscience. As noted above, many thousands of pro-democracy demonstrators were arrested after the events of June 4, 1989, alone, and most of these remain unaccounted for.

The areas where many forced labor facilities are involved in production for export are the coastal provinces such as Guangdong, Jiangsu and Fujian. These areas have fewer "counterrevolutionary" prisoners than elsewhere in China, but several that we know of are detained there. Wang Xizhe is serving a fourteen year prison term for writing articles and editing an unofficial journal during the 1979 Democracy Wall movement in Guangdong province, as is Luo Haixing, a Hong Kong resident who received a five-year sentence in March 1991 for trying to help dissident leaders escape China after the June 1989 crackdown. Xu Shuiliang is detained in Jiangsu Province; he was a Democracy Wall movement prisoner who disappeared into the prison system in 1981 and has not been heard from since.

One of the most chilling aspects of China's forced labor empire is the refusal to release prisoners upon completion of their sentences. The secret government documents reveal that authorities routinely practice "forcible retention of time-served prisoners for in-camp employment." This practice is most commonly practiced against inmates who have allegedly "remained unrepentant" during their imprisonment, and clearly includes political dissidents. The imposition of forced labor to punish persons for their political views is strictly prohibited by ILO Resolution 105. And detaining them longer than their sentences to exploit their labor borders on slavery.

Prison labor *per se* is not an abuse, neither is it prohibited under international law.¹¹ The opportunity to work is actually a humane feature of many prisons systems around the world, including our own. But the situation of prison labor in China is not humane. Working conditions are grim, exhausting and often highly dangerous. According to an official Chinese law journal, for example, prisoners are sometimes even forced to carry out such tasks as handling explosives and performing on-site blasting operations in mines. Prison medical services range from the rudimentary to the non-existent. Food rations are often drastically cut for infringements of discipline or failure to meet labor reform production quotas. And physical punishments including electric shock and prolonged solitary confinement are dispensed against prisoners regarded as "resisting reform." In some model prisons and labor reform units, a token payment of a few *yuan* is made. But for prisoners receiving "strict regime" treatment (which involves many political prisoners) the "four cessations" apply: no visits, no personal money, no letters, no leisure activity. In most cases, political prisoners never leave the cells in which they are subjected to solitary confinement: they perform their mind-numbing production tasks on their own, without even the limited comfort and solace of daily contact in the workshop with other prisoners.

PREPARED STATEMENT OF XINGYU CHEN

Mr. Chairman and Members of the Committee: On behalf of the Independent Federation of Chinese Students and Scholars (IFCSS), thank you for holding this important hearing. We are honored that you are interested in hearing the views of the majority of students and scholars studying and living in the United States. My name is Xingyu Chen and I presently serve as President of IFCSS. In 1989, I received a Ph.D. in Engineering Mechanics from the University of Wisconsin.

IFCSS is one of the largest pro-democracy organizations in the United States consisting of local chapters at over 200 U.S. universities. Our Charter specifies that the

¹¹ ILO Convention No. 29 excludes from its definition of forced or compulsory labor "any work or service exacted from any person as a consequence of a conviction in a court of law, provided that said work or service is carried out under the supervision and control of a public authority and that the said person is not hired to or placed at the disposal of private individuals, companies, or associations."

promotion of democracy and human rights in China is our principle goal. Member organizations plan and participate in innumerable activities to protest Chinese Government efforts to persecute human rights activists. Across the country we sponsor forums on human rights in China, organize rallies to commemorate those who have fallen and to remember those who still suffer, publish newsletters, and organize letter writing campaigns. In addition, we have set up a relief fund to provide humanitarian assistance to the families of political prisoners and victims of the June 4th massacre. Most importantly, we convene an annual conference at which program priorities are adopted and leadership is elected.

The views we present to you today are the result of painstaking efforts to reach a consensus among our members as to how most-favored-nation status for China can best be utilized to influence the human rights situation in China. In addition to consulting our own membership, we have consulted extensively with other Chinese democracy organizations and prominent dissidents, including Professor Fang Lizhi. It is clearly the opinion of the majority of pro-democracy activists in this country that human rights conditions should be imposed on any continuation of most-favored-nation status for China.

IFCSS SUPPORTS CONDITIONAL RENEWAL LEGISLATION

IFCSS maintains that human rights and freedom in China can best be advanced by establishing conditions based upon human rights improvements on the continued extension of MFN status to China. Specifically, we support legislation establishing the following key human rights conditions in order for MFN status to be granted to China in June of 1992:

(1) An accounting of citizens who were detained or sentenced as a result of the nonviolent expression of their political beliefs in the aftermath of June 3, 1989;

(2) The release of those citizens;

(3) Significant progress in the following areas:

(a) preventing gross violations of internationally recognized human rights;

(b) ending stepped up persecution of Catholics, Protestants and Buddhists;

(c) ending jamming of VOA and removing press restrictions;

(d) terminating harassment of Chinese citizens in the US, including the return and renewal of confiscated passports;

(e) providing access of human rights monitoring groups to prisoners, trials and places of detention;

(f) terminating prohibitions on peaceful assembly, association and demonstration;

(g) ending torture and inhumane prison conditions.

For us, the most important condition in any legislation is the accounting for and release of citizens detained in the aftermath of Tiananmen. People we know and care about are at this very moment suffering the injustices of a brutal regime. While we talk about glaring human rights abuses, people in China are living them. It is two years since this most recent nightmare began and it is time to wake up. The time has come for you to use MFN as leverage in attempting to secure the release of China's freedom fighters and produce genuine improvements in the lives of Chinese citizens.

A FAILED POLICY

The accommodationist policy promoted by the Bush Administration towards China has not worked, and in its face, Chinese authorities have stepped up persecution of human rights activists, increased restrictions on emigration and foreign travel, ignored previous assurances regarding missile sales, and increased tariff and non-tariff trade barriers. President Bush's unconditional renewal of China's MFN status, sends a clear message to the Beijing hardliners that the Bush Administration will not only tolerate present and future human rights abuses but, in fact, these actions can be carried out with impunity.

Given the continuation, and in some cases intensification, of gross human rights abuses by the Chinese Government over the past two years, imposing human rights conditions on the extension of MFN in 1992 has become the only credible approach. We are not seeking "punishment" for the killing in the Square; we are asking for a sharp condemnation to the *continuing crackdown* on China's pro-democracy forces. The United States Government must clearly indicate to the Chinese authorities that these practices have a price. You must also let the people of China know that the United States, leader of the free world, will lend credence and support to those individuals who embrace the very ideals upon which this country is founded.

CONDITIONS HELP MODERATES IN INTERNAL DEBATES

Imposing human rights conditions on the continuation of MFN status for China does more than pressure the Chinese Government to improve its human rights record. It also reinforces the moderates' ability to argue that brutal repression has external costs.

Arguments that MFN conditions will strengthen the hardliners are erroneous. Some "experts" argue that the hardliners want MFN to be withdrawn so they can once again close China's door. It is impossible for China's leaders to "close the door." The economic reforms of the 1980s opened China's economy, and it has become dependent upon foreign trade, technology and capital. In spite of their repressive nature, the Chinese leaders are pragmatic and want the economic benefits the West has to offer, but not the ideas.

Furthermore, the hardliners do not control the government and factions within the Communist Party are engaged in an intense power struggle which will culminate upon the death of Deng Xiaoping. In recent months, there have been signs—including the recent "rehabilitation" of reformer Hu Qili—that reformers are by no means down and out. Conditioning MFN will provide the reformers with another argument and an opportunity in the internal debates for a genuine return to pre-Tiananmen open door reform policies.

CONDITIONS ENGAGE RATHER THAN ISOLATE CHINA

Those who accuse critics of the Beijing regime of seeking to isolate China are using this straw man to defend a special exemption on humanitarian issues. They echo the Chinese government's rationale that the need for "stability" justifies the murder of innocents, harsh repression, and the flouting of basic human rights.

—AMBASSADOR WINSTON LORD, *House Foreign Affairs Hearing, May 29, 1991.*

In our view the question is not whether or not the United States should have a relationship with China but rather what type of framework should be developed in pursuing that relationship. The students and dissidents in this country are the last ones who want to see China isolated. China's open door policy of the '80s greatly benefited our country, and increased exchanges, contacts and communication played a part in our pursuit for democratic reforms. However, the majority of Chinese citizens living in this country agree—especially in light of the harsh sentences imposed upon pro-democracy leaders—that the time has come for the United States Government to notify the Chinese Government that, through its own repressive actions, they are jeopardizing important bilateral trade relations.

CHINESE LEADERS WILL RESPOND TO CONDITIONS

Furthermore, it is our best judgment that the Chinese Government will, in the end, respond to human rights conditions linked to continuation of MFN. These conditions are not onerous and can be easily implemented. Implementation of these conditions would indicate that the Chinese Government is truly committed to reforms instituted in the 1980s.

It is indeed telling to note that the few positive changes that have occurred in China have been a result of the MFN debate in the Congress last year and the Chinese Government's attempt to influence policy decisions regarding international loans. Contrary to statements made by some leading China scholars that China's leaders never have and never will bend to foreign pressure, it has become increasingly clear that the Chinese authorities will respond to concerns expressed by the United States when those concerns are backed up by the credible and firm prospect of economic sanctions.

HUMAN RIGHTS: TRANSGRESSIONS INCREASE

While it is the massacre in Tiananmen Square that epitomizes the transgressions of the current Chinese regime against its own people, it is the continuing violations of the most basic human rights two years hence that brings us before you today. The brutality of this regime has been demonstrated over and over again and the case for condemnation since 1989 has only become stronger. One has only to open the pages of any large city newspaper to find yet another story of mistreatment of prisoners or to learn of new restrictions imposed upon Chinese citizens.

The list of human rights violations is so lengthy that I could spend the entire time allocated for this hearing just reviewing them. The State Department's 1990 Human Rights Report extensively details the human rights "climate" in 1990, noting that "observance of human rights fell far short of internationally recognized norms . . . serious human rights abuses continued." The litany is all too familiar—detentions without charges; secret trials without adequate defense; coerced confessions; torture; solitary confinement; harsh sentences. Amnesty International recently reported that:

"The chance of activists and others getting a fair trial has become even more remote since 1989 as political authorities have increased their interference in the courtroom. In the past two years, Chinese officials have stressed the need for courts to follow the Communist Party line and during a crime crackdown judges were told that death sentences should be meted out "without pity" and cases should be handled "rapidly."

Of particular concern to the democracy movement in exile are the harsh sentences imposed upon leading activists earlier this year. The persecution of these dissidents cannot go unheeded. These are the same individuals we watched on our television sets and cheered on. They are now languishing in the Chinese gulag cut off from the world and their families for having the courage to stand up to a monolithic government and ask for reform. Wang Juntao and Chen Ziming are not household names in America, yet they are heroes to those of us who seek democracy in our homeland. They epitomize for us all those who have sacrificed in order to bring human rights and democratic reform to our homeland.

Human rights organizations report that little-known activists, those tried outside of Beijing and workers have been singled out for harsh treatment. Amnesty International reports that "It is not uncommon for people out of the spotlight to be jailed for 10 to 20 years, sometimes simply for making dissident speeches."

But it is not only democracy activists that suffer at the hands of local public security officials. The New York Times recently reported that according to a secret report prepared for Chinese Government leaders, police often use torture, illegal detention and confinement in "excruciatingly crowded rooms" in some parts of China. "In some areas . . . illegal arrests [are] climbing" and local police stations are "often corrupt, arbitrary and brutal." "Violations of personal rights of citizens is a major problem," the report states. "In some low-level units, there is frequent abuse of police paraphernalia, of torture to extract confessions and of mistreatment of criminals, sometimes with serious consequences." The report makes it clear that Chinese laws regarding detention and arrest are routinely ignored. Particularly disturbing was the disclosure that *26,000 people* have been arrested in the first half of this year in one province; 9,500 were released with "no real inquiry taking place." This report lends credence to reports that estimate *large* numbers of people were detained and arrested nationwide in the wake of the 1989 demonstrations.

The Washington Post reports that in Tibet "tens of thousands of Chinese army troops and police enforced de facto martial law" in Tibet to prevent any demonstrations during recent "celebrations" marking 40 years of Chinese Communist rule. Monks and nuns were confined to their monasteries; roadblocks of armed guards were stationed around Lhasa; a curfew that will continue into July was instituted; foreign journalists were barred; and tourists were warned not to speak to Tibetans and were prevented from leaving their hotels without guides. In the past several years, hundreds of Tibetans have been killed by Chinese authorities during protests and international human rights groups report that many more, including monks and nuns, have been arrested and tortured.

Arrests of religious leaders has also increased in 1990. The Puebla Institute's most recent report notes that 60 Chinese Catholic leaders, including 20 bishops, are currently detained. In 1990, more than 30 Catholic bishops, priests and lay leaders were arrested after attending an unofficial conference. Since June 1989, Puebla reports that up to 400 Protestant clergy and believers have been arrested, and 300 churches have been closed. This is in sharp contrast to the relaxation of restrictions on Christian religions seen in the '80s.

China has a history of human rights abuses of which the massacre at Tiananmen is the most recent. However, it was the events in Tiananmen in June 1989 that made the American people aware of the magnitude of such abuses and which sparked the momentum for calls that the US should do something about it. In the post-Cold War era, the '90s should be the decade where human rights considerations are at the forefront of the free world's dialogue with all Asian nations.

DOUBLE STANDARD

We also have some concerns about a double standard that seems to exist for China on human rights. How can the US Administration continue to create a separate human rights standard for China than it applies to other nations? In the case of the Soviet Union where freedom of speech, freedom of the press and free elections have moved beyond meaningless rhetoric in a Constitution, the US has insisted upon demonstrable improvements in human rights and a codified emigration law. When thousands of Poles were arrested in 1981, the Reagan Administration demanded that the Polish government enact a general amnesty to all those detained for the nonviolent expression of their political views as a price for lifting the sanctions the US imposed.

From China all that is asked for is assurances. Are the Chinese people any less human than others around the world for whom America has stood on principle? There is a disturbing tendency to demean the value of human rights in Asia as opposed to Europe. Consistency, and the law, demands that the President hold the Chinese Government to the same standard—and if the President will not do so, then Congress should.

CHINESE EMIGRATION RESTRICTED FURTHER SINCE 1989

In the past, the United States Administration has relied upon Chinese assurances on emigration when extending the Jackson-Vanik waiver in order to grant MFN status to China. In light of China's institution of harsher emigration standards since June 1989, those assurances have proved to be untrustworthy. According to a recent Congressional Research Service (CRS) study, since June 4, 1989, "the central authorities have made it more difficult for people to leave the country." The report continues:

The measures imposed include new passport and exit permit criteria, restraints on PRC citizens who work in Hong Kong, restrictions on travel abroad for employees of targeted special institutions, more strictures as to who will be allowed to receive training abroad, complication of the application process for conducting research or study abroad, retaliatory action against prominent figures who have left the country without official approval, the establishment of a new public security body devoted entirely to more stringent control of Chinese society, curtailment of overseas trips by officials, and tightening up of the identification card system. In some cases, extra financial risks or burdens are involved. *These additional controls very much seem to be aimed at discouraging people who disagree with the policies of the hardliners from leaving the country either for shorter stays abroad or for emigration.* [Emphasis added.]

In order for the President to continue to grant a waiver to China for MFN, he must receive assurances that China's emigration practices will lead substantially to the achievement of the objectives of the Jackson-Vanik Trade Amendment. Given the findings of the CRS study that China has *increased emigration restrictions* specifically to punish those who have non-violently expressed their political beliefs, it is clear that Chinese Government assurances in the past two years are meaningless. It is also clear that the current Chinese regime in no way complies with the spirit or intent of the Jackson-Vanik Amendment.

ADMINISTRATION PROMOTES NEW EMIGRATION STANDARD FOR CHINA

The Administration, once again, creates a separate standard for China than it does for other countries in applying the Jackson-Vanik standard on emigration.

In justifying his unconditional renewal of MFN, President Bush maintains that China continues to maintain "relatively free emigration policies." He bases this statement upon the fact that the US immigration quota for China is filled each year. This is the first time that any Administration has argued that fulfillment of US immigration quotas conforms to human rights standards set out in the Jackson-Vanik Amendment.

US immigration quotas has nothing to do whatsoever with whether or not an individual is able to leave their country given the opportunity to do so. Never has such a standard been applied to the Soviet Union or to any other country and the Administration should not now create a new standard to justify its "special" relationship with China. To argue that quotas exemplifies freedom of emigration involves a significant departure from the principles embodied in the Jackson-Vanik Amendment of the Trade Act.

FORCED LABOR COMMON FOR EXPORT PRODUCTION

Chinese documents obtained and released by Asia Watch detail a policy that uses forced labor for the production of goods that are exported to Western countries, including the United States. In some cases, it is jailed Tiananmen demonstrators that are required to take part in this production. It is incomprehensible to us that international business interests, in some cases knowingly, participate in such degradation in spite of US law prohibiting such products from being imported. It was reported in a Business Week article that Japanese and Taiwanese companies are "putting machinery and capital into prison production because of cheap price tags on prison goods." This is a moral outrage and embodies the notion that profits reign supreme over the rights of people to fair compensation for their labor. Every company doing business in China has an obligation to inspect all suppliers, including subcontractors, to ensure that prison labor is not being used in the production of their goods. To feign ignorance is not acceptable and in fact assures compliance in this most deplorable practice.

HONG KONG AND AMERICAN BUSINESS INTERESTS

While it is the position of IFCSS that China's MFN status should not be revoked at this time, we would like to dispute the disastrous predictions by US and Hong Kong business interests of the effect on Hong Kong of revocation.

According to a recent report released by Baring Securities, (Hong Kong) Ltd., a revocation of China's MFN status would cost Hong Kong less than \$2 billion in US-China-related trade income. The report projects that faced with high tariffs, Chinese manufacturers will adjust labor and profit margins to retain market share.

Smith New Court (Hong Kong) Ltd. has also prepared a report which rejects the doom and gloom scenario raised in this debate. Again, the author notes that manufacturers would implement strategies to avoid high tariffs such as producing more than half of a product in Hong Kong in order to avoid local content laws. According to the Smith New Court study, if China lost its MFN status "it could still sell, but it would just have to be more competitive in the formation of the product. Hong Kong by tradition has been quite nimble in getting around these things."

When the President of the American Chamber in Hong Kong, Warren Williams, was questioned by a Asian Wall Street Journal reporter on their projections, Mr. Williams responded that the "chamber lacks the resources to conduct a study that would account for other factors that could soften the impact on Hong Kong should China lose its MFN status." These new studies by private analysts need to be taken into account before relying upon the exaggerated estimates currently circulating among Members of Congress.

Hong Kong and US business interests have focused upon the necessity for unconditional renewal in the public debate and have dismissed the imposition of conditions as too constraining on business planning cycles. In reality, the effects upon Hong Kong and American businesses of imposing conditions on MFN will be negligible if not non-existent. The Chinese authorities will meet reasonable conditions in order to preserve MFN.

As to restricting a company's ability to make business cycle decisions, it is important to remember that the waiver of the Jackson-Vanik Amendment, which must occur in order for China to continue to receive MFN status, is extended on an annual basis by the President and reviewed by the Congress. There are no guarantees that it will be extended, and in fact, there are precedents for revocation based upon human rights. It is a business risk to establish operations in communist countries, and one that business now faces as the Chinese authorities continue their repressive policies.

Furthermore, we believe that the business community, in focusing their concerns on the "crisis of confidence" that will occur if revocation or imposition of conditions is enacted, has set their sights on the wrong target. The crisis of confidence was triggered by the Tiananmen massacre and is reinforced by Beijing's continuing political repression and orthodox Marxist policies. To restore confidence in Hong Kong, one must look for ways to encourage a change in Beijing's policies. Measures that do nothing to challenge the present developments in China but rather focus on maintaining business as usual in the short term most assuredly will not restore confidence in Hong Kong.

IMPACT ON SOUTHERN COASTAL CITIES EXAGGERATED

It is indeed ironic that private corporate interests are forced to invoke arguments that they are just trying to protect the small entrepreneurs of Southern China in their bid to see that unconditional renewal of MFN is continued. In fact, small busi-

nesses have little to do with foreign trade since the Chinese Government prohibits businesses from engaging in direct trade with foreign countries unless they are totally or partially foreign funded. The bulk of trade is carried out by state-owned trading companies, even in Guangdong. Exportable products of small businesses are in most cases purchased by those companies at prices set by the government. The trading companies then sell the products on the world market. The price differential leads to big profits for the state-owned companies, not the small businesses.

There are a number of firms in the coastal areas funded by foreign capital, including joint ventures, processing businesses and compensation trade companies. They are primarily businesses from Hong Kong, processing raw materials or semifinished goods for export to Hong Kong for further processing or packaging. As labor in China is very cheap, the value added portion of the final products are very small. Considering the wage differential between Hong Kong and China, one can not help but wonder how much profit these firms make. Even the perceived threat to those profits has set off a highly financed lobbying campaign. As noted above, we feel that the doomsday scenarios of private corporate interests are overstated and even if faced with revocation, which they are not, adjustments would be made which would soften the impact of any tariff increases.

TRADE

In 1990, the US trade deficit with China was \$10.4 billion and this is expected to grow to \$15 billion by the end of this year. It is already up 17% from this time last year. As a result of an austerity policy and in order to recoup foreign exchange losses in the aftermath of Tiananmen, the Chinese Government has dramatically increased exports while limiting, and in some cases banning, imports. This policy promotes exports at the expense of the Chinese people. Products that would otherwise be destined for the Chinese market are hard to find, and when found, carry exorbitant prices. Furthermore, trade barriers severely limit Western business investment in China and restrict, far beyond the level of the 1980s, ordinary people's access to technology and ideas.

The foreign trade system in China has also led to tremendous profiteering. It is well-known that the families of high level officials have a disproportionate share of jobs related to the export of goods. This is particularly true of weapons sales.

UNCONDITIONAL RENEWAL WILL LEAD TO REVOCATION

Critics of conditional renewal assert that revocation will result should China decide not to meet the conditions. Alternatively, we submit that it is unconditional renewal that will lead to revocation. Once the Chinese authorities are put on notice that the US will not hold them to the same human rights standards required of other countries, they will have no reason to reform. As a result, their abuses will continue; US public opinion of China will continue to deteriorate and calls for complete revocation will gain strength. This, in fact, is what has occurred during the past year.

Some argue that MFN is a club and that other avenues should be pursued in dealing with US concerns about proliferation, forced labor and trade. We agree that all remedies available under US law should be pursued in seeking solutions to these serious problems. However, these efforts should complement, rather than substitute, the leverage that MFN provides in dealing with human rights issues.

CONCLUSION

In the final analysis, in addition to human rights concerns, emigration restrictions, proliferation of weapons and weapon technology, trade imbalances, piracy of American technology and forced labor, you must think of America's responsibilities as leader of the free world. How best can a democratic nation encourage democracy in China?

Imposing human rights conditions on the continuation of China's MFN status is a modest but important step. It is not severe or drastic as business interests try to argue; it is not revocation; it does not isolate China but rather engages China in an important dialogue, the result of which will be to bring China closer to the community of nations. The United States should play a leading role in championing the rights of people not just of sovereignty.

Wang Juntao, a founder of the independent think-tank Social and Economic Sciences Research Institute in Beijing, and an editor of its journal "Economic Weekly," was sentenced to 13 years in prison after a secret trial in which he was convicted of counter-revolutionary propaganda and agitation and conspiring to overthrow the

government. His wife, Hou Xiaotian, who was also arrested but has subsequently been released, in a special appeal to the West has the following plea:

Your interest in our plight is a call for justice, a solid example that people still stand up for international laws and human rights . . . When I was discharged from prison and found that no one [in China] dared speak up for Wang Juntao and Chen Ziming, I decided to do it myself. It was like throwing a pebble into the water and watching the ripples spread. I just cannot let the issue of Juntao's detention disappear without trace and then let him be secretly sentenced . . . I realize that I can do very little on my own . . . I feel so helpless and frustrated because I find myself alone facing an overwhelming Chinese government . . . We should try our best to save Wang Juntao and others who are now suffering and are imprisoned, by raising objections to the repressive policies of the present government. To remain quiet is equal to silently endorsing their policies . . .

We ask Members of Congress to heed the words of Hou Xiaotian and support the Chinese people in their quest for human liberty. America and its democratic system is a beacon of hope to millions of Chinese citizens, poignantly evidenced by the Goddess of Democracy, fashioned upon your own Statue of Liberty.

Our hopes and dreams lie in our own land. We are not here before you to seek punishment for those who committed egregious sins against their own people, rather, we seek your assistance in pressuring the Chinese government, unresponsive to the pleas of its own people, to seek the release of those who are today still suffering.

June 19, 1991.

To: Members of Committee on Finance United States Senate.

Dear Senator: We are students and scholars from China who are now living in exile in the United States. Some of us in the past have served as senior advisors to the Chinese government. Others of us have served as leaders at universities both in China and the United States. All of us are deeply committed to human rights, democratic freedoms, and economic progress in our homeland.

We are writing with regard to most favored nation trade status (MFN) for China. It is our position that human rights and freedom in China can best be promoted by establishing conditions related to human rights improvements as a prerequisite or extension of MFN in the future.

Specifically, we support legislation introduced by Representative Nancy Pelosi which would establish several conditions for improvement of human rights in China which must be satisfied for MFN to be again extended in June of 1992.

For the reasons set forth below, we urge you to carefully consider support for Representative Pelosi's bill. We think it important that the government and people of the United States speak with one voice on this issue of critical importance to the future of China.

First, our goals, like yours, are to achieve respect for human rights, democratic freedoms and economic progress. We have no desire *per se* to restrict economic relations between the United States and China. We are convinced, however, that at this time establishing conditions for the renewal of MFN in 1992 represents the only credible approach to achieving our shared goals.

Second, events of the last two years demonstrate that the current regime does respond to concerns expressed by the United States when those concerns are backed up by the prospect of economic sanctions. The mere debates over MFN in 1990 encouraged the release of some political prisoners, yet thousands remain in prison only because of their peaceful support for democracy.

Third, we are convinced that conditional renewal of MFN as the Pelosi bill proposes would provide reform elements in the government, the army and the provinces with greater opportunities and authority in internal debate regarding China's future and government practices related both to human rights and economic freedom. At this critical juncture, it is very important that the reformers have greater strength and authority to argue for freedom.

Fourth, the specific requirements which the Pelosi bill would establish are carefully crafted to in fact encourage the Chinese government to take specific actions in order to ensure extension of MFN in 1992. In our judgment, China can, should and will meet these requirements.

Finally, we are convinced that the United States is in the unique position to strongly encourage concrete actions to achieve greater freedom in China. The Chi-

nese people have great respect for the democratic traditions of the United States. There is no greater evidence of this than the symbol of the Goddess of Democracy which brought such hope and determination to the millions of our people who participated peacefully in demonstrations throughout China in 1989. On the second anniversary of the tragedy of Tiananmen Square, the hopes and aspirations of the people of China can be renewed. A clear indication of the commitment of both the President and the Congress to democracy in China can be the source of this renewal of hope.

With deep humility, we respectfully appreciate your consideration of our views.

Respectfully,

- CHEN YIZI, *Former Senior Advisor to Zhao Ziyang; Former Director, Institute for Reforms of Economic System of China; President, Center for Modern China*
- ZHU JIANGMING, *Former Deputy Director for International Research, Chinese International Trust & Investment Corporation (CITIC); Chairman, Board of Directors, Federation for Democratic China (FDC); Visiting Scholar, Harvard University*
- WAN RUNNAN, *Former President, Stone Corporation (private company in China during decade of reform); President and founding Board Member, FDC*
- YAN JIAQI, *Former Advisor to Zhao Ziyang; Former Head of the Institute of Political Science, Chinese Academy of Social Sciences; Founding President, FDC*
- GAO XIN, *Former lecturer, Beijing Normal University; Hunger Striker, 1989 Tiananmen Demonstrations; Fairbank Center, Harvard University*
- SHEN TONG, *Former Student at Beijing University; Student Leader in 1989 Tiananmen Demonstrations; President, Democracy for China Fund*
- XU XIAOKANG, *Famous Chinese writer most known for television series "River Eulogy"; Chief Editor, Democratic China*
- ZHANG LONGLONG, *Writer; political prisoner for 11 years; Board of Directors, FDC*
- LI LU, *Student, Nanjing University; Hunger Striker and Deputy Commander of the 1989 Tiananmen Demonstrations; Vice President, China Human Rights Fund*
- CHEN XINGYU, *Ph.D., University of Wisconsin; President, Independent Federation of Chinese Students & Scholars (IFCSS)*
- HU PING, *Participated in 1979 Democracy Wall Movement in China; Ran for elected office as a people's representative in Beijing; Past President, Chinese Alliance for Democracy (CAD);*
- YANG GUANG, *Ph.D., Harvard University; Board of Directors, FDC; Member, IFCSS*
- ZHAO HAICHING, *Ph.D., Harvard University; Chairman, National Committee on Chinese Student Affairs of the IFCSS*
- LUO ZHEXI, *Ph.D., Harvard University; Member, IFCSS*
- PEI MINXIN, *Ph.D., Harvard University; Member, IFCSS*
- XU WEI, *Writer; Visiting Scholar, Princeton University*
- XU SIKE, *Ph.D., Stanford University; Vice President, FDC*
- DAVID MA, *Attorney, Los Angeles; Board of Directors, FDC*
- WANG HAO, *Board of Directors, FDC*
- LAIO TIANQI, *Board of Directors, FDC*
- QIAN HAIPENG, *Board of Directors, FDC*
- XU GUANGFAN, *Board of Directors, FDC*
- YANG ZHONGMEI, *Board of Directors, FDC*
- LI KEWEI, *Board of Directors, FDC*
- LI JIAN, *Board of Directors, FDC*
- YANG XI, *Board of Directors, FDC*
- WU CHUNMENG, *Board of Directors, FDC*

PREPARED STATEMENT OF SENATOR ALAN CRANSTON

Mr. Chairman, Members of the Committee, I thank you for the opportunity this morning to testify before you on the pressing issue of whether or not to renew the People's Republic of China most-favored-nation trade status.

My reasons for introducing a resolution of disapproval were many. First, I have been deeply concerned about reports concerning the deteriorating human rights sit-

uation in China and Tibet since the massacre in Tiananmen Square when tanks rolled over the Democracy Movement. Second, I have been concerned that the Chinese are continuing to export missiles and to provide nuclear and chemical weapons technologies to the Middle East. Third, I have been concerned about Chinese efforts to destabilize Southeast Asia by continuing to provide arms, reportedly including tanks, to the Khmer Rouge in Cambodia. Fourth, I think we have all become concerned about the growing trade deficit with China, of Chinese use of slave labor to produce goods exported to our country, and violations of American intellectual property rights.

I believe it of national importance that we debate these issues in the Senate and thus I introduced my measure to ensure that such a debate occurred this year.

For the past two years, my Subcommittee on East Asian and Pacific Affairs of the Foreign Relations Committee has held hearings on Sino-American relations. Last year's hearings focused mainly on the serious lack of improvement in China's human rights conditions. This year's hearings covered a wider range of issues, including trade problems and weapons proliferation, reflecting the lack of Chinese responsiveness to international concerns.

The testimony I have received confirms my view that there is much that China could do and should do if it wishes to receive special trading privileges.

In the past we have condemned Chinese behavior but have failed to use our leverage to extract concessions. They know that names will never hurt them. Deng Xiaoping's words after the 1979 arrest and trial of the Democracy Wall activist continue to echo loudly, "We arrested Wei Jingsheng and put him behind bars and the democracy movement died. Even though we haven't released him, it didn't tarnish our image abroad."

It is time to take whatever steps are necessary to cause China to make firm commitments and to take immediate actions—if they want trade concessions from us. The time for promises is past.

China's atrocious human rights record confirms how little their behavior has changed despite international condemnation:

- extrajudicial killings continue
- torture and ill-treatment of prisoners continue
- arbitrary detention of individuals who peacefully exercise fundamental human rights
- unfair trials characterized as "verdict first, trial second"
- thirteen year prison sentences for the two Chinese intellectuals, Wang Juntao and Chen Ziming, accused of masterminding the 1989 protests
- harassment of prisoners once released continues
- the use of slave labor in China's gulags for the export of goods to the United States.

The Chinese response to these charges has been to ignore, deny or belittle their importance.

China's record on weapons proliferation is dismal. Throughout the 1980s China secretly provided weapons to South Asia, South Africa, South America, and the Middle East. These arms transfers, including nuclear and chemical weapons technologies, have undermined world security and international efforts to control the proliferation of weapons of mass destruction.

Most recently, China has reportedly arranged sales of M-9 and M-11 missiles to Syria and Pakistan. Both are capable of delivering nuclear warheads distances ranging approximately between 200 and 400 miles. China has also transferred to Saudi Arabia CSS-2 missiles with a 1,500 mile range and with a nuclear payload capacity.

At the same time China has been secretly aiding Algeria develop a nuclear facility since the mid-1980s according to Administration testimony before my subcommittee but it was only on April 30th, after the press disclosed the existence of this program, that the Chinese acknowledged their involvement.

We have repeatedly told the Chinese privately and publicly to halt their efforts to export weapons of mass destruction to little avail. The world may pay a stiff price for its stern talk but weak action.

We have been down that road before . . . with Iraq—and with grievous consequences.

When the issue was raised about imposing sanctions against Iraq before its invasion of Kuwait, the State Department testified, "You attempt to remain engaged, to argue, to dissuade, to bring moral pressure to bear. Sanctions would not improve our ability to exercise the restraining influence." On June 12th, Secretary Baker testified that missile sales are "one of the reasons we say it is important to remain engaged with the Chinese and not cut them off."

Time and time again the Administration has expressed its concern about Chinese military sales. Time and time again Chinese merchants of death have returned to the world marketplace.

Why?

As Dr. Gary Milhollin of the University of Wisconsin testified before my Subcommittee, "China is motivated mostly by money. Its leaders understand profits and losses. If they can make more money by selling nuclear and missile technology to developing countries than they will lose from penalties imposed by the United States, they will continue to sell the missiles. Like any good businessman, they will maximize their profits. To change China's behavior, we have to make China lose more in U.S. trade than it will gain by selling weapons of mass destruction."

I know the issue of trade is of particular interest to this Committee. Over the past five years, we have watched our trade deficit with China rapidly increase. China's trade surplus with the United States has grown from \$3.5 billion in 1988 to \$10.4 billion last year. Some predict it will increase to over \$15 billion this year, making China second only to Japan as our largest deficit trading partner.

When we established relations with China, American businessmen dreamed of discovering a market of over a billion people for their goods. Ironically, it is Chinese businessmen who have discovered the dream of the American market. Much of the trade we have had with China has been disadvantageous to us. The United States Trade Representative reported in April that China failed to provide adequate and effective protection of intellectual property rights.

Two prominent American companies, IBM and Disney, have been victims. Disney has withdrawn from China as a result of copyright infringement. Chinese companies have sold computers using a false "IBM" trademark. Lotus, a Massachusetts computer software company, has also been a victim of pirating.

The International Intellectual Property Alliance, a coalition of firms involved in publishing, films, recorded music and computer software, estimates the value of U.S. property boldly copied and blatantly resold in China in violation of trade practices at \$418 million.

It is time to end China's free-ride on American know-how.

In the final analysis what we are asking from China is no more, nor no less, than the type of responsible behavior in human rights, in security, and in trade that is to be expected from any nation that is an accepted member of the civilized international community.

We are not asking China to abide by American standards or Western standards, but by international standards. These are standards established not to hurt nations but to help and protect them.

If China does not want to live up to these standards, it should understand it will be treated as a pariah nation. A vote against most-favored-nation status sends a clear warning to China about the consequence of further intransigence,

I urge the Committee to send that warning.

PREPARED STATEMENT OF LAWRENCE S. EAGLEBURGER

Mr. Chairman and Members of the Committee: I appreciate the opportunity to appear before you today to discuss the President's decision to renew the waiver necessary to extend China's most-favored-nation (MFN) trade status for another year. The renewal decision has again provoked an intense debate in the Congress, not only about the appropriateness of granting MFN, but also about U.S. policy toward China generally. This is understandable. Even the passage of two years cannot erase the terrible images of Tiananmen Square—the sight of tanks and troops advancing on unarmed students whose only "crime" was to seek the freedom of peaceful political expression that we take for granted. The United States will always condemn this kind of violence—in China or anywhere else in the world.

There should be no misunderstanding about U.S. policy toward China. The promotion of fundamental human rights is and will persist as a cornerstone of that policy. Top Administration officials, from President Bush and Secretary Baker on down, have stated this forcefully and repeatedly to senior representatives of the Chinese Government. The President was the first major world leader to condemn the crack-down at Tiananmen, and promptly indicated that, in such circumstances, there could be no "business as usual" with the Chinese. The United States today remains alone among Western democracies in maintaining its Tiananmen sanctions against China and in refusing to restore normal relations until China makes substantial progress in addressing our human rights concerns. Without question, we have taken the strongest measures against China of any country in the world.

We do not accept, therefore, the premise that what is at stake in the MFN debate is the Administration's concern for human rights in China, or its desire to promote democratic reform. All Americans—in the Administration, the Congress, and the public at large—are in agreement on these matters, as we are on the need to seek a stronger commitment from the Chinese on nonproliferation and on fair trade. The real issue, of course, is how we achieve these objectives. Our debate should focus, as President Bush stated recently at Yale, on selecting "a policy that has the best chance of changing Chinese behavior." We firmly believe that renewing China's MFN waiver—without conditions—provides our best instrument for promoting positive change and U.S. interests in China.

I would like to address first the legal requirements for renewing the Jackson-Vanik waiver and why China meets those requirements. Second, I will explain why MFN for China should not be conditioned on issues outside the scope of the Jackson-Vanik Amendment. Third, I will discuss why it is in the interest of the United States to renew MFN for China. Finally, I will discuss some of the primary issues of concern to us in our relations with China—human rights, weapons proliferation, and unfair trading practices. Each of these issues goes beyond the legal standard for determining MFN eligibility. The United States is aggressively addressing these issues, and we believe it is counterproductive to link them to the MFN decision.

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

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

The Chinese Government continues to permit its citizens to emigrate to the United States and elsewhere. In fiscal year 1990, approximately 17,000 U.S. immigrant visas were issued in China, the full number permitted by the United States. In addition, approximately 625,000 Chinese citizens traveled abroad in 1990, with the issuance of almost 280,000 new passports for private travel. Nonimmigrant visas for travel to the United States by students and tourists totaled over 24,000, up 29 percent from last year. We are aware of a small number of individuals who have been denied permission to travel abroad—apparently because of the political activities of their relatives in the United States. We are pressing this issue at senior levels within the Chinese Government. But such cases appear to be the exception, not the rule, and most relatives of dissidents have been able to leave China.

Continuation of MFN status for China will help to preserve the gains already achieved on freedom of emigration and encourage further progress in the future. MFN status provides an important incentive for the Chinese to permit emigration and promotes the very contacts that have helped foster economic and political reform in China. In our view, there is simply no doubt that China's emigration policy meets the objective of the law on MFN status. While that judgment might end the debate under most circumstances, we recognize that in this case it does not. Let me turn, therefore, to why the extension of MFN makes sense in the context of our overall China policy.

II. MFN FOR CHINA SHOULD NOT BE CONDITIONED ON ISSUES OUTSIDE THE SCOPE OF THE JACKSON-VANIK AMENDMENT

I would urge at the outset that the Congress resist the temptation to seek a middle-ground solution by extending MFN with conditions. We believe such a solution to be illusory and a recipe for failure. Throwing down the gauntlet with a public ultimatum on MFN—indeed, one specific to China—would only make it easier, not harder, for conservative Chinese leaders to claim that national honor and sovereignty precluded any concessions. Our credibility would then require us six months or one year from now to terminate MFN if China failed to meet each and every condition imposed.

Let us be honest with ourselves. Let us confront today the real issue which the debate on conditionality would only delay for a short period of time—namely, whether to extend MFN on its own merits and without conditions, or to terminate it now.

As I will explain, the Administration supports the extension of MFN because it believes that an open China is key to our eventual hopes for a more democratic China. MFN has become over the past 11 years an underlying structural component of our relationship, which has facilitated our ability to engage the Chinese on a broad range of issues and has allowed us selectively to apply sanctions targeted to

our specific differences. MFN itself is simply not the vehicle we should use to exert pressure on the Chinese with regard to particular issues. To place conditions on MFN would hold our single most powerful instrument for promoting reform hostage to the reactions of the hardliners in Beijing.

In short, the Administration fervently believes that MFN is of fundamental value in promoting positive change in China. That fundamental value will not change six months or one year from now, and that is why we also fervently believe that MFN should be extended without conditions.

III. IT IS IN THE INTEREST OF THE UNITED STATES TO EXTEND MFN TO CHINA

The phrase "most favored nation" is, of course, something of a misnomer. MFN is not a special or privileged status granted only to America's closest friends. It is the normal basis for trade throughout the world, and the United States currently denies it to less than a dozen countries. Even many countries with whom we have profound differences and against whom we impose broad trade sanctions—such as Iran, Iraq, Libya, and South Africa—retain MFN status. And, in fact, all Western democracies extend MFN to China. None has proposed to withdraw it because of bilateral political differences.

MFN is not only good trade policy, it also facilitates the development of a broad range of relations with a foreign country. This has been the case with China.

Prior to our opening of relations with Beijing, we had sought for two decades to isolate the Chinese economically and politically. We had virtually no trade with China, few social or political contacts, and almost no ability to influence its policies. What we experienced was a repressive China, a country turned inward and pursuing an agenda on regional issues distinctly against our interests.

President Nixon's historic decision to end the long period of confrontation in U.S.-China relations began the process of bringing China out of isolation and into the modern world. It also enabled us to begin to discuss with the Chinese issues of mutual concern. But it was not until President Carter extended MFN to China in 1980 that our relationship accelerated and we truly began to engage the Chinese on a wide range of issues. The granting of MFN also profoundly increased our access to Chinese society and our impact on economic and political reform within the country.

In 1980, China was still recovering from the ravages of the Cultural Revolution. The brief "Democracy Wall" period had just come to a crushing end with the arrest and trial of hundreds of Chinese who had voiced only the mildest appeals for greater freedom. China was then, despite some modest stirrings of reform, a truly totalitarian state. The economy was in the grip of central government planners. The masses in China were locked in a repressive social and political order, reinforced by the material poverty of daily life. People longed for such basic necessities as meat and vegetables, not to mention modest consumer goods such as radios or bicycles. With rare exceptions, the Chinese people had no right to travel, no right to pursue a career of choice, and no right to worship.

Despite these conditions, the Carter Administration and the U.S. Congress approved MFN for China in 1980, not as a reward for its human rights performance, but in order to demonstrate the benefits of trade and commerce, to expose the Chinese to Americans and American institutions, and to encourage a process of economic reform that China's post-Mao leadership seemed intent on pursuing. The decision to grant MFN and to pursue a policy of engagement at a time when Chinese human rights practices were worse than they are today has helped to stimulate changes within China which few would have thought possible over a decade ago. China began to dismantle its inefficient, centrally planned economy and allow more economic freedom. The Chinese welcomed foreign investment and expertise. Factory managers and workers gradually gained control over their enterprises and, for the first time, received profit incentives. And peasant farmers benefited from the decollectivization of agriculture and permission to sell farm output at market prices.

Between 1978 and 1990, the Chinese economy grew at an average annual rate exceeding 8 percent, a pace commensurate with the growth rates of the four Asian "tigers"—South Korea, Singapore, Taiwan, and Hong Kong. As a result of market-oriented reforms, the percentage of industrial output in China produced by state-controlled enterprises dropped from nearly 80 percent in 1980 to about 54 percent in 1990. Chinese exports to the West, and imports from the West, increased dramatically, as Chinese firms responded to market incentives.

But trade has represented much more than just a series of financial transactions between our two countries. During the past decade, commerce has served as a vital force for change in China. It has led to a phenomenal improvement in living standards for hundreds of millions of Chinese citizens. It has also been a primary channel

for contact between Americans and Chinese, and for the sharing of the ideas and values that have contributed to progressive developments within China. We have seen—and contributed to—the emergence of a new generation of Chinese entrepreneurs, managers, technicians, and consumers, all with expectations that ultimately cannot be contained within China's authoritarian political institutions.

China has now entered the information revolution and will never be the same again. Despite sporadic and uneven jamming, tens of millions listen daily to the Voice of America and other foreign radio services. Awareness of Western ideas and concepts has spread from small groups of the intellectual elite to the bureaucracy, the urban workforce, and even the rural population. It is these very forces of reform that generated the pressures which exploded in Tiananmen Square two years ago.

There is no doubt that MFN has played a vital role in building this momentum for change. In large part because of MFN, vast regions of eastern and southern China now depend on export markets. Approximately 15,000 enterprises in south China do export assembly work for Hong Kong. In Guangdong Province alone, over 2,500 Hong Kong enterprises have established export production facilities. Foreign joint ventures in China now number over 21,000, with foreign investment commitments of nearly 40 billion dollars. A decade ago, China took pride in its economic self-reliance. Today, it is a part of the web of global economic interdependence, with a greater incentive to adopt market reforms and a greater stake in world stability.

Denial of MFN would inflict serious harm on those within China—whether they be students, intellectuals, workers, managers, or even government officials—who continue to struggle for reform and for a China open to the outside world. It would hurt those segments of the Chinese economy that are the most dynamic, the most Western-oriented, and the most committed to the market place. It would severely damage the economic base of those forces generating pressure for further reform. In short, it would visit harm upon innocent millions of Chinese who now look to the United States for support.

There have been, of course, other beneficiaries of our MFN relationship with China. Our own business community has benefited from China's rapid growth during this period of reform. In 1990, U.S. companies exported approximately 5 billion dollars of goods to China—commercial aircraft to serve the burgeoning tourism and domestic travel markets, grain to supplement China's domestic production, fertilizers to help boost agricultural productivity and crop diversification, timber to support the construction industry, and a host of other U.S. products. These U.S. exports account for over 100,000 American jobs, and U.S. sales to China—if MFN is continued—are likely to rise significantly as the Chinese shift from the economic austerity imposed for the past two years to the economic expansion expected in the coming year.

Americans also benefit from the imports that we receive from China. Today, Chinese manufacturers are among the leading suppliers in the United States of inexpensive footwear, children's clothing, toys, and low-cost adult apparel. Withdrawal of MFN would increase tariff rates on both sides of the Pacific by as much as ten times, with damaging consequences for U.S. exporters, U.S. investors, and U.S. consumers.

Beyond the devastating effect on our commercial relations with the PRC, withdrawal of MFN would have a severely negative impact on Hong Kong, where the United States also has important economic and political interests. The Hong Kong Government has estimated that approximately 43,000 jobs—which represents 1.5 percent of Hong Kong's labor force—as well as 1.2 billion dollars in income would be lost in the first year alone if MFN is denied. This would only contribute further to the decline of confidence in Hong Kong that has occurred since the Tiananmen crackdown.

The way to deal with our problems with China is not to dismantle the structure that has opened up that country to us and contributed to a decade of growth and higher living standards. Once undone, the rebuilding of our commercial relationship with China would be a long and difficult process, especially as other countries would be quick to fill in behind us. We must seek, instead, to preserve the linkages that we have painstakingly forged with the Chinese over the past decade.

As President Bush recently stated: "No nation on Earth has discovered a way to import the world's goods and services—while stopping foreign ideas at the border." In our view, a free economy will inevitably bring with it a free society. We need to keep faith with the people and the process of reform in China—including future generations of its leaders who remain committed to moving Chinese society forward. Our efforts to maintain strong economic and commercial relations are among the policy instruments at our disposal for keeping that faith.

IV. THE ADMINISTRATION IS AGGRESSIVELY ADDRESSING ISSUES OF CONCERN IN U.S.-CHINA RELATIONS

All of this is not to minimize the substantial problems that we have with certain Chinese policies and practices. Both you and we are frustrated by the reluctance of China's leaders to take all the steps necessary to heal the wounds inflicted by the brutal crackdown at Tiananmen two years ago. Until they do, there will be no "business as usual" in our relationship with China.

Since the tragic events of June 1989, we have sought, by exercising a mix of incentives and constraints, to establish a process of interaction with the Chinese in which each side could address the other's concerns, so as to arrest the steep decline in our relations. The results of our policy, to be quite candid, have been less than we would have liked. It is seldom otherwise in foreign affairs. But there has been tangible movement in a positive direction. It is simply wrong to assert, as some have done, that the overall situation in China is worse today than two years ago.

Let me briefly review some of the positive developments, many of which address issues that we have raised with the Chinese:

- The Chinese Government lifted martial law in Beijing in January 1990, and in Lhasa in May 1990.
- Various reports indicate that the majority of those detained in the 1989 crackdown have been released.
- Of those who demonstrated in Beijing, about 100 have been convicted on purely political charges. Most sentences were light by past Chinese standards, though a few exceeded 10 years. Of course, no prison sentence for nonviolent political activity can be considered lenient.
- Fang Lizhi and his family were permitted to leave China without incident in June 1990, and Fang is now residing in the United States.
- Chinese authorities have accredited a Voice of America correspondent. Tens of millions of Chinese are able to listen to VOA's Chinese Mandarin broadcasts, despite partial jamming.
- The Chinese have resumed both the Fulbright Scholar exchange program and the USIA International Visitor program, and are discussing with us the starting of a Peace Corps program in China by late 1992.
- Chinese leaders have made firm commitments to stop any export of prison labor products to the United States.
- And China's leaders have now accepted the legitimacy of international concern about their human rights practices. Our Assistant Secretary for Human Rights and Humanitarian Affairs went to China this past December for 16 hours of frank talks with senior Chinese officials. The Chinese are also engaging in such a dialogue with Members of Congress and with leaders of other Western governments.

China's human rights record, however, remains deplorable. The stifling of peaceful political dissent, the lack of judicial due process, the lengthy sentences of some on political charges, the restrictions on religious activity, incidents of abusive implementation of birth control regulations, the use of excessive police force against Catholics and Tibetan protestors, and the brutal crushing of the Tiananmen demonstrations, have all drawn deserved condemnation from around the world. We will continue to seek improvements across the board, with particular focus on areas of key concern to the American people:

- We need to know more about the fate of those detained in 1989, as well as others imprisoned for political reasons before and since the Tiananmen tragedy.
- We will press for the release of the small number still in pretrial detention, and for commutation of the sentences of those already convicted on political charges.
- We will continue pressure to end the illegal jamming of VOA's Mandarin broadcasts.
- We will pursue the dialogue we have initiated on changes in Chinese laws and judicial practices, so as to bring them into conformity with internationally recognized standards.
- And we shall continue to advocate universal standards of human rights as embodied in the Charter of the United Nations, to which China is a signatory.

We are also doing more than simply talk. Until we see sufficient effective action to address our concerns, we will continue to impose the sanctions that we alone—unlike every other Western democracy—have sustained since 1989. Indeed, today we maintain more sanctions than any other nation against China for its human rights violations.

- We have ceased all but the most essential bilateral visits by senior officials.

- We have terminated our military relationship, including stopping work on all weapons programs, cutting off all high-level military exchanges, and denying export licenses for equipment intended for use by the Chinese military or police.
- We have stopped supporting multilateral development bank loans to China, except for those that provide for the basic human needs of the Chinese people.
- We have suspended grants from our Trade and Development Program and halted new activities of the Overseas Private Investment Corporation.
- And we remain opposed to restarting talks within COCOM on liberalizing controls on high-technology exports to China.

This combination of frank dialogue and specific sanctions is producing tangible results. Progress has not been rapid, but it is coming. However, if we were to terminate MFN for China, we would remove an essential incentive for the Chinese to continue our dialogue on issues of concern and would undermine the modest progress we have begun to make.

Turning to the issue of weapons proliferation, we are certainly disturbed by reports of nuclear and missile technology and equipment transfers that would be in violation of internationally accepted guidelines. The Chinese did, however, participate for the first time as an observer at the Nuclear Nonproliferation Treaty Review Conference last August, and we are pressing them to join the Nuclear Nonproliferation Treaty. When we recently raised concerns about China's nuclear cooperation with Algeria, the Chinese Government agreed to assist in bringing this cooperation under IAEA safeguards, and they have provided technical information to the IAEA. Although we still have not reached agreement with the Chinese on specific guidelines for the export of missile technology and equipment, they have acknowledged our concerns. They are engaged in constructive discussions with us on nuclear proliferation in South Asia, and they will be joining us and other major arms suppliers in seeking to control the flow of destabilizing weapons to the Middle East. China is also participating in multilateral efforts to ban chemical weapons.

Nevertheless, the Administration is taking a number of steps to underscore our nonproliferation objectives. In April, the President refused to approve licenses for the export of certain U.S. satellite components to China. The President has also announced his intention to ban the licensing of technologies and equipment for export to any Chinese company found to exceed international standards in the transfer of missile equipment. This past Sunday, the White House imposed sanctions against two such firms. At the same time, the President approved limits on the sale of high-speed computers to China and indicated that he would not waive sanctions on the transfer of U.S. satellite technology to China.

In short, we are working with the Chinese to strengthen commitments in the areas of nuclear, chemical, and missile nonproliferation. During the recent visit to Beijing of our Under Secretary for International Security Affairs, the Chinese told him that they intend to pursue a dialogue with us aimed at developing common approaches to the proliferation of weapons of mass destruction, including surface-to-surface missiles. By engaging the Chinese, we are seeking to draw them into the emerging multilateral framework for controlling the sale and supply of such weapons.

We also have grievances with the Chinese in the trade area. We have noted with increasing concern the growth in the bilateral trade deficit—to over 10 billion dollars in 1990—as China has expanded certain barriers to imports under its economic austerity program. Similarly, we remain concerned about the piracy of U.S. intellectual property in China and the slow pace of improvements in intellectual property rights protection. Both market access and intellectual property rights are at the top of our economic agenda with the Chinese, and we are pursuing a vigorous dialogue with Beijing on these issues. A U.S. delegation, led by an Assistant U.S. Trade Representative, was recently in Beijing to discuss trade problems with senior-level economic officials of the Chinese Government.

Once again, we have taken specific steps to deal with the Chinese on these issues. The President recently authorized the designation of China under the Special 301 provisions for violation of U.S. intellectual property rights. A formal investigation of Chinese practices is underway and trade action could follow in six months if progress is not forthcoming. We have similar broad authority to use in pressing for market access improvements, should that become necessary.

The fact of the matter is that we have the necessary policy instruments to address aggressively and in a targeted fashion each of the issues of concern to us—and we are doing just that. The granting or denial of MFN does not relate directly to any of these problems. Even on the issue of our trade deficit, no economist to my knowledge has ever suggested that MFN status can be the cause of such a deficit, or that its denial would solve the problem.

We remain convinced that denying MFN to China would not put pressure on the Chinese to change their behavior in specific areas. Instead, it would undercut our ability to engage them and thereby influence their actions. Withdrawal of MFN would impose a broad, blunt sanction on the Chinese people, punishing equally and indiscriminately the progressive entrepreneurs and the ideological hardliners. We advocate instead the continuation of selective application of pressure directly on the issues and people of concern to us. To borrow an analogy from the military, we should use "smart" instruments targeted on specific problems with China, rather than an instrument of indiscriminate effect, such as MFN.

V. CONCLUSION

This is the second year in a row I have testified before the Congress in support of the President's decision to renew MFN status for China. I know that this is an issue of enormous interest and controversy, and I anticipate probing questions from those who do not agree with our position. But this debate is a healthy one, because it shows the Chinese both how our democracy works and how concerned we all are with the human rights situation in that country.

Our concern with human rights in China and whether MFN should be conditional on progress in that or other areas has been a persistent issue for years. In 1979, the Congress posed that very same issue to then Deputy Secretary of State Warren Christopher, when he testified on behalf of the Carter Administration in support of the trade agreement with China that led to the granting of MFN. In response to that issue, Deputy Secretary Christopher made the following statements:

"[T]his trade agreement does not imply an endorsement of their [human rights] practices or endorsement of their [human rights] policies It was not conditioned on anything. There was no linkage, to use that favorite word, in 1979 [W]e think that the trade agreement stands on its own feet. It benefits both countries. It was not part of a bargain but it was certainly part of the normalizing process which is going on."¹

Those words ring as true today as they did 12 years ago. MFN is not something to be turned on and off as reward or punishment for particular behavior. It is an underlying structural component of the relationship—as much in our interest as that of the Chinese. It makes sense on its own terms, especially when we are dealing with a country as significant as China—the home of over one-fifth of the world's population and a fellow permanent member of the United Nations Security Council.

That does not mean that we can guarantee a fixed amount of progress on human rights or other issues of concern within a fixed time frame. But we are confident that, over time, the forces of an open economy and a free market will prove to be irresistible. Our goal is to remain engaged over the long-term with China in order to foster its return to the path of reform.

As we assess our China policy, we need to keep a better balance between our fascination with the China of the 1970s and today's mood of disappointment and hostility. Scholars of U.S.-China relations have long noted the pendulum swings in public attitudes toward China: the "good China" wartime ally; the "bad China" of the Red guards and revolutionary repression. In the real world, we need to steady ourselves and set a policy that will be durable over time.

Tiananmen was a political explosion ignited by a decade of economic progress. The Government in Beijing contained that explosion—temporarily, we believe—but it cannot shut off the fuel which ignited it. How ironic it would be if we ourselves tried to do just that by forsaking our best tool for promoting China's economic opening to, and engagement with, the outside world. Denying MFN would work against the forces of economic change which themselves contain the seeds of eventual political reform, and it would play into the hands of hardliners who fear precisely such an outcome.

You might ask then why the Chinese hardliners do not seek to end an economic opening which carries such political risks and implications. Some of them would like to do that, of course. But others gamble that China can participate in the world economy, yet maintain indefinitely its antiquated and repressive political system. We believe they are wrong. We believe they will lose that gamble. But let us not make it easy for them by removing the element of choice. Let us not, by default, allow the hardliners to lead China back into an historically familiar isolation from which no good will come.

¹ "United States-China Trade Agreement," hearings before the Subcommittee on Trade of the House Committee on Ways and Means, 96th Cong., 1st Sess., at 110, 115 (1979).

Gao Xin, one of the last four hunger strikers in Tiananmen Square, who spent six months in a Chinese prison, put it well when he wrote recently in *The Washington Post*: "Cancelling MFN would help the hardliners in what they have been unable to achieve on their own—reassertion of control over the non-state and more progressive sectors of China's society and economy."² Put another way, withdrawal of MFN—or even temporary extension under conditions that might not be met—would risk the gains we have made now and can make in the future, and would punish the wrong people, both here and in China. In the end, we ought to decide not on what will express our outrage about human rights or other problems in China today, but on what will continue to permit us to encourage the process of reform in China tomorrow.

RESPONSE OF DEPUTY SECRETARY EAGLEBURGER TO A QUESTION SUBMITTED BY
SENATOR CHARLES E. GRASSLEY

Question. In an editorial from the *Journal of Commerce*, dated June 11, John P. Cregan, President of the Washington-based U.S. Business and Industrial Council made the following statement: "Since receiving MFN Status, the Chinese systematically have closed their home markets, and our exports to China have declined. China arguably is the most egregious violator of patents, trademarks and copyrights. U.S. Trade Representative Carla Hills estimates that China's trademark and copyright infringement cost American businesses \$400 million last year alone.

The Chinese network of slave labor camps . . . well documented and uncontested by the PRC . . . has enabled the country to take advantage of MFN and steadily increase its exports of labor intensive and consumer goods such as textiles, apparel and toys. Clearly, the case against renewing MFN with China could be based on economic grounds alone.

So the question now is this: Absent its human rights abuses or its involvement in nuclear-related exports, should the United States grant an economic outlaw nation the same benefits reserved for favored trading partners such as the United Kingdom?

Answer. The U.S. should continue to trade with China on an MFN basis for many reasons:

- MFN is the normal basis for trade throughout the world, and we deny it to fewer than ten countries. MFN is not a weapon to address inequities in our bilateral trading relationships. Our trade laws serve that purpose, and afford us maximum flexibility in responding to trade frictions. The threat of retaliation, during the course of talks, provides a strong incentive to achieve a positive settlement. Following a decision to retaliate, we can adjust the retaliation or implement it in stages if that will pressure change in the offending country. Withdrawing MFN denies us this leverage and invites counter-retaliation.
- Using Special 301 of our trade law we reached an agreement on January 16, 1992, that commits the PRC to protect American copyrights, patents and trade secrets. This is proof positive that our trade law—not blunt restrictions on MFN—delivers the best results in dealing with China.
- We are applying Section 301 to pursue concerns over U.S. access to China's market. If we are not satisfied with progress in our negotiations, we are prepared to act. In that event, we would target goods produced by the state-run sector of China's economy which engages in the unfair trade practices we seek to eliminate. Withdrawing China's MFN status would be a clumsy and counter-productive alternative to selective retaliation, because it would cause us to punish China's market-oriented export sector, which is not the source of this problem.
- In retaliation, China would likely deny the U.S. MFN duty rates. This would cost American exports and export-related jobs, and place at risk U.S. investments in China valued at \$4 billion. Non-MFN duties on American goods could cause American exporters to lose, to their foreign competitors, sales to China of wheat, aircraft/aerospace equipment, fertilizer, cotton, timber/paper, computers/machinery, and chemicals. U.S. exporters confront stiff competition for sales of these products worldwide.
- Loss of MFN treatment could also result in bankruptcies and job losses for many small importers, manufacturers and retailers who depend upon China as a source for key industrial inputs and consumer products.

² *The Washington Post*, at A23 (June 4, 1991).

- Continued MFN for China is key to preserving U.S. business confidence in Hong Kong, where American investment totals about \$7 billion. Without MFN, confidence in Hong Kong's economy would fall and trigger losses of more than 7,000 jobs and more than one percentage point of GDP growth.
- Loss of MFN would set back efforts to bring about meaningful economic reform in China.

PREPARED STATEMENT OF JOHN KAMM

Mr. Chairman, distinguished members of the Senate Finance Committee:

Thank you for inviting me to testify at these important hearings.

The most complete exposition of an American foreign policy centered on human rights was given by then Secretary of State Cyrus Vance in his Law Day Speech on Human Rights and Foreign Policy in 1977. In responding to human rights violations abroad, Vance outlines three sets of questions which the American government should consider as it determines whether and how to act.

The first set concerns the nature and extent of the violations. Is there a pattern to the violations? Is the trend toward concern for human rights or away from it?

The second set of questions relate to the efficacy of the proposed action. Vance wrote, "Will our action be useful in promoting the overall cause of human rights? Will it actually improve the specific conditions at hand? Or will it be likely to make things worse instead?"

The final set of questions places the proposed action in the context of other national interests. Thus Vance asks "Have we been sensitive to genuine security interests, realizing that outbreak of armed conflict or terrorism could in itself pose a serious threat to human rights? Have we considered all the rights at stake? Do we risk penalizing those who bear no responsibility for the abuses?"

In addressing the matter at hand—that is, whether or not to revoke China's Most Favored Nation (MFN) status as a response to human rights violations—I will concentrate on the second set of questions, and in particular, the question of whether revoking MFN will improve or worsen the human rights situation in China. There is no argument over whether or not the human rights record of the Beijing government is good or even acceptable. It is neither. The argument is solely over what means the U.S. government should adopt to encourage and promote better observance of human rights in China.

I hold that revoking China's MFN status will have the likely result of worsening an already bad human rights situation for three main reasons:

(1) It will effectively sever commercial ties between thousands of American and Chinese enterprises. Through these relationships, Chinese officials and a great many ordinary people have come into contact with America, its people and its values. A senior Chinese official in Hong Kong—a man who continues to display a photograph of the deposed leader Zhao Ziyang as his personal act of defiance to the current leadership in Beijing—once told me: "In considering whether or not to cut relations with China, Americans need to remember what it was that led the students to occupy Tiananmen Square in the first place. In large measure, it was contact with the West, and especially with America."

(2) Revoking MFN will strengthen the position of those in the leadership who seek to return China to isolation and self-sufficiency, the very people most responsible for human rights violations. Here I want to make a point rarely made: there are actually quite a few Chinese officials who would like America to revoke MFN. Such a move would play directly into their hands: it would undermine Hong Kong and damage the coastal regions where reform is most advanced, and, best of all, the United States would be seen as the perpetrator. As recently as two weeks ago an individual with Vice-Minister rank, a known hardliner, suggested to me in the presence of others that unless America "eased up" China might take the dramatic step of renouncing MFN in the American market (as Ceausescu did in 1988) and revoking America's MFN status in China.

(3) Finally, revoking MFN will disproportionately damage those parts of China whose leaders best handled peaceful dissent and where the human rights situation, while by no means perfect, is relatively the best.

If China loses its MFN status, three places will suffer the great bulk of the immediate damage: Guangdong Province, Fujian Province and Shanghai Municipality. Nearly two-thirds of China's industrial output of joint ventures and private enterprises is produced by Guangdong, Fujian and Shanghai (see attached table). As much as 20 percent of Guangdong's Gross Domestic Product is presently devoted to

the production of goods for the American market, compared to a national GDP dependence of four percent. I estimate that fully half of the immediate GDP loss arising from MFN revocation will be suffered by Guangdong.

Guangdong Province can be distinguished by four characteristics:

(a) It is the ancestral homeland of 75-80 percent of all American citizens of Chinese descent, and it is that part of China where family ties between Americans and Chinese are strongest.

(b) It is where China undertook economic reform earliest, and where the transition to a market economy is most advanced. Old-style Communism is nearly dead in Guangdong.

(c) The leaders of Guangzhou and other cities in Guangdong handled the 1989 protests without resort to violence, despite widespread and serious dislocation over a period of three days. No troops were used. Convictions for "counterrevolutionary crimes" have been relatively few, and there have been no reported executions for crimes arising from the June 4-7 protests.

(d) Finally, the standard of human rights with regard to freedom of religion, freedom of movement, freedom to strike and uncensored reception of foreign media is demonstrably better in Guangdong than elsewhere in China.

Three weeks ago I appeared before the House of Representatives Foreign Affairs Committee's hearings on China's MFN and presented evidence of a positive correlation between a locality's dependence on the American market and its human rights record. Central to the evidence was a detailed report on the human rights situation in Guangdong Province. This report—additional copies of which I have brought with me today—is the result of many months of investigation involving numerous trips to the province. It does not gloss over violations of human rights—in fact, it describes them in some detail—but I believe fairminded readers will conclude that respect for the rights of the individual is generally best in the province which benefits most from China's MFN status.

Attached to the report are three letters from leading human rights activists in Guangzhou. These activists—all of whom have spent long periods in jail and all of whom are prepared to return to prison for their religious and political beliefs—support renewal of MFN on human rights grounds. Their testimony supplements reports by Nicholas Kristof of the *New York Times*, Lena Sun of the *Washington Post* and several other leading journalists that the great majority of dissidents in China favor renewal of MFN. The notion that these individuals are not aware of the intricacies of the debate (e.g. that they do not know that "another option" exists, namely "conditional renewal") is simply not true. They have no confidence in their government's willingness or ability to meet conditions, and they are well aware that a great many Communist hardliners would be only too happy to see ties with America broken. In other words, they don't trust their leaders to do the "right thing," and neither should we. Chinese students and intellectuals want to see MFN debated, not taken away.

Against this preponderance of evidence and opinion that removing MFN will hurt human rights, what have those who favor revocation offered to support the position that doing so will improve human rights? I have now visited Washington six times and testified to Congress five times on this matter, and, with due respect to the many well-intentioned individuals who support removing China's MFN status, I honestly have not heard a single compelling argument that demonstrates the human rights benefits of taking such a step. The notion that removing MFN will somehow lead to the collapse of the present government flies in the face of everything we know about China's history of resisting sanctions as well as the facts of economy and geography (namely, that less than 10 percent of the population will bear nearly all the immediate loss, and that the long-term effects will be diffuse and cushioned by the central government's large foreign exchange reserves).

This leads me to the question of "conditional renewal." On the surface, this appears to be a viable alternative to either unconditional renewal or immediate revocation. In fact, it is a chimera, and we'd be better off not going down this slippery path.

Conditional renewal of MFN begs the central question of whether or not extending MFN is in our national interest. If it isn't, we should revoke it and be done with it. The essential character of the Chinese government will not change in six or twelve months, and it is simply the perpetuation of years of self-delusion to think that it will. If, on the other hand, we conclude that revoking MFN will harm human rights in China and cause substantial collateral damage to Hong Kong as well as American firms and consumers, then it is in our national interest to renew MFN. If things change such that we reach a different conclusion, we can always strip China

of MFN at a later date. We don't even have to wait until the annual MFN "season" during which fast track renewal is debated. Congress can, at any time, pass a bill to immediately deprive China of MFN, or, for that matter, impose a 100 percent surcharge on all imports of Chinese goods.

The real question, then, is not whether or not to make MFN renewal conditional on Congress' approval—it already is—but rather whether or not to specify the conditions and the time frame within which the conditions must be met. Are our goals better served by keeping the prospect of renewal uncertain and subject to loud and contentious debate over a virtually limitless list of grievances, or by imposing a high degree of certainty that specific conditions must be met or MFN will be lost? I believe the former course is far more effective in dealing with the Chinese government. Keep 'em guessing. Why let them know, in advance, what the principal features of the debate will be? Ask yourself this question: if twelve months ago a list of conditions were placed on MFN renewal in 1991 and that list did not include cessation of the export of goods made with convict labor, would you feel constrained not to make this issue a central feature of this year's debate?

If the answer is yes, then you will have needlessly removed from the debate an issue of great concern to the American people. If the answer is no, then what was the purpose of the list of conditions laid down twelve months before? Here I return to the words of Cyrus Vance: "A sure formula for defeat of our goals would be a rigid, hubristic attempt to impose our values on others. A doctrinaire plan of action would be as damaging as indifference . . . No mechanistic formula produces an automatic answer."

It is precisely the uncertainty of what Congress will do and how Congress will reach its decision which makes the MFN annual renewal process such a potent weapon. Attaching a dozen specific conditions all of which must be accomplished within six months is worse than immediate revocation inasmuch as the Chinese government will conclude that it will certainly be stripped of MFN, so why not flood the U.S. market with products while behaving in any fashion it chooses? Attaching fewer and less specific conditions raises a great many questions some of which emerged at last month's House hearings: What yardsticks should be used to measure "substantial" progress? How do we know how many political prisoners there are in China (the government says there are none)? Should we calculate the percentage of prisoners released against only those prisoners we know about? What if China makes progress on three conditions but backtracks on two? Should we try to measure, as Congressman Solarz suggests, "net" progress? And, again, what about the violations not covered by the conditions—what weight do we attach to them?

Under the Gino-U.S. trade agreement of 1980 the two governments agree to grant each other MFN subject to legislative authority being obtained. The Jackson-Vanik Amendment to the 1974 Trade Act provides for an annual renewal process. Undersecretary of State Kemmet advised the Chinese in May that decision on MFN renewal—now and in the future—will take place within the context of concerns over human rights, trade and weapons proliferation. To go further would, I believe, be counterproductive and essentially unworkable.

The uncertainty surrounding MFN renewal is itself proving to be a powerful sanction against China, although, as predicted the impact is falling disproportionately on the south. A study just released indicates a dramatic slowdown in the shift of Hong Kong factories into southern China (see attached), and there have been several business decisions which have been put on hold. Both actual investments and new investment contracts in Guangdong Province fell substantially in 1990. Ironically, it appears that the strongest alternative sanction to actual MFN revocation is the *threat* of non-renewal.

There are of course other alternatives to revoking MFN, and I look forward to exploring them with you during the question-and-answer period. I repeat, however, Cyrus Vance's injunction against quick and mechanistic solutions. We already have in place powerful sanctions against sales of highpowered computers and military hardware, though we haven't analyzed what their real impact has been or is likely to be. We could reduce quotas on textile products, but this sanction would hit hardest the coastal provinces as well as undermining the structure of the international textile trade. We could embargo certain Chinese exports like oil and coal, but China could probably find alternative markets without much difficulty.

Over the past year, I have, as a direct result of the MFN controversy, become personally involved in the effort to ease the lot of individuals in China suffering from religious and political persecution. It is very difficult work, and successes have been few in number and limited in nature. A summary of my most recent visit to Beijing is attached. The most powerful weapon of those who fight this battle is the simple act of questioning: where is a certain individual being held, what is his or her condi-

tion, what are the prospects for early release? The best assurance of a dissident's continued freedom is frequent visits from concerned foreigners, especially foreigners otherwise classified as "friends." As Goethe wrote, "Let there be more light." With the great majority of Chinese people I close by expressing the hope that Congress will vote to keep MFN, but that you will continue to debate the issue with the vigor and skill you have demonstrated thus far.

PERCENTAGE OF INDUSTRIAL OUTPUT PRODUCED BY SINO-FOREIGN JOINT VENTURES, WHOLLY-OWNED FOREIGN VENTURES AND PRIVATE ENTERPRISES

| | 1989 | 1990 |
|---------------------|------|------|
| Fujian..... | 22.5 | 28.9 |
| Guangdon..... | 20.2 | 25.7 |
| Hainan..... | 16.9 | 17.2 |
| Shanghai..... | 10.2 | 14.4 |
| Tianjin..... | 6.5 | 8.8 |
| Beijing..... | 4.9 | 7.4 |
| Jiangsu..... | 4.7 | 5.5 |
| Liaoning..... | 4.8 | 4.8 |
| Zhejiang..... | 2.2 | 2.8 |
| Guangxi..... | 1.2 | 1.7 |
| Guizhou..... | 1.0 | 1.6 |
| Hunan..... | 1.2 | 1.5 |
| Shanxi..... | 1.3 | 1.5 |
| Sichuan..... | 0.7 | 1.3 |
| Hebei..... | 0.9 | 1.2 |
| Jiangxi..... | 0.9 | 1.0 |
| Shandong..... | 0.6 | 1.0 |
| Shaanxi..... | 0.3 | 1.0 |
| Xinjiang..... | 0.9 | 1.0 |
| Yunnan..... | 0.7 | 0.8 |
| Henan..... | 0.3 | 0.7 |
| Hubei..... | 0.4 | 0.6 |
| Anhui..... | 0.4 | 0.5 |
| Ningxia..... | 0.5 | 0.5 |
| Inner Mongolia..... | 0.2 | 0.4 |
| Heilongjiang..... | 0.3 | 0.3 |
| Qinghai..... | neg. | neg. |

Attachments.

REPORT ON VISIT TO CHINA: JUNE 10-13, 1991

From June 10 to June 13, 1991, I visited Beijing and Guangzhou for discussions with Chinese leaders on human rights. This was the latest in a series of private missions which began last summer and which have resulted, among other things, in the completion of a detailed report on the human rights situation in Guangdong Province. The report was presented to the House of Representatives last month as a contribution to the debate in Congress on whether or not to extend China's MFN status.

The emphasis on this trip was placed on the resolution of specific human rights cases. Meetings were held with senior officials of the State Council, the Supreme Court and other organizations. Discussions took place in a friendly and constructive atmosphere. There were no accusations of interference in China's internal affairs, a tacit recognition that the simple act of inquiring into human rights issues does not itself constitute interference.

Specific results of the meetings include:

(1) *Case of Li Lin, Li Zhi*

Li Lin and Li Zhi are two brothers who were active in the 1989 Democracy Movement in Hunan Province. They fled China in July 1989 and were granted residence in Hong Kong. Early this year, after receiving assurances that they would not face

reprisals, the two brothers returned to China. They were detained in Hengyang on February 15, 1991.

Following appeals by myself and others, the central government has looked into the case and concluded that the brothers have committed no criminal offenses since their return. In accordance with government and party policy that individuals involved in the May-June 1989 protests will not face arrest if they return so long as they do not commit new offenses, I was advised that the case of the Li brothers would be resolved in the near future. I believe their release from detention is imminent.

(2) Other Cases

I discussed other cases with the Supreme Court, including those of individuals convicted of counterrevolutionary crimes. In at least one case, a petition has been submitted to the Supreme Court and the Supreme Court is presently considering the petition. The Vice President of the Court outlined the possibilities for reducing sentences and granting paroles.

Of the nearly 800 individuals convicted by courts in Beijing for crimes arising from the May-June 1989 protests, a small number have had their sentences reduced on appeal. Thus far, no petitions to the Supreme Court have been granted. I encouraged the Court to demonstrate the effectiveness of the Chinese legal system by granting petitions for reduction of sentences and for paroles.

(3) Religious Prisoners

I handed over to the State Council an updated list prepared by U.S. Congressmen of Catholic and Protestant personalities allegedly imprisoned or held under house arrest. I was advised by a Deputy Secretary General that the Chinese government has provided the U.S. State Department with a partial accounting of individuals contained in a previous list. Unfortunately, the list was written in English, resulting in considerable confusion on the Chinese side. A new list with Chinese characters will shortly be submitted. In view of the special concern of the American people over imprisoned priests and ministers, I pressed for early action on this problem.

(4) Abolition of Counterrevolutionary Crimes

It was confirmed by senior officials that the National People's Congress is considering a proposal to abolish the category of "Crimes of Counterrevolutionary" and replace it with "Crimes against National Security" consisting of more precise, internationally recognized crimes such as treason and spying.

I proposed that, should such a development occur, the Supreme Court immediately conduct a judicial review of all sentences imposed by courts under the old law. I will lobby Hong Kong delegates to the National People's Congress to implement this proposal at the earliest possible date.

(5) Visit to Penal Institution

I visited a large penal institution for young offenders in Guangdong Province and toured the workshops producing garments and electronic components. I saw no evidence to suggest that products are made for export markets at this institution. Nevertheless, it is clear that the prison bureau has no control over the final destination of finished products made from components. I suggested measures to strengthen management over the end-uses of products, including spot checks of factories buying components.

In general, broad agreement was reached with Chinese officials that the more economically developed a country is, the higher its standards of human rights is likely to be. Even within China, the more developed and export-orientated areas like Guangdong Province have better human rights records than places in the interior. Chinese officials with whom I spoke hope that the U.S. Congress will renew China's MFN status, and believe such a move will encourage the improvement of human rights in the country.

HUMAN RIGHTS IN GUANGDONG PROVINCE: A PRELIMINARY REPORT

[John Kamm, May, 1991]

One of the most telling arguments in favor of retaining China's Most Favored Nation (MFN) status is that open access to the world's largest market will, over time, promote better observance of human rights as well as economic reform. By engaging officials and enterprises in business transactions—buying, selling, investing in Chinese firms—American businessmen, it is argued, teach by example the advantages of an open and free system which respects individual rights. Dependence on the American market should, this argument goes, increase awareness of and sup-

port for American values on the part of thousands of enterprises and the officials that manage and regulate them.

If it is the case that retention of MFN encourages better observance of human rights, then those parts of China which benefit most from low tariffs in the American market should, given the fact that China has enjoyed MFN status for more than 10 years, have better human rights records than those which do relatively little business with America.

Is there a positive correlation between a locality's degree of dependence on the United States market and its human rights record? For an answer, one looks to Guangdong Province, an area of 60 million people bordering Hong Kong where the "open" economic policy is most advanced. Guangdong Province is the principal beneficiary of China's MFN status. It is China's largest exporter, and 40-50 percent of its export products are consumed in America. Production of goods for the U.S. market accounted for at least 17.5 percent of provincial GDP in 1990. Most foreign investment in the province is thought to be in factories which manufacture consumer goods for America. Hundreds of thousands of Hong Kong and American businessmen visit the province each year; as many as 1,000 business delegations from Guangdong have visited America since 1986. The great majority of American citizens of Chinese descent have their ancestral homes in Guangdong, and there is very substantial interchange between these Americans and their Chinese relatives.

The present study seeks to examine the human rights situation in Guangdong Province, thereby contributing to the debate in Congress over whether or not to renew China's MFN status. If it can be demonstrated that Guangdong's human rights record is relatively better than that of provinces which have little stake in MFN renewal, then a *prima facie* case exists that MFN status encourages better observance of human rights.

Since testifying in favor of retaining MFN in May and June 1990, the author and a group of individuals in Hong Kong and Guangzhou have devoted considerable time and resources to this investigation. Frequent trips to Guangdong have been undertaken. Local government officials have been interviewed on a wide range of subjects, with particular emphasis on the condition of individuals imprisoned for "counter-revolutionary" crimes. Leading political and religious activists have been contacted and testimony obtained. Speeches before public forums have been given. Searches of the Hong Kong media, one of the best sources of information on events in Guangdong Province, have been conducted. A review of all human rights reports from the State Department, Amnesty International and Asia Watch has also been completed.

Despite the best efforts of the author, this report is preliminary and it should be stressed that the opinions put forth are solely those of the author. Where official claims have not been verified by independent research, the claims are so noted. It must also be emphasized that it is not the author's contention that the human rights situation in Guangdong is without serious flaws, but merely that it is better in most respects to that found in other parts of China.

EVENTS LEADING UP TO JUNE 4 IN GUANGDONG

As elsewhere in China, May 1989 was a time of great political ferment in Guangdong Province. Responding to events in Beijing, the Guangzhou Patriotic Student Federation was established, its Steering Committee made up of representatives of most of the major institutions of higher education. Independent trade unions sprung up in Guangzhou, Shenzhen, Maoming and other cities. Newspapers throughout the province enjoyed unprecedented freedom; lively debates over political reform unfolded on their pages and in public forums.

The imposition of martial law in Beijing on May 20, 1989 unleashed a strong reaction. Students and workers took to the streets and mounted demonstrations whose participants numbered in the tens of thousands. Close relationships were forged with prodemocracy groups in Hong Kong, and soon Guangzhou's airport and railway station were functioning as gateways to Beijing for couriers and suppliers to the students occupying Tiananmen Square. The headquarters of the provincial government was barricaded on May 24, and remained under siege for 12 straight days.

The proreform local government's response to these developments differed greatly from that witnessed in most other parts of China. Frequent sessions were held between student and worker unions, on the one hand, and municipal officials on the other. The student federation adopted as its slogan "Stabilize Guangdong, Influence the Country," a goal very much in line with that of local reformers. Virtually every campus in Guangzhou and several elsewhere (including Shenshen University, whose President Lo Zhengqi wrote a widely circulated letter to Li Peng calling for the prime minister's resignation) were shut down, but arrangements were reached whereby street marches and demonstrations were held at times most likely to mini-

mize disruption to people's lives. There are reports that local governments (in Guangzhou, district committees) arranged for buses to transport student demonstrators to and from their campuses.

When news of the Beijing killings reached Guangzhou on June 4, restraint by workers and students was abandoned. The key bridges across the Pearl River were blocked intermittently until June 7. Large crowds filled the streets, angrily denouncing the Beijing authorities (but largely sparing local officials). The independent workers' union called for a general strike, and a great many industrial enterprises and commercial offices were shut down. Marches and rallies (involving more than 100,000 people) continued until June 7, a period of three days; on that date, police moved in and broke up a march by workers converging on Hai Chu Square.¹ Thereafter, protests subsided. Events in Shenshen and several other cities (Jiangmen and Shantou, for example) followed a similar if "lower-key" course.

The contrast between how Guangdong authorities dealt with these protests and how officials elsewhere reacted is striking. Although troops were put on alert, they stayed in their barracks, even when military installations were surrounded. No reports of violence appeared in the Hong Kong press. Not a single injury or death apparently resulted from official actions to quell demonstrations.

In Chengdu, Wuhan and Changsha, all southern Chinese cities which experienced similar levels of protest, extreme measures were employed by the army. One cannot read the Amnesty International Report on the Chengdu killings of June 4 and 5 without noting the striking difference between how peaceful dissent was handled in Guangzhou and how the civil population was treated in Sichuan's capital, despite a similar level of popular dissent and disruption of traffic.

Appendix One provides representative press clippings (compiled from the FBIS) describing the situation in Guangzhou from June 4 to June 7.

AFTERMATH OF "THE TURMOIL"

Following the central government's order for leaders of the student and worker movements to turn themselves in, Guangzhou Municipality issued an announcement on June 15 which directed student and worker leaders to register at their schools or work units, not at the local public security bureaus (as was the case elsewhere in China).

This simple step had far-reaching consequences. Given the fact that most campuses were empty and factories in disarray, "registration" went slowly. So poor was the response that another announcement was made on June 21, this time directing the leaders to register by June 25 with the Public Security Bureau. Two days later, on June 23, another announcement extended the registration period to July 8.

It was during this period of wavering that the "underground railway" was organized in Guangzhou, the cities of the Pearl River Delta, Zhanjiang and elsewhere. This well-organized, well-funded effort spirited at least 300 dissidents out of China into Hong Kong and Macau. It could not have operated without the knowledge and cooperation of a great many people in Guangdong.

It was also during this month of indecision that Hong Kong and Macau Chinese active in the prodemocracy protests returned to the territories across Guangdong's borders. A particularly noteworthy case was that of Guo Wenshen who was arrested in Shaoguan City on June 13, 1989 for hanging antigovernment posters and distributing Hong Kong newspaper accounts of the June 4 killings in Beijing. He was released 12 days later and allowed to return to Hong Kong. The contrast between his treatment and the punishment meted out to Chen Zhixiang—sentenced in January 1990 to 10 years in jail for hanging an anti-government poster—is as tragic as it is striking.

Concerned with the lax response of the Guangdong authorities, Beijing organized a "crack team" of several hundred public security, border control and people's police officials to take over the job of capturing prodemocracy fugitives in Guangdong Province. The group arrived in Guangzhou in mid-July 1989 and stayed until mid-April 1990. Their authority apparently extended to all non-Guangdong natives either detained or pursued for counterrevolutionary offences. The Guangdong Public Security Bureau and Procuratorate were to handle cases of Guangdong natives, and this accounts for the fact that out-of-towners like Lo Haixing (from Hong Kong) and Chen Zhixiang (from Jiangsu) were treated more harshly. The cases of Lo, sentenced to five years for allegedly trying to help dissidents flee Beijing, and Chen were re-

¹ As many as 100 protesters were rounded up, the author believes, and several of these undoubtedly wound up in "education through labor" camps for 2-6 month periods. Three individuals received long prison terms (see below).

portedly handled in accordance with central government instructions. By contrast, the trials of the two local student leaders resulted in sentences of two and three years (despite far more serious offences). This compares with a nationwide average of 9-10 years for "counterrevolutionary convictions" arising from June 4 protests.

The author has obtained what he believes is a full listing of all leaders of the Guangzhou Patriotic Student Federation detained in Guangzhou in July, 1989. Of 13 student leaders detained all but two are said to have been released. The chairman of the GPFS was allowed to depart China for the United States. A compilation of information on the student leaders is attached as Appendix Two.

The Guangdong government states that eight leaders of the Guangzhou Autonomous Workers Union who registered with their work units were all released after brief detentions. If true, this would be highly unusual given the tendency elsewhere in China to treat workers leaders more harshly than students and intellectuals. Efforts are continuing to verify this claim. Aside from a *Reuters* report detailing the sentencing of two workers and one peasant in October 1989 (long sentences for the destruction of vehicles), the author has been unable to obtain information on other arrests or convictions of workers in Guangdong. No workers from Guangzhou or other cities in Guangdong are named in the exchange of lists between the International Labor Organization and the Chinese Government which took place in October 1990, lending a degree of credence to the Guangdong government's claim that no union leaders were jailed.

TREATMENT OF "COUNTERREVOLUTIONARIES"

The Guangdong Province Yearbooks for 1988 and 1989 (covering 1987 and 1988 respectively) make no mention of convictions for counterrevolutionary crimes, those which Western nations would classify chiefly as offenses of a political nature (with the exception of spying). However, the yearbook for 1990 (covering 1989) and a radio broadcast from Guangzhou (reported by FBIS on May 15, 1990) give identical accounts of cases handled by Guangdong courts in 1989 involving 12 people associated with the prodemocracy movement: 10 cases involving 12 people were heard, of which 9 were concluded involving 10 people. Four were convicted on charges of counterrevolution, and the others on charges of jeopardizing public security, robbery and hooliganism.

For the province as a whole in 1989, courts at all levels heard a total of 16,276 criminal cases of all types involving 27,256 people. A total of 21,128 people were convicted, suggesting a lower conviction rate in Guangdong than in China as a whole (where the conviction rate exceeds 99 percent).

In 1990, 25,080 people are said to have been convicted of crimes in Guangdong, of whom 18 were sentenced for counterrevolutionary crimes. Of this 18, 12 were sentenced for spying for Taiwan, five for counterrevolutionary propaganda and one for counterrevolutionary sabotage.

While a full accounting of all 1989 and 1990 convictions has not been obtained, the 10 cases mentioned above together with the three individuals convicted in 1991 in the Lo Haixing case are likely to represent the total number of people convicted by the courts for political crimes since June 4, 1989. These numbers do not include individuals who may have been placed in "education through labor" camps by administrative rulings in June and July 1989. Efforts are underway to determine how many individuals may have been placed in these camps, but nothing surfaced thus far suggests that large numbers were incarcerated for prolonged periods (i.e. over six months).

Available information suggests a lower incidence of political persecution in Guangdong Province than elsewhere in China. The State Department Human Rights Report on China calculates that there are at least 5,500 people are in Chinese jails for crimes of counterrevolution if official Chinese figures are used (i.e. 0.5 percent out of a prison population of 1.1 million). Estimates by human rights suggest far larger numbers imprisoned for political and religious reasons. The figure provided by Guangdong for counterrevolutionary prisoners was "less than" 0.3 percent of the prison population. Estimates of Guangdong's prison and labor camp population are not reliable.

As 1991 began, three long-term political prisoners were known to be incarcerated in Guangdong. Best known is Wang Xizhe, a founding member of the Li Yi-zhe group who was arrested in early 1981 and sentenced to 14 years imprisonment for counterrevolutionary offences. He is reportedly imprisoned in the Huaiji Prison Farm in western Guangdong. A source close to his family states that his wife visits Wang twice a year and that he is in good health. Sentenced together with Wang was He Qiu, a Guangzhou Shipyard worker who received a 10-year sentence. He was released from prison, having completed his sentence in April 1991. The third long-

term prisoner was Hong Kong businessman Liu Shanqing, arrested in 1981 and sentenced to 10 years imprisonment in 1983 for counterrevolutionary crimes. Guangdong authorities advise that Liu will be released and allowed to return to Hong Kong upon completion of his sentence on December 25, 1991.

It is generally acknowledged by U.S. government officers and by human rights groups that there are fewer political prisoners in Guangdong Province and that individuals convicted of counterrevolutionary crimes in the province are incarcerated locally instead of being shipped to prison farms in Qinghai and Xinjiang, where prison conditions are known to be especially harsh. Disclosure of information on Guangdong's political prisoners, though not adequate, is more comprehensive than elsewhere in China.

Treatment of individuals suspected or accused of political offenses but not convicted in a court of law is another area of human rights concern. Generally speaking, discrimination against such people has been mild in Guangdong although there have been persistent claims of people having been dismissed from their jobs for participation in the June 4-7 protests. Three student leaders were expelled from their universities as punishment for their involvement in the prodemocracy movement (see Appendix Two). Wang Xueshi, a teacher at the South China Polytechnic and a leader of the Guangzhou Federation of Patriotic Students, was briefly detained for hanging a large anti-government poster in Haichu Square but subsequently released. Lo Zhengqi, who called on Li Peng to resign, was dismissed as President of Shenshen University and expelled from the Communist Party; he continues to teach at the University.

The most famous dissident in South China is Li Jengtian, founder of the Li Yi-zhe group (China's first post-Cultural Revolution prodemocracy group, established in 1974) and Honorary Advisor to the Guangzhou Federation of Patriotic Students. Detained briefly for questioning in July, 1989, Li was released and he returned to work as a teacher of the Guangzhou Fine Arts Institute where he lectures on the philosophy of artistic and cultural freedom. No restrictions have been placed on his movements. Li states that no students at his institute, a hotbed of activism during the May and June 1989 prodemocracy movement, have been arrested or expelled. The author, an honorary associate professor at the Guangzhou Foreign Trade Institute, is not aware of any students arrested or expelled from this school.

In contrast to Beijing where students must submit to one year of military training, students in Guangzhou attend military courses for two months. No military units are stationed on campuses.

CAPITAL PUNISHMENT AND OTHER FEATURES OF THE JUDICIAL SYSTEM

China practices capital punishment, and the death sentence is applied for a wide range of crimes. Crime waves, real or perceived, are met with increased resort to judicial executions.

In the autumn of 1983, as many as 10,000 executions were carried out in China, with approximately 1,000 taking place in Guangdong.² The lack of due process and the speed between conviction and execution give rise to concern that innocent individuals are executed.

In the autumn of 1990 another wave of executions commenced in China. While in the north, the onset of the Asian Games (held in Beijing in September) is widely believed to have been the principal reason for the increased resort to capital punishment, harsher treatment of criminals in Guangdong has most probably been the result of an upsurge in smuggling and other economic crimes. The illicit trade in firearms between gangs in Hong Kong and Guangdong has been a matter of grave concern for both governments and is seen as a major reason behind the crackdown. From late summer to Chinese New Year in February 1991, as many as 300 executions may have been carried out in Guangdong. Unlike other cities and provinces, however, there is no evidence to suggest that anyone has been executed for political or religious activities or for property crimes arising from June 4 demonstrations.

International observers are rarely permitted to attend trials in China, which are usually held in secret or attended by handpicked audiences and immediate relatives. Guangdong earned the distinction, in May, 1982, of being the first province in China to seek guidance from the Supreme People's Court on whether or not to permit foreign observers at trials. Foreigners, especially lawyers, have been allowed to attend trials and visit prisons; unlike Beijing and Shanghai, no "model prisons" used to host foreign visitors have been designated.

² See Kamm, "Reforming Foreign Trade" in Ezra Vogel's *One Step Ahead in China* (Harvard Press, 1989) page 371.

FREEDOM OF EMIGRATION

The citizens of Guangdong enjoy freedom of movement unparalleled in China. Approximately 75 percent of the immigrant visas issued to relatives of U.S. citizens are given to Guangdong natives, reflecting the fact that Guangdong is the ancestral home of most Americans of Chinese descent.

Since 1983, the people of Guangdong have been allowed to join tour groups to Hong Kong and Macau. Approximately 940,000 people have already taken advantage of this policy to visit the two territories, including religious activists and independent artists. Over the past three years, tour groups have been allowed to visit Singapore and Thailand on a regular basis. In 1991, tours to Malaysia began. According to provincial tourism officials, Guangdong is the only province in China which allows its citizens to travel abroad for purposes other than business.

FREEDOM OF THE PRESS AND OTHER MEDIA

The freedom to express views contrary to party or government policy which existed for a brief period before June 4 has been sharply curtailed, but it is still possible to find examples of relatively liberal views expressed in Guangzhou newspapers. In August 1990 the author gave two speeches in Guangzhou whose general theme was that the American people support economic and political reform in Guangdong (and elsewhere in China). A local newspaper account of the speeches is attached as Appendix Three.

A great many newspapers and publications throughout China were closed in the wake of June 4. In Guangdong there has been but one closure, that of Shenzhen's *Youth News*.

An interesting feature of the Guangdong media in recent years has been the cropping up of "citizens complaint" channels in newspapers and on radio. The complaints are often aimed at inefficient bureaucrats, corrupt officials and police not doing their jobs. A "Mayor's Hot Line" was established in January 1986 and the number of complaints has grown exponentially as citizens express their dissatisfaction with various government policies: there were 6000 calls in 1986, 9000 in 1987, 7000 in 1988, 13,000 in 1989 and 21,600 in 1990. A special office has had to be set up to answer the calls and take action. Another 80 "hot lines" have been established at district administrations, public security bureaus and tax offices.

The most extraordinary feature of Guangdong's media scene is the widespread reception of Hong Kong and Macau television, Voice of America and BBC. A senior provincial official estimates that half of the province's population regularly tune in to one of these sources of uncensored news. There have been no attempts to jam any of these broadcasts, nor has the government taken the easy step of outlawing the distinctive "fish bone" antennae used to pick up Hong Kong television.

A result of Guangdong's exposure to uncensored opinions and facts is a well-informed, critical population which supports economic and political reform, and, the author believes, greater respect for the rights of individuals.

RELIGIOUS FREEDOM

A tragic feature of post-Tiananmen Square China has been the marked increase in the repression of nongovernment recognized religious groups. The underground Catholic Church has suffered grievously. More than 40 bishops and priests have been arrested across the country. Troops have been used to attack Catholic communities in Hebei Province. The Protestant "house church" movement, which refuses to register its churches with the government, has also been the target of attack. All house churches in Beijing were forcibly shut down in March, 1991.

Perhaps the most distinctive feature of the human rights climate in Guangdong Province is the relatively high degree of official tolerance of religious freedom. Based on extensive interviews and field trips, the author believes that there are presently no Catholic priests in jail in Guangdong. No "house church" pastors have been imprisoned in nearly eight years (see "Shouters" below), and the movement continues to attract many new believers. Pastor Samuel Lamb, the leader of the house church movement in China, preaches to as many as 1,000 people on prayer days. After a public security bureau raid on his church in February 1990, Pastor Lamb was detained for 24 hours and several of his belongings seized. On 10 occasions since then he has been summoned to the public security bureau for questioning. He has not been ill-treated. On the last occasion, in January 1991, most of his belongings were returned. There has been no further summons as of this writing (May, 1991), although very recent reports are that pressure has resumed on people to stay away from the MaDaZhan church.

The relatively liberal policy towards the exercise of religious freedoms is not apparently confined to the big cities. The largest Catholic communities are in Shantou, Meixian and Shanwei, and in the latter area especially there are entire villages converted by Maryknoll missionaries decades ago. In Yunfu County, a poor rural community 100 miles west of Guangzhou, a resourceful Catholic priest has rebuilt his church and added an old people's home. The complex opened in a moving ceremony held on July 4, 1990.

The last mass arrest of religious personalities in Guangdong occurred in September 1983, when Li Jianmin and six other leaders of "the Shouters"—also known as "the little flock"—were seized. The Shouters were a charismatic, evangelical sect whose members reached religious frenzy by shouting loudly. In the space of a few years, the sect drew 3000 members and opened churches in Guangzhou, Meixian, Shantou and the provinces of Henan and Zhejiang. The shouters refused to register with the government, refused to recognize the "Three Self Movement" and engaged in certain antigovernment activities." All seven were eventually sentenced to imprisonment. Most are said to have been released, but at least one Shouter, probably from Shantou, may still be in jail. Li Jianmin died in Guangzhou shortly after he was released.

Father Tan Tiande, a leading Catholic activist, and Pastor Lamb have given the author letters briefly describing the current situation regarding religious freedom in Guangdong. Their letters are attached in Appendix Four.

WORKERS' RIGHTS, CONVICT LABOR, CHILD LABOR

As noted earlier, leaders of the independent trade union movement in Guangdong appear to have been spared imprisonment, but their movement has been effectively suppressed. This does not mean, however, that workers in Guangdong have submitted to the structure of state-controlled labor management. Although the right to strike was removed from the most recent version of the Chinese Constitution and the Chinese Government in Beijing claims that there were no strikes in 1990, the author is aware of at least 40 work stoppages in Guangdong last year. Both state-owned firms and joint ventures were struck, including the Da Chong Xing Ji Company in Shenzhen, a joint venture whose 600 workers struck for three days, and the state-owned Yangchun Transportation Company, which struck for two days. The latter action, combined with recent trucker strikes over official corruption at the Hong Kong-China border point to greater labor militancy in the transport sector in Guangdong. Local officials involved in settling the strikes claim that no participants in any of these actions have suffered reprisals.

Guangdong is the only province in China which permits joint ventures between Chinese enterprises and foreign firms to operate without Communist Party branches. Elsewhere in China, the party organization in the joint venture effectively controls the trade union.

Convict labor in China has recently attracted considerable attention in the United States. Reports have been published that labor camps throughout the country—including Guangdong—are engaged in the manufacture of goods for export to the United States, a violation of a 1930 law which protects American workers from low-cost prison labor. There are also human rights concerns over conditions in labor camps which are said to violate ILO Convention 105 on Forced Labor, a convention which China has not ratified. Of special concern are claims that political prisoners are producing goods for export.

The author has begun a separate investigation to ascertain the facts concerning convict labor in Guangdong, but time has not permitted me to carry the enquiry to a satisfactory conclusion. What follows are author's opinions and unverified comments by officials in Guangdong:

- Export of prison-made goods have taken place, in the author's opinion. The circumstances of events on which evidence is available suggests local initiative more than central policy. In one case involving tea, there seems to have been a breakdown in local order after the 1979 arrival of a large group of Vietnamese Chinese refugees.

- Prior to 1990, the provincial labor reform bureaus throughout China were largely responsible for the production of goods in prisons and labor camps for both domestic and overseas markets. Prisons could export under provincial license.

- In early 1990, the State Council issued Document 39 and the Ministry of Justice issued Document 6 prohibiting the export of products made in prisons and labor reform camps. Provincial foreign trade bureaus are now forbidden to issue export licenses for prison-made goods. Enforcement of these directives has proceeded slowly

in some areas. It is also not clear whether exports to Hong Kong and Macau—sometimes considered parts of China in domestic legislation—are covered by the ban.

- The value of goods made by units under the Labor Reform Bureau of Guangdong Province totalled Y210 million in 1989. The yearbooks present data which indicates that in real terms the value of prison production declined during the 1980s; as a percentage of provincial output, prison-made goods have dropped by roughly 50 percent since 1979.

By comparison, the Asia Watch translation of Chinese articles on convict labor contains information on Jiangsu Province. In 1987, output of units under the provincial Labor Reform Bureau totalled Y334 million, suggesting a value double that of production recorded in Guangdong the same year. Prison-made goods for export were valued at Y69.25 million, an amount equivalent to less than one-tenth of one percent of Jiangsu's total export procurement in 1987. Given the relative sizes of Guangdong's and Jiangsu's export procurement value (Guangdong's is twice as large as Jiangsu's) and prison production (Jiangsu's is twice as large as Guangdong's), the author believes that the export value of prison-made goods is a minuscule portion of Guangdong's total export trade.

- The largest volume of prison-made goods for export is reportedly construction materials (marble and crushed stone) for use in Hong Kong. "Components" also might have found these way into export products, according to one official. Prisons have not proven well-suited for export production. While labor costs are low, there is no shortage of cheap labor in China. Prisons have poor equipment, little access to raw materials and insufficient information on overseas markets. They are often located in remote areas, significantly raising transportation costs.

Another area of concern has been the use of child labor. Statistics indicate a drop in primary school graduations during the decade of reform. Provincial officials claim that peasants are keeping their children away from school to work in collective or private enterprises, or alternately to work in the agricultural sector while their parents seek job opportunities elsewhere. Age limits in state-owned enterprises and joint ventures are generally enforced, and the provincial government is formulating policies to encourage farmers to keep their children in school.

MISCELLANEOUS

There are two privately owned art galleries in Guangzhou; all private galleries in Beijing have been closed. A modern dance troupe performs the most avant-garde productions in the country.

Guangdong is not one of the five provinces which practice enforced sterilization of handicapped people. Its family planning program is not strictly enforced in rural areas, but pressures for having one-child are strong in urban areas.

Harrassment of foreign journalists has not occurred, unlike the heavy surveillance common in Beijing. No restrictions have been placed on research projects conducted in Guangzhou by American social scientists.

SUMMARY

Violations of human rights take place in Guangdong Province, the most egregious of which are the long-term incarceration of Wang Xizhe, the convictions of Chen Pukong, Chen Zhixiang and Lo Haixing for "counterrevolutionary crimes," the closure of Shenzhen's *Youth News*, and the resort to capital punishment without due process. The number and scale of violations are, however, less serious than evidenced elsewhere in the country, and the province is distinguished by the following positive characteristics:

- No resort to troops (martial law never declared). No injuries or extrajudicial killings to suppress dissent;
- No reported executions for property crimes arising from June 4 protests;
- Relatively few convictions for counterrevolutionary crimes;
- Less repressive treatment of workers' leaders and tolerance of the right to strike;
- Relatively liberal emigration policies;
- Free access to uncensored foreign media; and
- Significant degree of tolerance for the exercise of non-government-sponsored religion.

Appendix One

Guangzhou Army on 'Grade 2 Alert'
HK0506005089 Hong Kong SOUTH CHINA
MORNING POST in English 5 Jun 89 p 5

[Text] Army units stationed in the Guangzhou area were said to be on grade two war alert last night, amid widespread demonstrations in the city and calls for a general strike.

The alert is contained in a secret circular, according to reliable sources. (In a grade two alert, troops are issued with bullets, and tanks readied.)

Students from Beijing also arrived by plane to address a 10,000-strong crowd in Haizhu Square at 8 pm (Hong Kong time) last night, telling the people not to give up and to continue the struggle. About half the crowd urged action.

Demonstrations were reported to have begun by 6 am. Dazed residents converged at the gates of the provincial government offices and Haizhu Square.

Wreaths in memory of the Beijing dead were laid at the foot of the 1949 soldiers' memorial in the square. Yesterday morning, the memorial was surrounded by a bed of orange flowers.

By afternoon, all had been trampled into a quagmire as the memorial became a focus for the people's grief.

Leaders of an independent trade union, set up on May 28 and already claiming several thousand members, are calling for a general strike.

"Our government has turned out to be no better than Hitler's," one leader said. "It must explain why it has used the People's Army to shoot the people".

He and other members said they would continue their protests until victory, and that they would even stand firm in the face of an army attack.

Thousands demonstrated during the day. Many roads, including Haizhu Bridge, were blocked by thousands of people.

Demonstrators and shoppers huddled around photocopies of Hong Kong papers and posters plastered throughout the city.

Later in the day Hong Kong television, relayed to hotels, was blacked out. Phone lines were cut.

Guangzhou 'Calm'; No Military Presence
HK0706023589 Hong Kong MING PAO in Chinese
7 Jun 89 p 1

["Special Dispatch" from Guangzhou: "Guangzhou Is Calm, But Trains Going North Can Only Go as Far as Shaoguan City")

[Text] Yesterday Guangzhou City was calm, and there was no military presence there. On the highways from Shahe and Boluo to Guangzhou, where troops were rumored to have been deployed, there were no troops to be seen. Nevertheless, trains going north could only go as far as Shaoguan City.

After the Beijing authorities called in troops to massacre patriotic students and residents in Beijing, Guangzhou University students and residents were extremely excited. In the last 2 days, there have been nearly 100,000 people holding rallies in Haizhu Square, and crowds occupied Haizhu Bridge for a time, paralyzing traffic in the town.

A few days ago, the Standing Committee of the Guangzhou CPC Committee held an emergency meeting to discuss the problem of the masses of people occupying the Haizhu Bridge. Yesterday the Guangdong Provincial Government issued a relatively moderately worded notice, appealing to residents to make concerted efforts to safeguard the province's situation of stability and unity and hoping that they would not impede traffic any longer. However, the notice also stated that the extremely small number of people who stirred up trouble would be sternly punished.

Yesterday there were still Guangzhou residents rallying in Haizhu Square, but the number was smaller than in the previous 2 days. There were no traffic blockades or strikes by workers and shopkeepers strike, but trains going north could only get as far as Shaoguan City.

Troop Movement Said 'Rumors'
HK0706022689 Hong Kong TAI KUNG PAO
in Chinese 7 Jun 89 p 1

[Report: "There Is No Troop Movement in Guangzhou, Nor Is There a 'First Degree Military Order'"]

[Text] There have been no troop movements in Guangzhou so far, nor is there a 'first degree military order' in Guangdong, a reliable source pointed out.

It is true that the troops stationed in Guangzhou by the Guangzhou Military Region have been put on alert in their camp areas, but this is a measure to prevent some people from making an assault on their barracks. Yesterday afternoon about 100 Jinan University students staged a sit-in demonstration in front of the entrance to the Guangzhou Military Regional Headquarters. But they left after being persuaded to do so.

A military officer confirmed that there had been no troop movements so far, adding that there was no need for the military to move in or to exercise military control in universities because it was peaceful in Guangzhou City. According to military procedures, there is no reason for the provincial government to declare the so-called "first degree military order." He asked the people not to believe rumors.

Traffic Order Improves

*HK0706091389 Guangzhou Guangdong Provincial
Service in Mandarin 0400 GMT 7 Jun 89*

[Text] According to the departments concerned, the traffic order in Guangzhou is now better than a few days ago and traffic has virtually returned to normal.

The city's traffic police department noted that traffic on Haizhu bridge which had been dislocated in the past few days returned to normal at about 0400 yesterday after all students holding sit-ins dispersed. However, at about 1600 yesterday a crowd of college students came again to Haizhu bridge to hold sit-ins and deliver speeches, causing another traffic blockade on Haizhu bridge. After the masses and public security repeatedly persuaded those students holding sit-ins, traffic on the bridge virtually returned to normal.

Over the past few days, public security police made nothing of hardships to maintain traffic order on Haizhu bridge. The city's citizens hope that students will work together with the masses of the people to maintain traffic order in Guangzhou and to ensure the normal order in work, study and life as well as the political situation of stability and unity in the Guangzhou area.

Appendix Two

List of Students and Intellectuals Detained in

Guangzhou, July 1989

- (1) Chan Pukong (陳破空) Teacher at Zhongshan University. Founder of China Social Democratic Party and Advisor to the Guangzhou Patriotic Student Federation. Sentenced to two years imprisonment in mid-1990 for counterrevolutionary propaganda, due for release in mid-1991.
- (2) Yi Danxuan (易單宣) Student at Guangdong Commercial Institute. Sentenced to three years imprisonment in mid-1990 (due for release in mid-1992) for organizing the blockade of the Pearl River Bridge and aiding Beijing student leader Zheng Xuguang escape to Hong Kong.
- (3) Yu Shiwen (于世文) Student at Zhongshan University. Formally charged with counterrevolutionary propaganda in April 1990. Released in November 1990 without trial.
- (4) Wang Lianping (王連平) Student at South China Normal University and member of Standing Committee of GPSE. Released from detention without charge, expelled from university.

- (5) Chen Zewei (陳澤偉) Student at Zhongshan University, member of GPSF Standing Committee. Released from detention without charge, expelled from university.
- (6) Liu Junguo (劉俊國) Student at Zhongshan University. Chairman of the GPSE. Released from detention without charge, expelled from university. Now resident in the United States.
- (7) Xu Houqiang (徐厚強) Released without charge.
- (8) Li Gang (李剛) Released without charge.
- (9) Chen Shengzhi (陳生智) Released without charge.
- (10) Tai Wunjie (譚文哲) Released without charge.
- (11) Huang Guoqiang (黃國強) Released without charge.
- (12) Zhang Yu (張羽) Released without charge.
- (13) Wang Zuezhi (王學智) Released without charge.

信息時報

Aug 26, 1990

香港美國商會會長康原對本報記者說——

“我是《信息時報》的忠實讀者”

熊曉杰

香港美國商會會長康原先生上週在廣州接受本報記者採訪時說：“我是《信息時報》的忠實讀者，在香港每天都看《信息時報》”。他稱贊本報是一張“很有特點”的經濟報紙。

康原先生是中國人民的老朋友，早在11年前即來中國設立美華公司，開展對華經貿業務。他目前任美國西方化學工業公司副董事長兼總經理，該公司是在

華投資最多的美國公司之一。作為香港美國商會主席，康原先生曾與港督衛奕信爵士就中國最惠國

待遇問題專程去華盛頓遊說，並參加美國國會聽證會辯論，極力要求延續中國最惠國待遇。上週五，康原先生應廣東省公共協會、廣東省貿促會和國際商會的邀請，專程來穗作了《美國國會關於中國最惠國待遇問題的辯論》的專題報告。他是在會後接受本報記者採訪的。

在採訪結束時，康原先生欣然命筆，寫下了對中國人民特別是對廣東和香港經濟發展的友好心聲：“美國關於中國最惠國待遇的辯論顯示了美國人民對廣東政治、經濟改革與香港穩定、繁榮的支持。”

The debate on China's MFN status has shown that the American people support economic and political reform in Guangdong Province, as well as the stability and prosperity of Hong Kong.

圖為康原先生的手書

Appendix Four

Biographies

- (1) Li Jengtian was born in 1943. A native of Shandong, he moved to Guangzhou in 1956 where he studied painting for 12 years. He was arrested and sentenced to jail for Cultural Revolution activities in August 1968. Upon his release in 1971, he established China's first prodemocracy movement with three other dissidents, a group which became known as "Li Yi-zhe" (the other members were Wang Xizhe, presently serving a long sentence for counterrevolutionary offences, Guo Hong-zhi and Chen Yi-yang, both of whom are free). In 1974, Li Yi-zhe hung a "big character poster" in Guangzhou entitled "On Socialist Democracy and Law". It directly challenged China's state ideology of Maoism, and called for democracy. Li Jengtian underwent 101 "struggle sessions" and was eventually incarcerated in early 1977. He spent long periods in solitary confinement. Li was pardoned in February 1979, whereupon he began teaching at the Guangzhou Fine Arts Institute. As Prof. Fang Li-zhi was petitioning Deng Xiaoping to release Wei Jingsheng in January 1989, Li Jengtian petitioned President Yang Shangkun to release Wang Xizhe. Li was Honorary Advisor to the Guangzhou Patriotic Students Federation in May and June, 1989.
- (2) Lin Xiangao, also known as Pastor Samuel Lamb, was born in Macau in 1924, the son of a Baptist pastor. In 1950, he opened his church at the family home in Da Ma Zhan, Guangzhou. Refusing to register his church with the Government, he was first arrested in September 1955.

Released in January 1957, he was arrested again in May 1958 and sentenced to 20 years in prison for counterrevolutionary activities. He served the full term, returning to Guangzhou to reopen his house church in 1979. Pastor Samuel Lamb is the recognized leader of the house church movement in China. His biography, Brave as a Lamb, is now available in the United States.

- (3) Father Tan Tiende (also known as Father Francis Xavier Tam) was born in 1916 in Guangdong Province. He graduated from the South China Seminary in Hong Kong in 1941, and was ordained a priest in Guangzhou's Shishi Cathedral the same year. He was arrested for counterrevolutionary crimes in 1953 and was incarcerated in a prison camp in Northeast China until 1983, when he returned to Guangzhou. He has been instrumental in reestablishing the Catholic Church in Guangdong. An outspoken advocate of returning Church properties to the Church, his Family News of the Catholic Church in China was published in Hong Kong in 1990.

Translation

April 16, 1991

Respected Mr John Kamm,

I thank my American friend for showing concern for my situation.

I sincerely ask you to pass on my views to farsighted and knowledgeable people in the United States: The trend of China's reform and opening to the outside world is irreversible. Maintenance of MFN status for China by the U.S.A. favors not only China's, especially Guangdong Province's economic development, but also the fundamental interests of the American people. Guangdong Province is the place in China where the principle of democracy and rule by law was first put forward. Guangdong Province is also the pioneer in China in the movement to open up to the outside world and institute reforms. It is of vital importance and far reaching historical significance to keep Guangdong stable and prosperous. The fundamental interests of the Chinese and American people should not be hurt because of political disputes between the two governments.

I firmly believe the prosperity of the Pacific rim area shall change the future world structure. The reciprocal granting of Most Favored Nation (MFN) status to each other by China and the United States together with their respective advantages shall play a major role in the new world order.

Yours truly
Li Zheng Tian

Translation

April 26, 1991

Dear John Kamm,

I was very pleased to receive your letter a few days ago. You have shown great love and concern for China. I believe only Catholics can share such international fraternity.

I am sorry for not writing to you in English. I have had no chance to speak and write English since 1941 when I left the South China Seminary in Hong Kong. I am afraid that people will laugh at my "pidgin English."

You ask me to voice my viewpoints to the U.S. Congress. I think the best way is to write a letter to you and then you will be able to pass on my thoughts to Congress.

First, regarding my philosophy of life and background, the key is my faith in God. The truth and instructions of Jesus Christ are my spiritual support with which I am able to overcome all difficulties, take suffering as happiness, take disgrace as honor and face my death as a hero.

Second, Catholicism in China is in turmoil and far from being united; the key reason is the question of whether or not to recognize the Pope as the representative and successor of Jesus Christ. For this reason the "underground church" has split from the official church. This phenomenon has hurt the church very much, and the solidarity of the Chinese Church no longer exists. Fortunately, we have not seen this phenomenon thus far in Guangdong Province. Guangdong in general and Guangzhou in particular are China's great southern doors, and the local government has better implemented the policy of religious freedom.

Third, regarding human rights conditions, Guangdong is definitely better than elsewhere in China.

Fourth, if the United States takes away China's MFN status, Guangdong's people will be hurt very much. In the spirit of the universal love of Jesus Christ, I hope that the U.S. Congress will retain MFN treatment for China.

Finally, I wish that the existing friendship between the U.S.A. and China will further develop. May God bless the American people and the Chinese people. I believe more cooperation between these two great countries will benefit world peace.

Sincerely yours in Christ
Father Francis Xavier Tam

Samuel Lamb
 3rd fl, #35 Da Ma Zhan,
 Zhong Shan 5 Lu,
 Guang Zhou.
 (510030)

Apr 27, 1991.

Dear Congressmen:

I am a preacher since 1945 in Guang Zhou, China. After liberation, I began my House Church in Da Ma Zhan. I've been twice in prison (altogether over 21 years) because they said I was an anti-revolutionary.

After I was set free, my House Church re-opened from July 1979. Dr. Billy Graham spoke in our Church Apr 27, 1988. The Astronaut Jim Irwin preached here June 5, 1988.

Our Church was closed in Feb 22, 1990. They took away the superiors of then President Ronald Reagan, but afterward they returned some to me. I don't mind of it, our "illegal" Church is growing. People come more than before!

I write this letter not for my sake because, by God I'm ready to go to jail the third time.

But for the Church of China and the human rights situation, I suggest that America had better keep the MFN (China's Most Favorite Nation).

Abraham beg for Sodom & Gomorrah is a good instance (Gen 18). He was not for himself but for the righteous ones.

Thanks to Your Honors!

May God Bless You All!

Sincerely Yours,

Samuel Lamb

China's Export Dependence on the United States:

An Analysis of MOFERT Data

In recent years, China's Ministry of Foreign Economic Relations and Trade (MOFERT) has published annual compilations of statistics and reports on the country's external commerce. An examination of the most recently-published yearbook, covering 1989, allows the analyst to draw certain conclusions on China's dependence on the American market.

According to MOFERT, the FOB value of goods shipped directly to the United States in 1989 amounted to US\$3,867.8 million. Exports to Hong Kong were valued at US\$14,266.8 million and exports to Macau were put at US\$343.1 million.

Of all imports of Chinese goods, Hong Kong reexported 86 percent to third countries. Thirty-five percent of all China-origin reexports were shipped to the United States (percentages for 1989 as supplied by the Hong Kong Government). Assuming the same percentages for Macau, the FOB China port value of Chinese reexports to the United States in 1989 were:

$$[(\$14,266.8 \text{ million} + \$343.1 \text{ million}) \times 0.86] \times 0.35 \\ = \$4,397.6 \text{ million}$$

The total FOB China port value of Chinese exports to the United States in 1989 can be calculated as:

$$\$3,867.8 \text{ million} + \$4,397.6 \text{ million} = \$8,265.4 \text{ million}$$

This compares with the U.S. Customs figure of US\$11,989.9 million for Chinese imports in 1989. This figure is on a CIF basis. The difference between the U.S. figure and the figure derived from

the MOFERT yearbook is accounted for by MOFERT's subtraction of imported raw materials from the value of "processing" exports, as well as value adding in Hong Kong (i.e. processing and packaging activities which do not change country-of-origin and middleman profits) and freight, handling and insurance (see Notes to attached Table).

China's Gross Domestic Product in 1989 was ¥1,567.7 billion. Total FOB value of exports was \$43,440 million. Employing the national cost of creating one export dollar of ¥5.85 (referred to in Chinese as "huan hui chengben" or "foreign exchange cost"), the equivalent renminbi value of 1989 exports was ¥254.1 billion, or 16.2% of GDP. Exports to the U.S. were equivalent to ¥48.35 billion, or 3.1% of GDP. America was China's largest export market in 1989, accounting for 19 percent of the FOB value of all exports.

The yearbook provides reports on each of China's provinces and municipalities. Employing the national average of reexports to the United States as supplied by the Hong Kong Government, a table has been compiled giving each administrative unit's total exports, percentage of GDP taken up by exports (employing the national average export cost of ¥5.85 to US\$1.00), exports to the U.S. and exports to the U.S. as a percentage of GDP.

Note that the sum of exports of the administrative units is less than the total national export value reported by MOFERT. This is chiefly because the MOFERT figures for each province exclude the exports of Category One products (e.g. petroleum, coal, various minerals) handled exclusively by the Central Government.

The table puts Guangdong Province's exports to the United States at US\$2,285.7 million in 1989, accounting for 28 percent of total exports and 10.5 percent of provincial GDP. High as these figures are, there is good reason to believe that Guangdong's dependence on the American market is significantly greater.

Guangdong -- particularly the Pearl River Delta -- is known to be the site where the bulk of the plants manufacturing toys, footwear, electrical appliances and electronics for the U.S. market are located. According to Vice Governor Yu Fei, 40-50 percent of the province's total exports are consumed in the United States. Hong Kong's Trade Development Council confirms this estimate.

If 40 percent of all Guangdong's exports were consumed in America, Guangdong's 1989 exports to the United States would equal \$3,267.2 billion. Because Guangdong's "foreign exchange cost" is, ¥0.10-¥0.12 higher than the national average, this sum would have accounted for 15.4 percent of the province's GDP in 1989.

Recently available statistics from Guangzhou indicate that Guangdong's dependence on the U.S. market increased in 1990. Of \$10,560 million in total exports, \$8,078.4 million were shipped to Hong Kong and Macau and \$403 million were shipped directly to the United States. Using the 1989 ratio of 40 percent of all exports being consumed in the U.S., the percentage of GDP (¥141 billion in 1990) taken up by export production for the American market reached 17.5 percent. It is interesting to note that reexports of China-made goods through Hong Kong to the United States rose 21.4 percent in 1990, closely tracking the Guangdong rise in sales to Hong Kong and Macau.

Notes

- (1) All figures for provincial exports and gross domestic product are taken from the "locality" reports in the 1990/91 Edition of the Almanac of China's Foreign Economic Relations and Trade published by MOFERT. These figures were subsequently updated, by both MOFERT and individual provinces, but remain the most comprehensive and consistent set of provincial foreign trade statistics available.
- (2) MOFERT figures net off the value of imported components or raw materials and count only "processing fees" in the "san lai yi bu" business (processing and compensation trade). Chinese Customs figures by contrast include the full value of exports, but these are not available by province. MOFERT figures understate the exports of provinces like Guangdong which engage heavily in "san lai yi bu."
- (3) U.S. dollars are converted at the "foreign exchange cost" of ¥5.85 (estimated 1989 national average).
- (4) U.S. exports include estimates of reexports to the United States through Hong Kong, making use of percentages supplied by the Hong Kong Government.

China: Provincial Dependence on the United States Market
(1989, in millions of dollars and yuan)

| Province | GDP (RMB) | Exports (US dollars) | Exports (RMB) | Exports/GDP (%) | Exports to US (US dollars) | Exports to US (RMB) | Exports to US/GDP (%) |
|----------------|--------------|-------------------------|------------------|--------------------|-------------------------------|------------------------|--------------------------|
| Guangdong | 126,815 | 8,168 | 47,783 | 37.7% | 2,286 | 13,373 | 10.5% |
| Shanghai | 69,176 | 5,032 | 29,437 | 42.5% | 900 | 5,264 | 7.6% |
| Fujian | 40,147 | 1,662 | 9,723 | 24.2% | 498 | 2,913 | 7.3% |
| Liaoning | 93,972 | 4,446 | 26,009 | 27.7% | 827 | 4,836 | 5.2% |
| Tianjin | 42,093 | 1,686 | 9,863 | 23.4% | 285 | 1,668 | 4.0% |
| Beijing | 44,563 | 1,162 | 6,798 | 15.2% | 221 | 1,292 | 2.9% |
| Jiangsu | 102,489 | 2,441 | 14,280 | 13.9% | 488 | 2,857 | 2.7% |
| Chejiang | 77,410 | 1,879 | 10,992 | 14.2% | 361 | 2,109 | 2.7% |
| Hubei | 55,369 | 1,027 | 6,008 | 10.9% | 215 | 1,258 | 2.3% |
| Hunan | 43,979 | 666 | 3,894 | 8.9% | 145 | 851 | 1.9% |
| Jiangxi | 28,724 | 516 | 3,017 | 10.5% | 92 | 539 | 1.9% |
| Shandong | 117,353 | 3,060 | 17,901 | 15.3% | 347 | 2,032 | 1.7% |
| Xinjiang | 12,992 | 360 | 2,107 | 16.2% | 28 | 166 | 1.3% |
| Sichuan | 80,234 | 949 | 5,552 | 6.9% | 139 | 810 | 1.0% |
| Jilin | 36,568 | 671 | 3,928 | 10.7% | 65 | 349 | 1.0% |
| Shenxi | 34,011 | 313 | 1,829 | 5.4% | 51 | 300 | 0.9% |
| Yunnan | 29,039 | 539 | 3,151 | 10.9% | 44 | 259 | 0.9% |
| Anhui | 57,544 | 570 | 3,335 | 5.8% | 82 | 482 | 0.8% |
| Shanxi | 43,738 | 400 | 2,340 | 5.4% | 51 | 297 | 0.7% |
| Inner Mongolia | 25,531 | 336 | 1,967 | 7.7% | 29 | 169 | 0.7% |
| Ningxia | 5,526 | 59 | 348 | 6.2% | 7 | 39 | 0.7% |
| Gansu | 21,948 | 153 | 897 | 4.1% | 19 | 113 | 0.5% |
| Qinghai | 5,930 | 59 | 342 | 5.8% | 5 | 31 | 0.5% |
| Guangxi | N/A | 584 | 3,418 | N/A | 151 | 884 | N/A |
| Guizhou | 23,722 | 132 | 772 | 3.3% | N/A | N/A | N/A |
| Heilongjiang | 55,323 | 1,027 | 6,010 | 10.9% | N/A | N/A | N/A |
| Hebei | 75,885 | 1,637 | 9,577 | 12.6% | N/A | N/A | N/A |
| Tibet | 20,440 | 156 | 910 | 4.5% | N/A | N/A | N/A |
| Henan | 83,471 | 819 | 4,791 | 5.7% | N/A | N/A | N/A |
| Total | 1,567,700 | 43,440 | 254,100 | 16.2% | 8,265 | 48,350 | 3.1% |

Less interest shown in moving to China

MONITOR

AFTER years of rapid expansion across the border, Hongkong's manufacturers appear to be taking a little less interest in relocating their operations in southern China.

According to the latest Industry Department report, *Survey on the Future Development of Industry in Hongkong*, most local manufacturers with plans to expand in China have already done so.

It says that there will be some continuing movement but at a slower pace than previously, with many manufacturers preferring to stay in Hongkong, provided conditions remain favourable.

A statistical survey included in the report found that, of 45,492 manufacturing establishments in Hongkong, 12 per cent claimed to own or part-own at least one manufacturing plant in Guangdong.

A further 13 per cent claimed to have contracting-out arrangements only and only two per cent reported they both own plant and had contracting-out arrangements with others.

The survey found that contracting out was most popular with the toy industry, with 60 per cent of firms using the practice, and electronics, where 46 per cent of companies used it.

It was least popular with the food and beverage industries, with only eight per cent of companies using it, and the printing industries, with just 10 per cent.

According to the detail in the report, there are about 6,300 manufacturing plants in Guangdong with Hongkong investment, 45 per cent of these being in Shenzhen, 24 per cent in Dongguan and seven per cent in Guangzhou.

The total number of people employed in these plants is estimated to be about 1.2

million on a total manufacturing floor space of 15 million square metres.

As far as the contracting-out arrangements are concerned, they have a different distribution than the Hongkong direct investments and are far more widely spread than the investments.

The biggest proportion of them, some 27 per cent, is in Dongguan, with a further 19 per cent in Shenzhen, 14 per cent in Shantou, 11 per cent in Zhuhai and nine per cent in Guangzhou.

These historical figures are hardly surprising - merely echoing much of what is already known about the activities of Hongkong firms across the border - but the future intentions are more revealing.

According to the survey, of those firms already owning plants in Guangdong, only 26 per cent said they were planning further expansion in the next 12 months and 12 per cent in the next five years.

But for those 39,200 manufacturers not owning plants in Guangdong, only five per cent have plans to expand into China in the next 12 months and only another five per cent want to expand in the same direction in the next five years.

A similar picture is evident in the contracting-out segments of industry.

Only five per cent of Hongkong manufacturers said they planned to establish such arrangements in the coming 12 months and only a further four per cent in the next five years.

"These figures would appear to indicate that most Hongkong manufacturers who had plans to expand production into China have

in fact done so and that, given the right conditions, the bulk of the remaining manufacturers would prefer to stay in Hongkong rather than move into China," the survey report says.

The survey, conducted late last year, is likely to come as a surprise to many in the local community who had been expecting further massive expansion over the border.

Given the rapid expansion in that direction over the past decade or so, some slowdown probably had to be expected, but perhaps not as much as the survey suggests.

The main aim of the survey was to research the likely future demands from manufacturing industry on the resources of the territory - land, buildings, infrastructure and the like - and how those demands might be coped with.

It also examined the manufacturers' attitudes to the Government's Metroplan proposal and the Port and Airport Development Strategy (PADS).

The survey found that, with automation and the development of service industries to support southern China manufacturing, there will be less demand for Hongkong's traditional high-rise factories.

But these high-rises will still meet the requirements of 51 per cent of all local manufacturers compared with 64 per cent now.

Perhaps a surprising finding of the survey on infrastructure needs was the demand from manufacturers for more adequate lorry parking spaces.

- IAN K. PERKIN

PREPARED STATEMENT OF DAVID M. LAMPTON *

Mr. Chairman and distinguished members of the Committee on Finance, I welcome the opportunity to contribute my personal views to one of the most important debates currently under way with respect to American foreign economic, security, and diplomatic relations—whether or not to extend nondiscriminatory (most-favored-nation—MFN) tariff treatment for the People's Republic of China (PRC).

This debate has its origins in the unnecessary and excessive violence of mid-1989 in China, the subsequent repression there, and Beijing's trade practices and weapons and technology proliferation. I am not here to defend these Chinese policies, but to address the following question—what American policy best defends and promotes our values and interests and is consistent with our nation's capabilities?

Cutting through all the rhetorical underbrush, a decision to end MFN treatment for China would: be a tragic blow to the cause of economic and political reform in China; further delay improved civil and human rights in the PRC; reduce American influence (which should not be exaggerated) as change unfolds in China; damage disproportionately the most reform-minded and entrepreneurial parts of the Chinese economy (particularly in South China and other areas along the coast); strengthen the dead hand of the state-controlled portion of the Chinese economy; hurt most, and first, the courageous intellectuals and others who remain in China and about whom we all are deeply concerned; unilaterally harm American economic interests as Europe and Japan rapidly renew and expand economic ties with Beijing after an almost two-year slowdown in the wake of the Tiananmen bloodshed; and damage prospects for economic growth and stability in both Hong Kong and the region.

Before addressing factors which generally have been ignored in the debate over MFN extension, however, two points in the above argument deserve amplification. First, not a *single* nation with which I am familiar is even considering imposing additional sanctions on China, which withdrawal of MFN treatment certainly would be. As we saw in the Gulf War, effective international action requires not only outrage and unity of purpose, but consistency of action as well. No other nation is going to cooperate in taking such drastic economic steps vis-a-vis China; the principal result will be to injure American consumers (who would pay \$6 billion in extra duties, assuming the same goods were imported) and unilaterally to disadvantage American firms, particularly those that have invested in excess of \$4 billion on China's mainland.¹ There can be no doubt that American firms and exports would be the first lightning rods for Chinese ire were MFN withdrawn or heavily conditioned.

Second, we should not let MFN status become a club which everyone who has a grievance with China uses to bludgeon not only Beijing, but the Chinese populace as well. Rather than use MFN as a shotgun, we should use our available rifles. If we are concerned with unfair trading practices (which we are), use 301 provisions. If we are concerned about Chinese weapons and technology transfer, use technology control and diplomacy.

All of these points have been elaborated upon by prior witnesses before Congress this year and last. I do not intend to repeat those arguments this morning, though I am glad to address questions you may have in these regards. Rather, I want to call the attention of this Committee to four considerations which have received virtually no attention in the testimony with which I am familiar.

First, the incongruity between the requests that the Soviet Union is making of the United States and those being made by the Chinese is quite glaring. This very incongruity, however, brings into focus some of the factors we need to consider in thinking about relations with Beijing. On one hand, Moscow asks for massive financial assistance, holding out the carrots of continued political change and *future* economic reform and the stick of global instability caused by the disintegration of a nuclear power. On the other hand, China simply asks for nondiscriminatory tariff treatment.

We should be striving to extend nondiscriminatory (MFN) tariff treatment to Moscow and not be contemplating taking MFN from China. Such an approach recognizes our limited capabilities and promotes our values and interests with respect to both the USSR and China. Integration into the world economy has stimulated political liberalization throughout much of Asia, notably in South Korea and Taiwan, though it is also clear that the road to stable democratic systems in these societies is still full of potholes, some quite deep.

* David M. Lampton is president of the National Committee on United States-China Relations in New York City. The views presented in this testimony are his own.

The Chinese path of not tying reform plans to external assistance, as the Soviets seem to be doing, but to international trade and domestically inspired entrepreneurial activity, is more consistent with U.S. capabilities, interests, and values than the Soviet approach. We should not let our justifiable outrage at grave setbacks to political reform and civil rights in China lead us to counterproductive and self-defeating actions.

While the Soviets have suggested an impressive and laudatory program for *future* economic reform, the Chinese already are far down that road, and they are not holding their plans hostage to the largesse of foreign countries. Though we must acknowledge the degree to which China's political reforms have lagged behind those of the Soviet Union, and though we deplore the retrogression on the political and civil rights fronts since 1989, we also should acknowledge that economic reform in the PRC *continues* and that it is a reliable engine for future political pluralization.

Consider the following facts about economic reform in China today:

- The role of the non-state sector is already huge in China's economy, and still growing. By 1990, less than 40 percent of China's national income was from state-controlled enterprises.
- The Chinese are biting part of the price-reform bullet, having increased the prices of housing, some energy and transportation, grain, and edible oils.
- The Chinese have a ten-year head start over the Soviets on building a legal structure to facilitate integration into the world economy. Recent copyright protection (albeit limited) is just one example.
- While the Soviets are increasingly dependent upon imports and have trouble paying international obligations, the Chinese have an export surplus. Indeed, as this Committee so well knows, that surplus (some of which has been acquired through unfair trade practices) is what angers many Americans.

These developments in economic reform in the PRC have produced a dramatic improvement in Chinese living standards. In turn, these trends will produce (sooner, rather than later) a more pluralized society that will demand, and achieve, political reform and improved civil and human rights. America should stay the course and not pull the key from the engine of positive change in China.

A second consideration that has received insufficient attention in the debate over MFN has been the following question: What do people who have suffered under current repressive policies in China want America to do? We should candidly acknowledge that objective, accurate, and comprehensive public-opinion polling data are not available for the PRC. Further, I suppose that only part of the mainland's population either knows about this debate or understands its implications. Nonetheless, we do have some fragments of data that indicate the sentiments of informed Chinese, particularly those about whom we are most concerned and who will be most affected by the decision our government makes.

Recently, a poll was undertaken at Peking University, one of the primary institutional victims of post-Tiananmen policy in China and an institution that played an instrumental role in Beijing Spring 1989. This poll revealed that 65 percent of the students surveyed opposed economic sanctions by any nation. Further, there was an informal opinion poll by Chinese students and scholars in the United States, which found a majority opposed to MFN withdrawal.² Last year, Pulitzer Prize winner Sheryl WuDunn wrote in the *New York Times*, "A small minority of Chinese intellectuals interviewed say they are so disillusioned with the Government that they support revocation of most-favored-nation status, but the great majority appear to favor continuation of trade benefits."³ More anecdotally, intellectuals whom I have known for many years in China, persons who have suffered greatly under current policy, uniformly expressed to me last month their ardent hope that MFN treatment would continue, fearing that its termination would make *them* the obvious targets for a nationalistic backlash and government reprisal.

Some analysts point to the apparent effectiveness of the economic sanctions employed against South Africa and ask, "Why not use sanctions such as MFN withdrawal against China?" There are many differences in the two cases, but the one to which I would point now is that legitimate, domestically based groups representing blacks in South Africa requested sanctions against the apartheid regime. I do not believe that the persons we seek to help in China desire the kind of assistance that is being proposed. One of the last four hunger strikers on Tiananmen Square has said, "If MFN is withdrawn, the United States will lose the critical leverage needed to help the Chinese people."⁴

A third consideration that has received virtually no attention in the MFN debate thus far is the effect on Taiwan and American security interests in the Taiwan Straits. To date, Taiwan business has invested about US \$1.5 billion (some estimates

run to US \$2 billion) on China's mainland; that number is growing rapidly, and two-way indirect trade between the island and the mainland topped US \$4 billion annually in 1990.⁵ As one Taiwan scholar recently wrote, "The growth of Taiwan-mainland trade through Hong Kong has been phenomenal. Between 1979 and 1990, the annual growth in indirect trade between these two areas was as high as 62.9 percent."⁶ This investment and trade, and the interdependencies and mutual understanding to which they give rise, is one of the greatest insurance policies Taipei has against bellicose action on the part of the mainland. Given America's gradual and appropriate scaling down of its military presence in Asia (and given the wrenching dilemmas violence in the Taiwan Straits would present American policy makers were it to break out), we have a deep and abiding national interest in economic and cultural contact between Taiwan and the mainland. As the above-mentioned Taiwan scholar recently put it, "... a continuous expansion of trade with Hong Kong and Taiwan and direct investment from these two areas to the mainland [of] China would make the PRC's economy more open and dependent on the market mechanism."⁷

And herein lies the connection to the MFN decision facing Congress—much of the Taiwan investment in the PRC, and much of the trade between Taiwan and the mainland, has as its ultimate aim the market in the United States. If we effectively deny the newly built Taiwan-invested factories on the mainland an American market (by raising the U.S. landed costs of their exports to America by an average of about 40 percent), we will severely weaken the emerging interdependencies between the mainland and Taiwan. With weaker interdependencies, Taiwan's security will diminish and our future concerns about Taiwan's security will multiply. Parenthetically, South Korean security also is enhanced by expanding economic ties between the Republic of Korea and China's mainland.

Finally, a major concern of this Committee, the Congress, the Executive Branch, and the American people is the growing deficit we have in our bilateral trade with China, particularly because this deficit does not simply reflect the result of the unfettered operation of global free-market forces. Instead, this trade imbalance, in part, exists because of Beijing's administrative intervention and unfair trade practices. We should vigorously pursue (as the Administration is doing) the ongoing talks between Beijing and the Office of the Special Trade Representative, super 301 negotiations, and anti-dumping actions, to redress these inequities.

But we also need to recognize the degree to which the PRC's growing trade surplus represents a laudatory effort on Beijing's part to repay its international debt (in excess of US \$40 billion) in a timely and full fashion. We should encourage China not to pursue the strategy of some other third-world countries in defaulting on loan obligations. Prior to Tiananmen, many westerners were worried by China's small, and declining, foreign exchange reserves.

Finally, as Table I shows, as the trade surpluses of Hong Kong and Taiwan with the United States have generally declined over the last four years, China's trade surplus with the United States has steadily risen. A substantial part of the reason is that, in effect, both Hong Kong and Taiwan have *exported* part of their trade surplus with the United States to the China mainland. If one considers the PRC, Hong Kong, and Taiwan to be one increasingly economically integrated entity, "Greater China" in economic terms, then over the last four years there has been little change in the trade surplus of this region with the United States.

This point is not made to justify unacceptable market restriction of American exports by China, or the blatant piracy of American intellectual property, it simply is to point to the fact that a large reorganization of export trade is going on in "Greater China." American policy should not respond inappropriately. Indeed, the development of interdependencies among China, Taiwan, and Hong Kong is the best guarantor of stability in this region that we have.

By way of conclusion, I have cast the argument here in terms of not withdrawing MFN from China. In the current debate, however, consideration is being given to whether or not to attach conditions to possible renewal. With respect to conditionality, I would observe that any significant conditions will be the same as ending MFN outright. This is so not only because the Chinese will, I believe, reject them but, more to the point, because American business will assume Chinese noncompliance at the end of the conditional period and rapidly cut business exposure with China in anticipation of that noncompliance. Second, I am not sure how conditions can be defined so that compliance with them could credibly be measured. For instance, how many political prisoners are there in China? What is the definition? Would we believe Chinese figures even if we had them?

In short, my fears about conditionality are that it simply sets the stage for another debate next year and that it will have the same economic effect as outright

withdrawal. Let's face up to the issue now. In my view, if we do so, we will see that continuing MFN treatment for China is the course most compatible with our interests, values, and capabilities.

Thank you.

ENDNOTES

1. U.S.-China Business council, "The Costs of Withdrawing Most Favored Nation Tariff Treatment for Imports From China," April 24, 1991, p. 2.
2. Informal paper, Council of Foreign Relations, June 3, 1991.
3. WuDunn, Sheryl, *The New York Times*, May 13, 1990.
4. Gao Xin, "Yes. Use It as Leverage," *The Washington Post*, June 4, 1991, p. A23.
5. Yu Teh-pei, "Businessmen and Chinese Bureaucracy—How Taiwan, Hong Kong, and the PRC Work Together," *draft* paper presented at 20th Sino-American conference on contemporary China, pp. 14 and 20.
6. *Ibid*, p. 13.
7. *Ibid*, p. 25.

Table I.—U.S. TRADE DEFICITS/SURPLUSES WITH TAIWAN, HONG KONG, AND THE PRC*—1987-90

(In billions of U.S. dollars)

| | Taiwan | Hong Kong | PRC | Total |
|-----------|------------|-----------|---------|---------|
| 1987..... | ** -17.508 | -5.855 | -2.788 | -26.151 |
| 1988..... | -12.983 | -4.578 | -3.439 | -21.000 |
| 1989..... | -14.498 | -3.429 | -6.231 | -24.158 |
| 1990..... | -11.513 | -2.834 | -10.443 | -24.790 |

* Source: U.S. Department of Commerce.

** A minus sign indicates a deficit.

PREPARED STATEMENT OF PERRY LINK

My professional work has been in the field of modern Chinese popular thought. Perhaps my best contribution today can be made in the area of what Chinese think and feel about the issues before you.

I begin, by commenting on a letter that Secretary of State James Baker recently sent to members of congress along with a fact sheet entitled "Chinese Attitudes Toward MFN Renewal."

On the issue of free emigration, which is tied by U.S. law to MFN, Mr. Baker's fact sheet states that 16,751 U.S. immigrant visas were granted last year, that this filled American quotas, and that therefore restriction of Chinese emigration was not caused by Chinese policy. Chinese rulers have been using this argument since Zhou Enlai used it in 1971.

But I was surprised to see our Secretary of State endorse an argument that contains such an obvious flaw. To be sure, Chinese policy does not limit the *number* of Chinese emigrants to the West. But it has everything to do with *who* will be among that number. It is true, unfortunately, that virtually the entire Chinese population would gladly accept a U.S. visa if they could. The ones who get visas (who by the way include the children of Peng Xiaoping and others of China's ruling circles) are only a minuscule fraction of the aspirants. The Communist Party well knows this fact and frequently uses it in its repression of dissent. It is common knowledge in China that one of the punishments of those who dare to speak out is that they are not even allowed to get in line at Western embassies. Even Chinese people who have managed to get a passport, a visa and an air ticket are not allowed past the gates at the airport without a letter of permission from the political leadership in their work unit. The famous Chinese writer Wang Ruowang has for years been denied permission to leave China to accept a visiting appointment at Columbia University; the same is true of China's leading contemporary philosopher Li Zehou and the University of Wisconsin: the wife of China's leading poet Bei Dao, now in exile, had a passport and visa in hand, but the passport was confiscated the day before her planned departure to join her husband in the West. All of these have been blocked by Chinese authorities for purely political reasons. And they are only the tip of a very large iceberg.

This kind of leveraged intimidation permeates Chinese society in many other ways. Communist Party secretaries all across China hold the power not only of

travel permission but employment, housing, education, medical care, access to rationed goods, permission to marry, bear children or divorce, and can even write reports that send people to prison. They use this power constantly to enforce conformity. In the popular Chinese language, when an official harasses a citizen by withholding essential permissions, people say he makes the citizen "wear small shoes" (*chuan xiaoxie*). When the official comes up with a fancy excuse to make his harassment seem justified, the Chinese people say he makes you wear "glass slippers" (*boli xiaoxie*), because they are invisible but still pinch your feet. When Deng Xiaoping says, "Look, Western immigration quotas are full: therefore China allows free emigration," he is in effect forcing millions of Chinese to wear glass slippers. And by endorsing his specious argument, Mr. Baker is holding the shoe horn.

Mr. Baker's fact sheet refers to a survey of Chinese public opinion showing nearly unanimous support for MFN. This survey is hard to evaluate, because it does not distinguish between conditional and unconditional MFN, gives no actual numbers or percentages, and no explanation of interview techniques, which are difficult in a repressive society. But reliable polls of Chinese opinion do exist. Chinese intellectuals themselves sometimes do them. During the democracy movement a survey done at the psychology Department Beijing Normal university found that 96% of the Beijing populace supported the student demonstrators, with 1% opposed and 3% giving no response. In May of 1990, the last time MFN was an issue, a random-sample multiple choice survey of 453 Beijing university students showed the highest percentage going to the following answers: our "mood is depressed," we view the future "with despair," treatment of intellectuals "is getting worse and worse," people want to emigrate because "they have to, there is no future for them in China," the economic sanctions of foreign countries are "based on humanitarianism," and the proper response to economic sanctions is to "talk in every possible way" with the people in the foreign countries. Both these surveys were suppressed inside China because they showed the "wrong" answers. The first was eventually published in *The New York Times*, and the second was hand-carried out of China by a dissident. I hope you will bear these survey results in mind when you read Mr. Baker's quotation of one Beijing university student characterizing sanctions as "economic blackmail."

I want to make another point that might seem strange coming from a "China expert," namely that you really *don't need* a China expert in order to understand the basic reactions of human beings under oppression. Just step back for a moment and ask yourselves this: where in modern history have a people under repression ever said to the outside world, "*don't bring pressure on our oppressors?*" Or "just stand aside, let the diplomats talk, and don't cause trouble?" Andrei Sakharov didn't say that; Nelson Mandela didn't say that; Vaclav Havel didn't, Elie Wiesel didn't; the people who suffered under Manuel Noriega didn't; the Kurds in Iraq didn't. These voices represent different countries with different cultures suffering different kinds of repression. But their voice in response to repression is consistent: they say please do speak, do exert pressure. You should do it precisely because you are free to do it and we are not, and our common humanity is the only reason you should need. Why do we suppose that the Chinese people are different from all these other cases? If your human intuition tells you to doubt Mr. Baker's fact sheet, when it claims that Chinese people do not want foreign pressure put on their government, then please trust your intuition. And tell Jim Baker a China scholar said it's all right.

The voice of the Chinese people since the death of Mao Zedong has been clear: "We want *both* economic and political change." Peng Xiaoping's answer throughout the 1980s was that you can have economic change, but not political change. Peng's refusal to allow political change was the major cause of the Tiananmen demonstrations. What the Bush administration is now doing by its refusal to add human rights conditions to MFN is to endorse Peng Xiaoping's formula of "yes" to economic progress and "no" to political progress. This stance betrays American values and frustrates the hopes of the Chinese people. Moreover it *will not work*. The case of China itself in the 1980s clearly shows that it does not work to attempt economic reform in the absence of political reform. The Chinese economic reforms that looked so hopeful in the early 1980s ground to a halt beginning in 1986 precisely because they ran into the iron teeth of an unchanging political system.

The need for political reform is the reason why it is so important to attach conditions to MFN. For the Chinese people the ideal outcome would be put conditions on MFN, to have them work, and in the end to get MFN, too. Pursuit of this goal raises two questions: (1) Does it work to put pressure on China's rulers? (2) What conditions should be put?

The record shows that it does work to put pressure on China's leaders. After Fang Lizhi took refuge in the U.S. Embassy, the spokesman for China's state Council, Mr.

Yuan Mu, announced that China "will never [N.B.: never!] accept a third-country formula" for releasing Fang. But a year later, after pressure and negotiations, precisely that formula was used to release Fang to England.

Another example appears in Mr. Baker's own recent letter. Mr. Baker cites "the initiation of human rights dialogues" between China and the United States as a fruit of the Bush China policy. Mr. Baker is correct that dialogue on human rights is a good sign, but terribly mistaken if he believes that personal trust between George Bush and the Beijing hardliners is what did the trick. The elderly leaders in Beijing are well-weathered battleaxes. They have been through a Long March, three wars, constant power struggles, many purges, a titanic Cultural Revolution, and the largest famine in recorded history. They have survived all this. They understand power. They do not make their decisions based on "good-buddy" feeling with a Yankee from Maine who does not speak Chinese. They made the decision to open a "human rights dialogue" because of precisely the kind of external pressure that Mr. Baker opposes: pressure that, in this case, came from Congressional resolutions, the reports of human rights groups, and expression through a free press.

The argument that external pressure might cause China to turn isolationist is based on a view of China that was accurate in the 1950s and 1960s but highly inaccurate now. Mao Zedong had tremendous personal prestige and power, and could by himself cause the country to lurch one way or the other. Peng Xiaoping does not have nearly Mao's prestige, and the next echelon of leaders has much less than Peng. There are very few people in China, even within the Communist Party and government, who want China to turn isolationist again. It would take an extremely prestigious leader to make this happen, and no such leader exists.

From the point of view of the interests of the Chinese people, the most important condition to attach to MFN is freedom for political prisoners. The good that would result from the release of prisoners would reach far beyond their own cases. China's whole system of repression is based on the denial of free speech, and that denial is ultimately backed by the threat of imprisonment. The news that political prisoners were being released would have a tremendous leavening effect throughout Chinese society.

PREPARED STATEMENT OF RON RIVINIUS

Good morning, Mr. Chairman, members of the committee, I am Ron Rivinius, President of the National Association of Wheat Growers.

On behalf of the NAWG, I thank you for the opportunity today to comment on this issue which is of such extreme importance to U.S. wheat producers. China is a major export market for a variety of U.S. farm products, although it is especially important for American wheat farmers.

The People's Republic of China is the world's largest producer and consumer of wheat. Despite very large domestic production, ranging most years between 85 mmt and 95 mmt, Chinese domestic needs typically exceed 100 mmt each year. According to USDA statistics, total annual wheat imports from all sources have averaged 12.9 mmt over the last five marketing years (July/June).

The United States has been an active exporter of wheat to China since the normalization of relations in the late 1970's. Chinese purchases of U.S. wheat have increased fairly steadily throughout the 1980's. Wheat is currently considered the preferred food grain in China and as such, it is in very great demand. In 1988/89, China emerged as the largest importer of U.S. wheat. It has maintained itself as Our No. 1 customer since then and promises to remain a major market for 0.5 wheat through the end of the century barring any disruption in current trade flows.

China is one of the world's poorest countries with an estimated per capita income of \$320, yet it traditionally buys U.S. wheat on a purely commercial basis through the National Cereals, Oils, and Food Stuffs Import-Export Corporation (CEROILS). Before being targeted for the export enhancement program (EEP) in January 1987, the PRC had never participated in any USDA export promotion program such as the GSM credit guarantee programs or the PL-480 concessional food aid program. In addition to being our No. 1 overseas market, China is our top cash customer.

Most of the Chinese buying agency's purchasing decisions have been based on price, although lately the PRC has been diversifying its sources of supply in terms of end uses. The Chinese most often buy U.S. soft red winter wheat (from Ohio, Illinois, Indiana, Missouri, and Michigan), hard red winter wheat (from Kansas, Oklahoma, Texas, Colorado, Nebraska, Montana, South Dakota, and California), and some spring wheat from the Dakotas.

We believe the bestowal and extension of MFN has played a significant role in improving our trading relationship with China and in promoting the use of American wheat there. U.S. wheat exports to the PRC prior to the granting of most favored nation trading status, averaged less than a million metric tons per year. In many of those years, the Chinese bought no wheat at all from American farmers.

Since the warming of relations between the two countries, especially during the 1980's, U.S. wheat exports to China have improved remarkably—averaging 4.9 mmt over the last ten years.

From our limited experience dealing in the Chinese wheat industry, we feel very strongly that the consolidation of solid commercial trading relations between the U.S. and China has led to both economic and political liberalization in China. U.S. Wheat Associates, the market-development arm of the U.S. wheat industry, has had much success in promoting free market ideals in China through the establishment of a flour mill in Beijing and a model instant noodle factory in Shanghai.

I would caution you, however, that the building of this relationship has not been easy or smooth.

The breakdown of efforts to renegotiate the expiring U.S.-Sino Agreement on Trade in Textiles and Textile Products led to the unilateral imposition of quantitative import restrictions on Chinese textiles On January 18, 1983.¹ China responded to the U.S. action by suspending the purchase of previously agreed upon quantities of U.S. wheat and other farm products. American wheat farmers were virtually frozen out of the Chinese market for several years. Only after USDA made China eligible for participation in the export enhancement program did we begin to recapture a significant share of the Chinese wheat market.

The U.S. competes mainly with Canada, Australia, and the European Community for the Chinese wheat business. It is our understanding that none of these countries, nor any of China's other trading partners, are currently considering revoking China's MFN status. Our past experience with China demonstrates to us that pursuing such a unilateral policy against China will have devastating long-term consequences for U.S. wheat growers.

A recent Congressional Research Service study entitled, "China's Most-Favored Nation Status: U.S. Wheat Exports" supports our view. The CRS report estimates a short-term wheat price plunge of 27 cents per bushel in the event the U.S. breaks off trade relations with China and China refuses to purchase U.S. wheat. It suggests that the longer-term price effect may be even larger due to the negative psychological effect on the markets of losing the U.S.' top foreign wheat market.

In addition to the price impact, the loss of China as a U.S. wheat market would result in reduced overall farm cash receipts and lower aggregate farm income. Furthermore, other commodities would suffer due to the increased competition from wheat farmers who would plant other crops such as soybeans or cotton using the triple-base feature of the 1991 farm program.

Using 1990 wheat production data, CRS concludes a combined Federal government and wheat sector cost of more than \$740 million in the event China's MFN status is discontinued and China retaliates against U.S. wheat exports.

CONCLUSION

For Americans wheat farmers the question of whether or not to extend China's most-favored nation trading status is clear. It is a black or white decision. A vote in favor of continued MFN to China is a vote to keep our Nation's wheat farmers in business. A vote against China's MFN is a vote to change the U.S. wheat industry as we now know it.

The past decade of farm legislation has resulted in U.S. farmers becoming more "market-oriented". Let me stress the key word here: market. The health of the U.S. wheat industry is vitally dependent on strong exports and reliable access to markets.

At this time, China represents our best market. It is certainly one that we cannot afford to lose. We, the National Association Of Wheat Growers, respectfully urge Congress to support the renewal of MFN trade treatment for the People's Republic of China.

This concludes my statement. I will be more than happy to respond to your questions at the appropriate time.

¹ See "Textile Import Quotas and United States-China Trade Relations: The Dangers of Protectionism," by James Meade, Volume 10, number 2 of the *Brooklyn Journal of International Law*.

PREPARED STATEMENT OF WILLIAM SIMON

My name is William Simon. I am the founder and managing director of Odyssey International Ltd. of Hong Kong. Odyssey is one of the world's leading manufacturers of sports and outdoor products and operates factories throughout Asia. Odyssey ships approximately \$200 million at FOB cost from the Far East. Of this amount, \$60 million represents goods manufactured in China for export to the United States. In recent years, Odyssey has expanded its manufacturing to the United States. The Company has started three factories in Arizona and Utah during the past year and intends to open eight to ten additional plants during the next three years. Among Odyssey's branded subsidiaries are American Companies, The North Face, Sierra Design, Marmot Mountain Works and Frank Shorter Sportswear. Odyssey's customers include L.L. Bean, Eddie Bauer and Land's End.

I have made over 150 visits to China during the past fifteen years and am in close contact with friends and acquaintances in thirteen Chinese Provinces. I believe that I have a reasonable understanding of the views of a cross section of the average Chinese citizen.

RENEW MFN WITH CONDITIONS?

By doing so you would be unsowing the seeds of democracy that have been growing in China these thirteen years and furthering the cause of those who most oppose the ideals of the United States. If you knew China and its people as I do, you would know, beyond doubt, that China can not be coerced into adopting American values. Rather you would know that through continued contact between American and Chinese citizens, through business, cultural and educational exchanges, our American ideals will prevail. Most importantly, you would know, in spite of some abhorrent and highly publicized problems which do exist in China today, that freedom, even in China, is contagious and inevitable.

I visited China in 1976 seeking to turn Peking duck (and goose) into down filled sleeping bags for American mountaineers. In my first meeting held at the Canton Trade Fair, eight men and women, barely distinguishable in attire and demeanor, sat unsmiling across the table from me. Although only a few feet apart, the gulf that divided us was filled with mutual distrust and suspicion. We were enemies. To me, they were communists and collectivists. To them, I was a capitalist and an imperialist.

They began extolling the virtues of Chairman Mao and pointing out that any demand for down sleeping bags in the United States no doubt arose out of American aggression during the Korean War. I began, as schooled, by explaining that, while our political beliefs were poles apart, by working side by side to build something useful, we might, in some small, infinitesimal way, help bridge the gap that separated our two great countries.

The barriers to doing business were formidable. Many mistakes were caused by communication errors. Misunderstandings were rampant. Bureaucracies on both sides of the Pacific set us back. But gradually, like a flower blossoming, the barriers fell, the misunderstandings disappeared, and the mistrust and suspicion gave way to friendships.

In the seventies, facing the portrait of Mao Tse Dong at the head of Tiananmen Square were four huge portraits of Marx, Engels, Lenin and Stalin, the founders of the communist ideology upon which the Chinese political system was built. Not long after Deng Xiao Ping launched the reform movement in 1978 and the United States granted MFN to China, the four huge portraits were removed.

Today if you stand in Tiananmen Square and look 8,000 miles west to the Soviet Union and Eastern Europe, you can see the foundation of communism crumbling into dust. All my friends and acquaintances throughout China, up and down the hierarchy, from political leaders to factory supervisors, are envious. They, too, want all the freedoms now. But they understand that, in a country with a five thousand year history, patience and perseverance are wise virtues.

Members of Congress, I implore you not to attach conditions to the renewal of MFN. Admonishing the Chinese leaders for being unable to govern their own people would humiliate them in front of the whole world and cause a loss of "face" so extreme that Chinese and American relations would be irreversibly impaired. Please do not underestimate the concept of "face." There is no question in my mind that the Chinese leaders, and many in China who are currently our allies, would act against their best economic interests in order to preserve their "face."

\$10 BILLION TRADE DEFICIT?

These figures are misleading. Perhaps, there is no "true" deficit. Much of this surplus represents goods actually manufactured elsewhere, a considerable amount of it in the United States. I would be happy to gather documentary evidence to support this contention and deliver it to the Committee within ten days. Many of Odyssey's components such as fabrics, insulations etc. are produced by American companies including W.L. Gore, Dupont, 3M, Milliken and Burlington. Most of the value added in China is labor amounting to about 20% of the FOB cost. Nevertheless, the entire value of our product is included in China's surplus with the United States. Our company has embarked on a deliberate policy of sourcing as many of our textile components as possible within the United States.

PREPARED STATEMENT OF DON VAUGHN

Mr. Chairman and members of the Senate Finance Committee, I am pleased to be here to testify on behalf of the members of the Emergency Committee for American Trade (ECAT) in support of extension of MFN trade status for China for the year beginning on July 3, 1991.

I am Don Vaughn, and I am President and Chief Executive Officer of the M.W. Kellogg Company, a unit of Dresser Industries. My company provides engineering and construction services in the petrochemical industry and has been active in the People's Republic of China since 1973. In the past 18 years, we have designed and assisted in the construction of over 25 major projects with a value in excess of \$1 billion. These projects convert China's natural resources into useful products. Since the beginning of our activities in China, we have seen slow but steady progress in the ability of the Chinese managers to adapt to Western commercial thinking. Our company has established programs to train Chinese in our work procedures and management techniques both in China and Houston. Our company has sponsored Chinese students for U.S. university education and has conducted management training sessions for plant employees and engineers in our Houston offices. We believe our direct and continuing relationships have had a very positive impact on China's progress not only to modernize certain industrial sectors but also in cultivating pro-Western free market thinking and more open management practices.

I recognize that there is a serious struggle ongoing in China, and we are hopeful that a progressive transition will occur where all Chinese people will enjoy guaranteed individual liberties.

We in ECAT conclude that we should continue to play a constructive role in China in our many commercial endeavors. In my company, we just concluded a long-range review of the potential markets for our services in China. We are encouraged that the long-term involvement will accelerate the economic and social transition within China while preserving a vitally important export market for U.S. companies.

The continuation of MFN with the existing Jackson-Vanik provisions is essential to bringing our long-term plans to fruition. We recognize, understand, and share the grave concerns about the Chinese government's repressive actions toward its own citizens. However, we do not believe that China's aged leadership would reverse its course in a manner desired by those advocating further conditions on MFN or the outright denial of the MFN extension.

We rather believe the opposite to be true, that engagement with China is more likely to influence China's policies in the human rights and other areas than is the degree of disengagement that would follow the denial of MFN trade status.

One reason for this belief is that the age of China's current leadership is such that a new generation of leaders can soon be expected to assume governance. It would seem important that we have as much contact with China's future leaders as is possible in the interests of furtherance of U.S. objectives, including improvements in the area of human rights. Without MFN, however, there will be far less economic contact with these Chinese officials and less opportunity to exercise influence.

There are many benefits that flow to the citizens of China from a U.S. business presence. In addition to the employment of many thousands of Chinese citizens, China and its leaders benefit from the opportunity through contact with U.S. citizens and American ways of doing business to learn about the free enterprise system and its social as well as economic benefits.

The Chinese now employed by American firms constitute the core of an entrepreneurial business people that could be vital to a freer Chinese future. Withdrawal of MFN by the United States could only be harmful to them.

Much of the business conducted by U.S. firms in China is in the coastal provinces and cities such as Shanghai. The leaders of these provinces and cities have established close links with foreign business people, and have exerted a modest degree of independence from the Beijing leaders. Violations of civil and human rights, incidentally, have to our knowledge been rare in the coastal provinces.

The denial of MFN for China would cause significant harm to these provinces, their workers and their leaders through the shutdown or slowdown of U.S. business operations. On the other hand, loss of MFN would have a far lesser effect on the inland provinces.

Pursuant to the exchange of MFN trade status by the United States and China in 1980, a number of ECAT member companies have made direct investments in China. Other companies have established a variety of other business relationships, including the development of export sales to China of several billion dollars a year.

Our business opportunities would obviously be hurt by the loss of MFN, which would result in an approximate tenfold increase in the U.S. tariff as well as similar increases in China's tariff. Trade between the two countries would dwindle and many U.S. investments in China would be made uneconomic. One reason for this is that in most cases the Chinese government is the major purchaser of goods produced by U.S. enterprises. In reaction to the denial of MFN by the United States, the Chinese government could be expected to switch its purchases from U.S.-related enterprises to those of other nationalities.

Aside from the direct loss of sales to the government, there would be further damage to U.S. business interests because of the expected loss of necessary cooperation of various Chinese government agencies.

To a far greater degree than in a market economy, business enterprises in China depend heavily on the complete cooperation of Chinese government agencies to provide utilities, financing, land and property leasing, import and export licensing, telephone and cable services, and other requisites for the operation of a business.

Without this cooperation and a good relationship, it is virtually impossible to do business in China. Chinese officials could simply not afford to be seen dealing with U.S.-related business operations under the strained conditions that would follow the removal of MFN trade status.

China has enormous market potential for the United States. With a quarter of the world's population and an economy that is tilting toward more openness, as witnessed by my company's experience over the last 18 years, it is important that U.S. firms have the same opportunity as their foreign competitors to conduct business in and with China.

While the short term losses that would follow withdrawal of MFN would be troublesome, the longer term consequences are far more worrisome to U.S. business. There is every reason to believe that our Japanese, European and other competitors would benefit through picking up the short and long term business lost to U.S. firms by MFN withdrawal. Once you're out, you're out. It is very tough to get back in.

The major allies of the United States share the feelings of America about recent events in China. None, however, is proposing to suspend MFN trade status for China. They view such an action as contrary to their national interests, particularly their national economic interests. Unlike the United States, our allies do not invoke *unilateral* economic sanctions.

Whenever the United States has invoked *unilateral* economic sanctions—which is often—they have never achieved their often intended purpose of forcing behavioral changes abroad. While the sanctions may have satisfied some as an expression of moral outrage or indignation, they have caused others to lose their jobs and they have resulted in substantial short and long term business losses for U.S. firms. Moreover, the unilateral economic sanctions bear the opportunity cost of the positive contribution U.S. businesses make to overall development when engaged in full commercial activities.

In the period immediately following World War II, unilateral U.S. economic sanctions might have achieved public policy purposes, since foreign purchasers had nowhere else to go but to the United States. It is hard to conceive of an instance where this would be true today.

U.S. national security increasingly depends upon economic security. U.S. business helps to supply that security and wants to improve on its current competitive position. To do this requires open access to foreign markets, including the newly opening markets in China, the Soviet Union and the countries of Central and Eastern Europe.

It is important for U.S. global competition that U.S. business have a continued and meaningful presence in China. Not to continue to be in on the ground floor of China's economic growth—a potential consequence of MFN denial—could cause

great damage over the long term to U.S. workers. In today's global market, the United States cannot afford to be on the sidelines.

U.S. business has legitimate grievances with the government of China. We are concerned, for example, with China's extensive use of import licensing as a means of keeping foreign goods out of the Chinese market. We are concerned with the pirating of intellectual property rights by China as we also are concerned with a host of bureaucratic restrictions on our ability to conduct our businesses efficiently in China. Reports that China is exporting goods made by prisoners are distressing as are reports that China is exporting missiles and cooperating with other countries on nuclear matters.

We understand that each of the above matters is being addressed by our government, and we support aggressive use of appropriate U.S. trade statutes. We commend the government for invoking the Special Section 301 provision regarding China's pirating of intellectual property rights, and we are encouraged by the consultations with China aimed at redressing the trade imbalance. China has acknowledged that it needs to import more from the United States. We hope that this will provide us with relief from unnecessary import licensing and other trade restrictive measures.

We would also hope that if China in fact is found to be exporting goods to the United States that are made in Chinese prisons that the government would invoke Section 307 of the Tariff Act of 1930 which provides the authority to prohibit the importation of such goods into the United States.

In short, we believe that existing authorities in the arsenal of U.S. trade law are adequate to resolve ongoing commercial differences that we have with China. We encourage their full and expeditious use.

Before concluding I would like to note that the economic well being of Dresser Industries and the other member firms of ECAT and their employees depends to a very large degree on their sales in overseas markets. Without these markets, their ability to compete in the United States and abroad with their global competitors would be substantially diminished, with consequent job losses for their employees.

If the United States is to maintain its competitive edge, it cannot afford to ignore foreign market opportunities, including those in China. To our knowledge, no other government is considering revoking MFN status for China. Other governments are rather providing opportunities for their private businesses to do business in China by expanding trade credits and trade finance mechanisms.

We urge the Congress to approve the extension of MFN trade status to China without additional conditions. A grant of conditional MFN in and of itself would create the uncertainty that would stifle commercial relations.

Rather than do this, we in the business community would like to see the Jackson-Vanik amendment amended to provide for three or five year grants of MFN rather than the annual grants as under current law and practice. The greater the degree of uncertainty, the greater the disincentive to invest for the future in order to strengthen America's competitiveness.

PREPARED STATEMENT OF S. LINN WILLIAMS

Continuation of Most Favored Nation (MFN) trading status for the People's Republic of China has broad policy implications for our trade and foreign policy relationship with China. Deputy Secretary Eagleburger has addressed U.S. foreign policy and national security interests in continuing MFN status for China. At USTR, our focus is on trade and market access. I would like to focus on what we are doing to improve this market access and the potential effect that discontinuing China's MFN trading status would have on our efforts.

Since 1980, there has been change for the better in China's economic systems and its outlook on the world, but there are serious problems.

THE BILATERAL TRADE RELATIONSHIP

Formal establishment of bilateral trade relations and the reciprocal granting of MFN trading status occurred in 1980 with the signing of a U.S.-China trade agreement. Since then, the U.S.-China trade and economic relationship has grown into significant commercial ties between the two countries that have helped to bring China into the global trading system. Viewed in easily quantified terms, such as trade volume, the evolution of the bilateral trade relationship is striking.

Over the last decade, U.S.-China two-way trade has increased almost 770 percent, from 2.3 billion dollars in 1979 to over 20 billion dollars last year. Over the last five years, China has become a significant force in regional and world trade. Foreign

trade as a percentage of China's GNP rose from 14 percent in 1981 to 33 percent in 1990. The U.S. is now China's third largest trading partner and its largest export market. China is the United States' tenth largest trading partner, up from fifteenth in 1981. Americans imported over 15 billion dollars worth of goods from China in 1990.

The United States exported 4.8 billion dollars in goods to China in 1990, despite a severe austerity program that cut drastically into Chinese global imports in 1990. China continues to be a major purchaser of U.S. wheat, aircraft, timber, chemical fertilizers, and computers and other electric products. Over 1,000 American companies have committed investments of more than 4 billion dollars to long-term, U.S.-Chinese joint ventures. Approximately 500 American companies have representative offices in China conducting liaison and trading activities, and Beijing is now home to one of the newest American Chambers of Commerce abroad. This American business presence in China is augmented by the American Chamber of Commerce in Hong Kong, one of the largest in the world, with over 900 members, many of whom are involved in trade with China.

Less obvious but equally striking is the positive influence that increased commercial relations with the U.S. has exerted on China's business and economic practices since the early 1980s. Over the last decade, China shifted perceptibly away from total reliance on a strongly centralized economy with a high incidence of planned international trade and began showing a greater tolerance for experimentation. This included limited introduction of some market mechanisms into the domestic economy and a gradual decentralization and liberalization of foreign trade practices.

Greater exposure to U.S. business practices, through both joint-venture activity and normal merchandise trade transactions, has led to changes in Chinese perceptions of how to conduct business. Many Chinese firms, including some state enterprises, began actively seeking to acquire U.S. business management techniques.

Also during this period, China began paying serious attention to establishing a body of laws aimed at protecting and encouraging international business relationships. China codified laws on contracts; passed its first foreign investment law and tax laws, and enacted its first patent and trademark laws. China also began to seek entry into international organizations such as the GATT and the World Intellectual Property Organization (WIPO). In the space of only ten years, China emerged from self-imposed isolation to become a participant in the global trading community, aware of the community's rules and increasingly sensitive to its criticisms. This transformation is due in large part to the many channels of communication that opened up as a result of China's receiving MFN trading status in 1980.

Over the last two years, however, China's trade policies have skewed the bilateral trade relationship increasingly in China's favor. As made clear by a growing chorus of criticism in the United States, China's policies have made the relationship less mutually beneficial, as China has intensified and proliferated barriers to imports, making it more difficult for U.S. firms to gain fair access to its domestic markets. In 1990, China was the only major market for U.S. goods and services in which sales experienced an actual and appreciable decline. The United States now runs a substantial, and growing, trade deficit with China. But, more important than the existence of the deficit is the fact that the deficit reflects a decision to resort to protectionist measures.

China's barriers to imports take a variety of forms and cover a broad spectrum. These include the following: China requires import licenses for a wide range of products; quality licenses for items defined as affecting the environment, health and public safety; and excessive inspection standards and reviews for certain imports. Import bans and centrally-managed plans cover products ranging from selected electronic equipment, production machinery and assembly lines to timber and grains. Under the 1989 austerity program, centrally-managed or "guidance" planning, which Beijing uses to fix import prices and quotas, expanded to cover an estimated two-thirds of China's trade. Tariffs and duties have also been raised on numerous items, such as scientific apparatus, cosmetics, selected processed foodstuffs and consumer appliances.

Chinese textile and apparel transshipments to the United States through other countries, in violation of our bilateral textile agreement, is another substantial trade problem we have with China. The U.S. Customs service has done a superb job of detecting and detaining Chinese shipments entering the United States under false country of origin documentation. China has taken some significant steps to end this fraudulent practice; unfortunately, fraudulent transshipments continue. We are working with those countries through which such transshipments occur to strengthen enforcement. We expect that China will make greater efforts to deal with this

important issue; but, if China is unable or unwilling to do so, we will take the measures necessary to stop this practice.

Merchandise trade and the deficit tend to be highly visible, often overshadowing another contentious aspect of the U.S.-China relationship, the inadequate protection given foreign intellectual property rights within China. Despite the gains to be had from the legitimate acquisition of intellectual property from the United States and others willing to share, China remains one of the world's premier violators of others' intellectual property rights.

China's predatory behavior is a source of great concern to us. Many in the United States are frustrated with China's slow, and as yet, inadequate progress in protecting the intellectual property rights of U.S. authors, composers, software designers, and others who create and own intellectual property. Many U.S. business and intellectual property associations have complained about China's poor record in protecting rights for copyrights, trademarks, patents and trade secrets owned by Americans.

We have been actively pressing the Chinese to make changes that will give Americans access to Chinese markets and protect their intellectual property rights. Over the last six months, we have met with senior Chinese trade and intellectual property officials on at least five occasions; most recently in Washington April 10-12 and again on May 21. In a demonstration of our resolve to see progress in intellectual property issues, USTR, on April 26, identified China as a priority foreign country under the special 301 provisions of the 1988 trade act. The special 301 investigation was launched on May 26 and, from June 11-15, a United States Government delegation, headed by Assistant USTR for Japan and China Joseph A. Massey, was in Beijing meeting with senior Chinese officials on intellectual property and market access issues.

We continue to press the Chinese with all the means at our disposal, and the Chinese continue to be willing to sit down and negotiate with us because they have an incentive to do so under the framework of a stable bilateral relationship. MFN underpins this relationship. We believe, therefore, that discontinuing MFN reduces our leverage in our market access negotiations and ultimately hurts our trade interests for the following reasons.

IMPLICATIONS FOR U.S. DOMESTIC COMMERCIAL AND CONSUMER INTERESTS

American importers and retailers would suffer serious business disruptions should China not continue to receive MFN tariff treatment. Loss of MFN duty rates would increase tariffs on imports from China as much as ten-fold, essentially bringing back the protectionist tariff levels of the 1930s Smoot-Hawley Tariff Law for Chinese goods. For example, tariffs would rise from 6 percent to 35 percent on certain sweater imports, from 12 percent to 70 percent on dolls, and from 14 percent to 110 percent on watchbands. In general, tariffs on the 25 most important U.S. imports from China would rise from the present average tariff rate of 8.8 percent to an average tariff rate of 50.5 percent.

Large duty rate increases would mean higher prices for Chinese goods in the U.S. market. Rather than attempt to market goods from China at substantially higher prices, many importers would simply be forced to look for alternative sources of supply. Larger importers and retailers would likely weather the difficult and costly adjustment. But numerous small companies dependent on Chinese suppliers might find themselves strapped for suppliers and, ultimately, forced out of business. Thousands of retail jobs could be at risk.

Denial of MFN trading status for China would also mean that U.S.-invested joint ventures located in China would be subject to non-MFN tariff rates. Loss of MFN could impede sales for those joint ventures exporting goods to the U.S., compelling them to consider other markets and raising the risk of investment loss in an already challenging operating environment. Many of the American partners in these joint ventures made major commitments in China over the years, based on the assumption that a long-term presence would be to each nation's mutual benefit based on an economic relationship of increasing stability.

Change in China's MFN status would also result in substantial costs to American consumers, especially less affluent Americans who are the primary consumers of low-cost Chinese products. China supplies 48 percent of the toys sold in the United States, 14 percent of the imported apparel, 15 percent of the footwear, and a rapidly increasing volume of electronic products. Estimates are that, on average, non-MFN tariffs would increase landed costs of Chinese products by approximately 40 percent. It is likely that a large percentage of the increased cost of these products will fall on the consumer. A reduction in imports from China in some categories of goods might

lead to consumer shortages and higher retail prices in the near and intermediate term.

IMPLICATIONS FOR U.S. EXPORTERS TO CHINA

The granting of MFN status is reciprocal. If the United States decides not to renew China's MFN trading status, it is a certainty that Beijing will respond by rescinding MFN tariff treatment for the United States. This would severely disadvantage U.S. exporters, who would be subject to prohibitive import duties under China's non-MFN tariff schedule. Major U.S. exports at stake include:

- cereals (512 million dollars in 1990);
- aircraft and aerospace equipment (China has imported an average of close to half a billion dollars worth of U.S. aircraft in each of the last five years, 749 million in 1990);
- fertilizer (544 million dollars)
- cotton yarn and fabric (281 million dollars);
- wood and wood pulp (238 million dollars);
- electric machinery (264 million dollars);
- scientific equipment (227 million dollars);
- chemicals (238 million dollars);

Substantially higher tariffs on U.S. exports to China would effectively exclude U.S. exporters from China's domestic markets. The costs would be devastating to U.S. companies attempting to compete with other foreign vendors for market access in China. Over the last decade, many of these companies have invested heavily in time, money and human resources in building viable businesses in China and in cultivating commercial and professional contacts in China. Other foreign vendors competing in identical or similar product lines would be the beneficiaries since they would not be laboring under the burden of prohibitive import duties. The position of U.S. firms operating in China without MFN status could be made even more difficult by official spending constraints imposed by Beijing on all purchases involving foreign exchange transactions.

Market share thus lost would not be easily regained. In order to maintain any market position in China, U.S. firms would constantly be compelled to develop new markets in areas where they had initial technological advantages and little real competition. Foreign competitors, not hampered by non-MFN status, would be quick to exploit such markets. Under such conditions, U.S. firms would find themselves serving as little more than pathfinders for competitors seeking entry into new China markets, while enjoying only limited benefits from their efforts. President Bush has consistently made American trade and competitiveness a top priority of his administration. Denial of MFN status for China would undoubtedly undermine that important policy objective.

IMPLICATIONS FOR U.S.-CHINESE GOVERNMENT COMMERCIAL RELATIONS

MFN has been an important tool for helping the United States to achieve economic policy objectives with China. The significant role played by bilateral trade and U.S. investment in China's economy have enabled the United States to engage Chinese leaders in consultations on bilateral and multilateral issues important for U.S. economic and commercial interests, even during periods of extreme tension. For example, on the multilateral side, we have used China's application for GATT membership as a means of urging China to continue its market-oriented reforms and to accept international trade norms. We have also used China's observer status in the recent TRIPS negotiations to nudge China closer to conforming with international standards of intellectual property protection and to accelerate China's joining international intellectual property conventions, such as Berne. These are long-term processes that are of enormous importance for U.S. businesses and the continuation of an open and orderly international trading system. Our ability to continue to exert a positive influence on Beijing for many multilateral issues would be virtually nil if we were to effectively sever our bilateral trade relationship with China.

The existence of a continuing stable commercial relationship with China has enabled us to engage China on a variety of bilateral trade issues, as well. As I noted earlier, improving market access for U.S. business is a top trade priority. Because China is not a GATT member and not bound by GATT trade disciplines, it is important to have a lever that enables us to engage the Chinese in a meaningful dialogue on trade issues. MFN gives us that leverage.

I would like to reiterate: one of our highest priorities is to secure from the Chinese Government commitments to improve intellectual property rights (IPR) protec-

tion for U.S. works within China. U.S. software producers and other high-tech companies encounter serious IPR problems in China. Bilateral consultations on these issues have been difficult and progress slow; as a result, the United States Trade Representative has identified China as a priority foreign country under the special 301 provisions of U.S. trade law on April 26, 1991. A six-month special 301 investigation is now in progress. Although this remains an extremely contentious area between the U.S. and China, the stability of our bilateral relationship has provided the incentive necessary for continuing consultations.

We continue to have serious concerns about other Chinese trade practices and obstacles to foreign investment. These include mandatory export quotas for foreign-invested enterprises, import substitution policies, restrictive quality requirements for and quotas on imports of consumer goods, and protectionist regulations that deny U.S. service industries fair access to the Chinese domestic market.

We are also concerned about all these problems, as well as about the growing U.S. trade deficit with China that has resulted from market access problems, and China's current policy of economic retrenchment. But, removing China's MFN status would not resolve these problems. To the contrary, withdrawing MFN would undermine the entire bilateral relationship and result in a serious loss of leverage that would make it exceedingly difficult for the United States to obtain any concessions from China on these and other trade and commercial issues. We are more likely to make progress in resolving these difficulties within the framework of a sound commercial relationship, for which MFN is essential, than in a deteriorating relationship that would result if we withdraw MFN.

IMPLICATIONS FOR THE U.S. AS AN INTERNATIONAL TRADE LEADER

Damage to America's reputation as a reliable trade partner may be another consequence of withdrawing MFN status from China. As President Bush has stated, our economic competitors will not join us in denying MFN status to China. Although approximately 100 nations grant China MFN trading status, we are the only country considering rescission of MFN. Other Chinese trading partners, including several Asian countries, have urged that China's MFN status be retained because their economic interests would be adversely affected by a denial. They are concerned that a denial would hinder China's integration into the regional economy, and they see such an integration as important for political stability in Asia.

THE HONG KONG-U.S. TRADE RELATIONSHIP

The extensive Hong Kong-U.S. trade relationship would suffer greatly from a denial of MFN status for China. Hong Kong's economic prosperity is inextricably linked to the growth of trade in China's southern provinces, which, economically speaking, are the most liberal and progressive areas of China precisely because of their close relationship to Hong Kong. China is Hong Kong's largest trading partner and Hong Kong companies are the largest investors in China, employing about 2 million people in Guangdong Province alone. Thus, many of the most successful "Chinese" exporters are actually businesses based in Hong Kong.

Reexports of Chinese goods through Hong Kong underpin Hong Kong's overall trade performance. The total value of Chinese goods reexported through Hong Kong, which grew 20 percent in 1990, accounts for 39 percent of Hong Kong's total trade and 42 percent of Hong Kong's total reexport trade. The value of Chinese goods reexported to the U.S. in 1990 was 10.5 billion dollars, accounting for about 34 percent of Hong Kong's reexports of Chinese-origin goods. Most of the 900 American firms based in Hong Kong depend directly or indirectly on China trade.

The economic costs that Hong Kong would suffer as a direct result of China's losing MFN status are staggering. The Hong Kong Government estimates that, in the first year alone, reexport trade in Chinese goods could fall as much as 44 percent from current levels (affecting trade flows totalling as much as 4.6 billion dollars), resulting in an 8.7 percent drop in Hong Kong's total reexport trade. The change in China's MFN status would cost over 43,000 jobs in Hong Kong's import/export sector, almost 1.5 percent of Hong Kong's total labor force, and result in direct revenue losses of about 1.2 billion dollars. Hong Kong's GDP growth could be curtailed by as much as 1.8 percent.

CHINESE ECONOMIC REFORM

In China itself, a disproportionate burden of the MFN denial will fall on the primary engine of economic reform in China—the economies of the southern and coastal provinces. In Guangdong Province, for example, over 40 percent of the value of the province's industrial output goes for export and over half of that is destined for

U.S. markets. Managers of Guangdong's export-oriented ventures advocate faster economic and commercial reform because their profits depend on their successes in integrating China into the world economy and making Chinese goods competitive in world markets. Most of these ventures are either joint ventures, usually with American or Hong Kong partners, or province-owned and controlled; they are rarely associated with China's state sector economy, controlled by the central government in Beijing. The regional export-oriented ventures of the southern and coastal provinces are examples of the benefits that market-oriented practices bring to the Chinese economy. Loss of MFN tariff treatment would cripple this most progressive, vibrant part of China's economy. It would also put severe strains on those very commercial and personal interchanges between American business people and their Chinese counterparts that have helped to liberalize trade practices in China over the past decade.

CONCLUSION

By maintaining a stable commercial and economic relationship, we help those in China who embrace our market and trade principles to quietly advance their and our cause. Terminating MFN will have adverse consequences. China should remain a significant market for our products. Those who engineered the violence of June 1989 in China and the continuing repression are unlikely to bear the economic costs associated with a denial of MFN. Instead, those who suffer will be American businesses and their employees, American consumers, the people of Hong Kong and the progressive areas in China.

RESPONSES OF S. LINN WILLIAMS TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question No. 1. Absent its human rights abuses or its involvement in nuclear-related exports, should the United States grant an economic outlaw nation the same benefits reserved for favored trading partners such as the United Kingdom . . . Could either of you respond to the writer's argument against extension of MFN?

Answer. If the United States is to continue to maintain an effective bilateral relationship with China, preservation of MFN status is essential—despite China's engagement in unfair trade practices and its export of prison-made goods. MFN underpins the U.S.-China trade relationship, which brought \$4.8 billion in sales to U.S. companies in 1990 and probably more than \$6 billion this year, if current trends continue. Through maintenance of MFN status, the U.S. not only guarantees its access to China's markets but also a substantial degree of influence in China's corridors of power. Those gains that the Administration has made in human rights, nuclear proliferation and other areas have also been made in part because China wishes to preserve MFN and, thus, its large market for Chinese exports in the United States.

Instead of using withdrawal of MFN as a tool to pursue U.S. interests with China, the Administration has elected to use the policy instruments already available to it in each area to achieve its policy goals. In combatting China's unfair trade practices, for instance, the President ordered U.S. trade agencies to take vigorous action to cause the Chinese to dismantle China's many and proliferating barriers to U.S. exports. When he judged that China had not taken sufficient actions in that regard, he instructed Ambassador Hills to self-initiate a Section 301 investigation on four principle market access barriers. With regard to China's theft of U.S. intellectual property, the Administration launched a Special 301 investigation on May 26 and has had five rounds of negotiations with the Chinese on improving their protection for U.S. computer software, sound recordings and other intellectual property. Should either of these negotiations not yield considerable progress, the Administration retains the right to take trade action.

Question No. 2. Can you tell me what the trade deficit with China has been for the periods of 1989 . . . 1990 . . . and projected for 1991?

Answer. The deficit for 1989 was \$6.2 billion, for 1990 it was \$10.4 billion and for 1991 should be in the area of \$11.5 to \$12 billion.

PREPARED STATEMENT OF WARREN W. WILLIAMS

EXECUTIVE SUMMARY

The American Chamber of Commerce in Hong Kong urges Congress to approve the President's proposal to renew China's Most Favored Nation status unconditionally.

The pressure to deprive China of MFN status has arisen from the frustrations of dealing with simultaneous grievances against China on a broad range of human rights, trade, and national security issues and from a feeling that no other measures are available. But in fact, powerful measures are available but may need time and vigorous application in order to achieve results. There is even some evidence that important results can be achieved without much delay. China has provided assurances that the nuclear reactor for Algeria will be subject to IAEA inspection.¹ Prison labor exports appear to reflect local entrepreneurship rather than national policy, although there has been national-level connivance, and officials promise that the infractions will be corrected. Beijing has announced a policy of eliminating export subsidies. Much of the trade deficit may prove to be an artifact of the Chinese business cycle, and much of the rest may be negotiable with the help of appropriate sanctions. China is sending a series of buying missions to this country, senior Chinese officials have said they expect to buy more from the U.S., and there are preliminary signs that the trade deficit is declining. Travel and emigration from China are much more extensive than from the Soviet Union. Of course, it will take careful verification of real progress to determine whether such preliminary indications are valid. And even if these indications are valid, they show only that progress is possible if the U.S. takes firm measures.

The successful efforts by Presidents Nixon, Ford, Carter, Reagan, and Bush to draw China into the world system have brought enormous benefits for international order, for U.S. foreign policy, for the welfare and dignity of the Chinese people, and for the global economy. These benefits largely remain in place, despite the regressions that have antagonized Washington and the democratic world since June 1989. Measures to deal with the regressions are urgent necessities, but expulsion of China from the international economic and political system would thoughtlessly jeopardize past gains.

Our military has recently demonstrated the enormous benefits of smart bombs, which reliably hit the precise target at which they are aimed and minimize damage to civilians and the general environment. Our diplomacy with China possesses numerous powerful smart bombs—from Special 301 sanctions to public acclaim for the Dalai Lama—which are aimed directly at the target. But MFN deprivation is the ultimate dumb bomb; it will miss its intended target and damage friendly forces.

Depriving China of Most Favored Nation status will have the following consequences. On the positive side, it will allow us to express our frustrations with China in a very dramatic manner. On the negative side, it will: (1) devastate China's liberal reformists by depriving them of their economic base; (2) strengthen China's repressive conservatives by providing them with a national security justification for their policies; (3) enhance Chinese military spending, the political role of the Chinese military, and Sino-Soviet military cooperation; (4) worsen the livelihoods of millions of impoverished people; (5) devastate Hong Kong, the principal outpost of Western liberty and free trade in Asia and do significant damage to Taiwan. By damaging Hong Kong, it will constitute a major affront to Britain, recently our strongest wartime ally, and will put us at odds with the policy of virtually every one of our allies; (6) endanger Chinese-American cooperation over Korea, Taiwan, Southeast Asia, United Nations votes on Iraq, and a vast array of the most vital international issues; and (7) damage American competitiveness in the world's most dynamic markets.

STATEMENT

Mr. Chairman, and Members of the Committee, thank you for inviting me to testify on behalf of the American Chamber of Commerce in Hong Kong.

Since June 1989, the U.S. has accumulated a broad range of grievances against China: (1) persistent outrage over events at Tiananmen Square, exacerbated by recent arrests and sentences; (2) revelations that China is exporting the products of prison labor; (3) a huge trade surplus; (4) unfair Chinese trade practices, such as pirating of intellectual property; (5) sales of a nuclear reactor to Algeria and of missiles to Syria and Pakistan; and (6) refusal to support GATT membership for Taiwan. Chinese actions inflame American human rights sensitivities; worsen the U.S. trade deficit at a time when concern about that serious problem is heightened by recession; and endanger U.S. arms control efforts just when America has engaged in a war it hoped would reduce Middle East tension and proliferation of dangerous weapons.

The timing of China's actions has exacerbated Washington's antagonism, and the range of China's actions has created against itself a broad and improbable Washington coalition of those concerned about human rights, arms control, and fair trade. The range of those antagonized by China's actions includes both liberals and con-

servatives, leading Republicans as well as Democrats, and important parts of the Executive branch in addition to the vast majority of the Congress.

American grievances are substantial and legitimate. They demand an effective response. Nothing said in this statement is intended to minimize the grievances or to deny the need for effective American responses. At issue is not the need for a response, but rather which tools will achieve the most effective response.

Frustration with China's failure to respond adequately and promptly to American concerns has led a broad Congressional coalition to seek a single powerful weapon to express the depth of American frustration, and depriving China of Most Favored Nation trading status has appeared to be the only weapon of appropriate magnitude. While it may be of appropriate magnitude, it is aimed in the wrong direction.

Depriving China of Most Favored Nation status will have several consequences. On the positive side, it will allow us to express our frustrations with China in a very dramatic manner. On the negative side, it will: (1) devastate China's liberal reformists by depriving them of their economic base; (2) strengthen China's repressive conservatives by providing them with a national security justification for their policies; (3) enhance Chinese military spending, the political role of the Chinese military, and Sino-Soviet military cooperation; (4) worsen the livelihoods of millions of impoverished people; (5) devastate Hong Kong, the principal outpost of Western liberty and free trade in Asia (by damaging Hong Kong, it will constitute a major affront to Britain, recently our strongest wartime ally, and will put us at odds with the policy of virtually every one of our allies); (6) do significant damage to Taiwan; (7) endanger Chinese-American cooperation over Korea, Taiwan, Southeast Asia, United Nations votes on Iraq, and a vast array of the most vital international issues; and 8) damage American competitiveness in the world's most dynamic markets.

DAMAGE TO FRIENDLY TERRITORIES

Depriving China of MFN status will primarily damage America's friends. It will devastate Hong Kong at a moment when that territory is particularly vulnerable. It will set back Taiwan's economic adjustment program. And it will seriously damage those in China who are most friendly to American policies.

Hong Kong is the last stable outpost of thoroughgoing Western liberalism in developing Asia. (Singapore's severe restrictions on the press and the Philippines' instability eliminate them as competitors. In fact, Singaporean political leader Lee Kwan Yew taunts Hong Kong as the last outpost of Western systems in Asia.) Hong Kong's living standards and standards of freedom are the highest in Asia outside Japan. But Hong Kong is territorially and economically part of China, and the MFN weapon is directed primarily at Hong Kong.

Hong Kong's manufacturing is done primarily in China. Hong Kong firms employ only 800,000 workers in Hong Kong as compared with at least two million inside China proper. (Some estimates run as high as four million.) Likewise, Hong Kong is the international financial capital of China. Bank of China employs more people in Hong Kong than in China proper and the rest of the world combined. One dollar out of every six of Hong Kong's currency circulates in China's Guangdong Province rather than in Hong Kong itself. Because Hong Kong is China's primary trade, foreign exchange, and technology window, the burden of U.S. denial of MFN status to China falls disproportionately on Hong Kong.

The easiest way to visualize the impact of MFN withdrawal on Hong Kong is to realize that it imposes sanctions on the output of 71 percent (2 million out of 2.8 million) of the workers employed by Hong Kong firms. The Hong Kong Government estimates that Hong Kong would lose US\$8.8 to US\$11.7 billion of trade; that is up to US\$2,000 for every person living in Hong Kong. This trade loss alone would cost economic growth of 1.3 to 1.8 percent of GNP annually; independent analysts estimate the second-order effects (e.g., lost investment, lost orders from Chinese consumers . . .) to raise this cost as high as 2.7 percent of GNP.² These huge losses would come at a particularly delicate moment, when Hong Kong is just beginning to recover from the political and economic shocks of June 1989. The combined effect of lost trade, lost investment, and lost confidence would be devastating.

It is a great irony that some draft anti-MFN bills require China to honor its commitments to Hong Kong (so far, it has honored them impeccably), but creates a U.S. threat to Hong Kong far greater than anything which has been feared from Beijing.

U.S. Interests in Hong Kong. Hong Kong is also the headquarters of American business in Asia. Although Hong Kong is a British colony, there are far more Americans (20,900)³ than British (17,650) in Hong Kong. Of the 581 multinational corporations with regional headquarters in Hong Kong during 1990, 252 are American, followed by Britain with 77. Hong Kong's per capita consumption of U.S. goods is

higher than that of any other foreign territory outside the Americas: \$1,179 per person in 1990 compared with \$292 per person for the EC. It imported \$6.6 billion of American goods in 1990. Nine hundred U.S. businesses located in Hong Kong have invested \$7.1 billion there, equivalent to 31 percent of all foreign investment in Hong Kong, and U.S. financial institutions have \$37.7 billion of assets there. Some 70 percent of American businesses in Hong Kong would be adversely affected by China's loss of MFN, with many losses amounting to tens of millions of dollars and some in excess of \$100 million. Extensive layoffs would occur not just in Hong Kong but also across the United States.

MFN, which in its consequences is primarily an attack on Hong Kong, is, therefore, an attack on the primary U.S. business headquarters in Asia, on Asia's freest political entity, and on the world's preeminent example of free trade. It is also an affront to a major ally, Britain; both last year and this, Britain's Prime Minister has written to President Bush to express Britain's concern that the U.S. would consider a policy that would have such a devastating effect on Britain's efforts to ensure the continued stability and prosperity of its territory.

Taiwan will not be as badly hurt as Hong Kong but will be injured significantly. Taiwan has been undergoing a major adjustment. Higher wage costs stimulated by democratization and higher exchange rates pressed by the U.S. have made much of Taiwan's low-tech industry uncompetitive. (In U.S. dollar terms, wages rose 90 percent in two years.) The primary means of adjustment for low-tech industry has been a move to the coast of China. At least 80 percent of Taiwan's shoe industry (one of the world's largest shoe industries), and likely well over 90 percent, has shifted to the mainland and would be devastated by loss of MFN. The textile, furniture assembly, and electronic assembly industries will also be damaged. Senior Taiwan officials have expressed their concern about the negative consequences of China's loss of the status.

MFN AND THE POLITICS OF REFORM IN CHINA

Depriving China of MFN is intended primarily to promote human rights in China by punishing the Chinese government. But China is not homogeneous, and MFN deprivation will grievously damage those parts of China that have done the most for their people, while helping those who oppose further economic and political liberalization. MFN deprivation by itself will do grievous damage to progress in improving human dignity in China.

The core of China's export economy is several coastal provinces, most notably Guangdong Province adjacent to Hong Kong, Fukien opposite Taiwan, and the Shanghai area. Guangdong has the population of France. Its people speak mainly Cantonese; whereas, Beijing's language is Mandarin. (When they can get away with it, local Guangdong officials often pretend to visitors from Beijing that they cannot speak Mandarin.) Workers in Guangdong earn 60 percent more than China's average—a difference that makes them inhabitants of a different world from the people of the interior.⁴ In Guangdong, as in the other high-growth coastal provinces, there is far greater freedom of speech and movement; people watch Hong Kong television and listen to Hong Kong radio. Large numbers of people move to and from Hong Kong, and communicate to their province-mates the reality of life outside China. As in the other fast-growing coastal provinces, there was no loss of life at the time of Tiananmen Square. The coastal provinces introduce innovations such as stock markets long before Beijing has approved them. The leaders of these provinces have been relatively moderate in dealing with dissent, relatively relaxed in dealing with rapid social change, and encouraging of further economic liberalization.

So great are the differences between conservative Beijing and the relatively liberal coastal areas that papers sponsored by the Joint Economic Committee of the U.S. Congress have spoken of "Two Chinas." So intense is the competition between the exponents of the two approaches that testimony to the same committee has warned of the danger of "structural immobilization."⁵

Beijing is fearful of the coastal provinces' increasing autonomy and determined to get them back under firmer control through political and tax and regulatory measures. In response, the coastal provinces have mobilized local political support, rebuffed Beijing's efforts to impose far higher taxes, and insisted their path is the only path to save China's future. The result has been a broad division between coastal liberals, with broad sympathy from the younger population and other reformist groups of the interior, and the old-line conservatives of Beijing.

The old-line conservatives are in trouble. After the Cultural Revolution and the Tiananmen Square repression, ideological appeals no longer mobilize much support. They must, therefore, fall back on pocketbook issues. But, with a worsening drain from state enterprise deficits, the only way they can put more money in people's

pockets is through liberal reforms. As Premier Li Peng's last major review of the economy made clear, the conservatives have no theory of economic victory. Piece-meal, and rapid but inadequate acceptance by the conservatives of liberal reforms in the last six months underlines the conservatives' plight.

Conversely, the reformists' appeal is broad and getting broader. They are delivering higher living standards; they have delivered some of the highest rates of growth in world history; and they have spread the benefits around so as to create a broad base of support for further reform. The recent elevations of Shanghai Mayor Zhu Rongji and State Council Commission Chairman Zou Jiahua, along with many lesser appointments, indicate that the reformers are making political inroads. They have credible solutions to the major problems of liberalizing a socialist economy: (1) use bond markets to control money supply and thereby contain the inflationary impact of price liberalization; (2) subsequently use stock markets to raise money and privatize lossmaking state enterprises; and (3) liberalize the economy gradually to avoid the hideous social disruptions of the precipitous Polish strategy. While the leading conservatives have acquiesced in much of this approach, these measures will ultimately destroy the tight economic, social, and political control that is the essence of the conservatives' political program.

In the struggle between the old-line conservatives of Beijing on one hand and the youth and coastal reformists on the other, depriving China of MFN status would cripple the liberals. It would devastate the economies of the reformist coastal provinces, weakening their political base and exposing them to the accusation that their policies make China vulnerable to foreign manipulation.

Some supporters of MFN deprivation believe that these sanctions would bring Beijing's conservatives to their knees. If so, temporary damage to the reformists would be justified. But Beijing is insulated by some of the world's largest foreign exchange reserves (\$30 billion of foreign exchange and gold) and one of the Third World's lowest debt service ratios. For all its problems, China's economy is more financially and economically resilient than most Third World economies. Moreover, deprivation of MFN will fail to bring Beijing to its knees because it will have almost no support from America's allies and friends. Japan, Europe, and Southeast Asia have all greatly improved political and especially economic ties with China in the past year, and those trends will continue.

For China's ultra-conservatives, deprivation of MFN status would provide the only available opportunity to argue that the liberals' case is even weaker than their own. More important, it would deliver to the ultra-conservatives the only persuasive argument against further liberalization, namely that further opening of China's economy and polity will make China once again vulnerable to the foreign intervention that humiliated China repeatedly during two centuries prior to 1949. There is no more powerful or persuasive argument in Chinese politics; it is the central reason why the communists came to power in China in the first place.

There is ample precedent in China for well-meaning liberals to entrench the conservatives in power. Former Communist Party Secretary General Hu Yaobang fell when liberal political movements prematurely challenged the establishment's right to rule. The current repressive conservatism in Beijing achieved power only because the gathering of a million dissident students in Tiananmen Square gave conservatives an argument that the stability of China was endangered. Liberal General Secretary Zhao Ziyang cried openly when the students refused to disperse, because he understood the consequences. Deprivation of MFN would hand the conservatives an equally potent argument that further liberalization will put Chinese sovereignty at risk.

Advocates of MFN deprivation may feel like the strongest opponents of China's conservatives, but the anti-MFN bills give China's ultra-conservatives the only issue that could sustain them in power and offers the return to isolation some of them seek but cannot advocate openly.

THE SPECIAL CHARACTER OF MFN DEPRIVATION

Depriving a nation of MFN status is no ordinary sanction. Most sanctions take for granted that a country is a member of the world economic and political system and, in that context, send a message that we believe the country is not obeying all the rules of that system and will face specific penalties until it complies. Controls on military sales, controls on high technology sales, Section 301 penalties, Special 301 penalties, bans on high level contact, Voice of America broadcasts, and such acts like President Bush's meeting with the Dalai Lama, all are targeted sanctions intended to induce action on specific points of grievance without challenging the country's membership in the global system.

In contrast, depriving a nation of MFN status expels it from the system. "Most Favored Nation" is a misnomer, suggesting some special favor. On the contrary, it merely signifies non-discriminatory treatment and is a status held by almost every significant country. Denial of this status is confined to only nine of the worst enemies of the United States (out of over 160 countries and territories).⁶ We do not expel Japan from the system even for very large trade deficits and trade barriers. We do not eject Thailand, Malaysia, and Indonesia for much more extensive violations of intellectual property rights than China's. We have not even denied Iraq or Burma MFN status despite human rights abuses that make Tiananmen Square look tame.

Hong Kong firms with production in China are among the world's greatest exporters of toys and apparel. Without MFN status, the tariffs on the most important categories of toys would rise from 6.8 to 70 percent. The tariffs on most categories of apparel would rise to 90 percent. These numbers constitute expulsion from the system.

Similarly, the political force of depriving China of MFN status is not to create incentives for specific objectives but rather an attempt to impose a general humiliation, to attack Chinese sovereignty, and to expel China from our community of nations. This thrust arises from the breadth of demands made, as well as from specific points made in the bills. Most notably, one anti-MFN bill refers in four different paragraphs to Tibet as if it were a separate political entity from China. But even without the references to Tibet, the thrust of the sweeping demands is a general condemnation of China and its expulsion from the international system.

Does the U.S. Congress really want to dismember China? Does the U.S. Congress really want to return to the days when China was an outlaw nation whose foreign policy was based on the assumption that we, and the international system we lead, constituted a dire threat to China's security? Such an assumption made opposition to us, and disruption of the international system, a central objective of Chinese foreign policy. It would presumably do so again.

CHINA AS A MEMBER OF THE INTERNATIONAL SYSTEM

There is a widespread image that, after June 4, 1989, China reverted completely to the bad old days when it was a rogue international actor, an autarky, and a totalitarian polity. While China's violations of trade rules, human rights standards, and U.S. arms control standards are important, and in the case of Tiananmen Square detestable, they do not constitute the kind of reversion that this image implies.

China and the International Political Order. Prior to 1972, China believed that international disorder served its interests; was actively subverting the governments of many countries in Southeast Asia and elsewhere; had such a hostile relationship with the Soviet Union that military clashes had occurred and the Soviet Union had been tempted into preemptive nuclear strikes; maintained a hostile relationship with Japan; sided automatically with an aggressive North Korea; was aggressively hostile toward Taiwan; and automatically voted against the United States on any United Nations resolution pitting the U.S. against a radical Third World country.

Suppose that in February 1972, either Richard Nixon or Henry Kissinger had predicted that by 1991, Chinese foreign policy would have the following central thrusts. It would be at peace with all its neighbors. It would have succeeded in rapprochement with the Soviet Union and developed a highly cooperative relationship with Japan. It would be a primary force for peace between North and South Korea, would be looking to South Korea's economic policies as a mentor for China, and would be rapidly expanding trade with South Korea. It would be welcoming visits by senior officials from Taiwan, as well as hundreds of thousands of tourist visits from that territory, would give preferential treatment to land ownership by Taiwanese, would accept a Taiwanese foundation as the legal interlocutor on trade, and would be attracting Taiwanese investments at a rate in the neighborhood of US\$100 million per month. And it would accede, in the face of its most dearly held anti-imperialist principles, to U.N. Security Council authorization of a U.S.-led war on Iraq. Had Kissinger or Nixon made such a prediction, it would have been dismissed as self-serving utopian nonsense.

Today the "utopia" is reality. Since we welcomed it into the system, China has become a predominantly cooperative force, a supporter of stability in world politics. While Chinese nuclear reactor and arms sales are serious issues, they represent a qualification to the underlying foundation of Chinese cooperation. American interests require us to act against Chinese proliferation of nuclear and missile technologies—just as we did when France and West Germany far more seriously violated our non-proliferation policies. But far more important, American interests require

we act with targeted sanctions and incentives that do not jeopardize China's role as a basically cooperative and constructive participant in international society.

China's adherence to a basically cooperative international policy derives from its economic interests. The entire restructuring of China's international relationship after 1978 reflects a decision to emulate China's Asian neighbors in, first, giving economic development priority over international political and military struggles and, second, pursuing economic development through international cooperation. This decision has been an extraordinary success for China and for a U.S. policy that facilitated China's integration into cooperative economic and political relationships even when much of China's policy was still antagonistic to a broad range of U.S. interests.

Take just one recent example: China abstained on the crucial U.N. Security Council vote that authorized the war against Saddam Hussein. This was the crucial vote behind President Bush's successful engagement of the United Nations in support of his policy, because, as a result of a century and a half of humiliation by Western power, it has for two generations been a central principle of Chinese foreign policy never to support Western intervention against a Third World country. When I inquired about this from a top advisor to China's leaders, he replied China's economic development policy requires, first, that China remain at peace with all its neighbors and, second, that it maintain access to international capital markets. He said that the vote on Iraq was necessary to maintain access to international capital markets.

Because the whole structure of China's cooperative international political relationships derives from its successful strategy of economic opening, a successful effort by opponents of MFN to expel China from the economic system would inexorably destroy the basis of China's integration into a cooperative global political order. We need Chinese support for U.N. votes to extricate our troops from Kurdish Iraq, for peace and non-proliferation in Korea, for reconciliation with Taiwan, for stability in Southeast Asia, for a Cambodian solution, for the Mongolian food aid program, and for a range of equally important issues. Currently we are getting that support, and we should not jeopardize it unnecessarily.

China and the Global Economic Order. Economically, China has joined the world system to a greater degree than any other communist or formerly communist country. To judge a country's participation in the international trade system, we can measure its trade as a share of GNP. For 1989, economically China's worst year of recent times, the Soviet Union's trade was 5.4 percent of GNP, Brazil's 16 percent, the U.S.' 16.4 percent, Japan's 27 percent, and China's 26.1 percent. In 1990, China's trade rose to 32.4 percent of GNP.⁷ While there are serious statistical problems in comparing developing and developed nations with this measure, no statistical adjustments can belie the fact that China has emerged from autarky to become a full participant in international trade. It has not reverted to pre-1989 practices and indeed has made great advances since 1989.

To measure the extent to which a country is still a predominantly socialist country, we can measure its government enterprise sector as a share of GNP. In China, this share is about one-third, virtually identical to that of France or Italy.⁸

Another measure is a share of GNP that the government extracts in taxes. By 1990, China's tax share had declined from the extremely high levels typical of a communist economy to only 16.2 percent, substantially below America's 20 percent.⁹

China's economic reform program remains in place. There has been no abandonment of the internationalization of the economy, the move to family-based and market-driven agriculture, the move toward finances based on loans rather than grants, the spread of Western-style financial markets, the extensive role of private firms, or the enthusiastic welcome of foreign investment.

Indeed, reforms are actually making rapid progress. Since Tiananmen Square, China has greatly liberalized its approach to foreign investment, encouraging wholly owned foreign ventures; Western investors are far more welcome in China than in the Philippines. Tax reforms also benefit foreign investors. Foreign banks are being allowed to operate in major cities. Many key commodity prices have been reformed. A new Singapore-sized investment zone is being opened outside Shanghai. Likewise, the current leadership has embarked on a sweeping financial revolution. A national bond market has expanded rapidly and offers the best hope in the world for reforming socialist countries and containing inflation while liberalizing prices. Since last December, China has opened two official stock markets and numerous unofficial ones; in five years or so, these are intended to become a major instrument for raising investment funds, increasing competition, and reforming China's inefficient state enterprise sector. With the help of the Chicago Board of Trade, it has initiated futures markets, which are now active in seven provinces. It has moved to a near-market official foreign exchange rate, with over one-third of foreign ex-

change transactions occurring in free markets; helped by this reform, China's authorities have announced an intention to eliminate export subsidies.¹⁰

The story of China's continuing economic reforms is virtually unreported in the U.S. It is startling to return to this country and find that East European economic reforms are widely lauded; whereas, Chinese reforms are dismissed as failures. The Soviet reform is already in a state of collapse. In Eastern Europe, all economies have contracted since 1988, while China's has steadily expanded since 1978. Putting East Germany aside, the most auspicious East European economy, Poland, is likely, on fairly optimistic economic political and economic assumptions and with billions of dollars of Western subsidies, to break even with 1988 only in 1995. After that many years, China's economy had already grown by over 70 percent—with no subsidies. China's gradual approach is much less disruptive of social order. China's devotion to an Asian mode of development, focused on institution-building, which has many success stories, appears superior to East European patterns, which seem vulnerable to Latin-American-style political disruptions. And China's economic success continues; this year's growth is expected to be 7 percent, twice what the U.S. would consider a boom year.

Chinese economic success is important for several reasons: first, China has joined the global economic system—our system—faster and more successfully than anyone would have imagined possible. As a major beneficiary of that system, China is now a cooperative and constructive force in the world economy as well as in the political system—notwithstanding that serious problems, including its trade deficit with us, remain.

Second, China provides the only success story so far for reform of a communist economic system, and it will likely become an important model as some of the East European experiments get into trouble. We have a vital interest in having at least one example of successful reform of a communist system, in order to maintain the hopes of reformers in countries like the Soviet Union, where Gorbachev has hopelessly botched the reform. Without an example of success, reformers in other formerly communist systems may lose credibility, and hard-line socialists may return on the argument that reform is hopeless.

Third, the widespread distribution of economic benefits from China's economic reform has created exceedingly broad social support for further reforms, has associated the relatively liberal political sectors with economic competence, and has created an extensive elite with direct, positive, and successful experience at dealing with markets. Beneath the conservative surface of Beijing's politics, this creates a momentum for further economic reform and eventual revival of the political reformers—so long as the process is allowed to continue.

Fourth, China's success at growing rapidly and at spreading the benefits of growth widely have immensely improved the dignity of life for a large fraction of the world's population.

Fifth, economic success has irreversibly changed Chinese society in ways that improve human rights even in the face of a repressive leadership.

These developments, vital both to China's future and to U.S. interests, would be sacrificed by expelling China from the economic system. Not only would the multiplier effects of foreign contacts be lost as a result of the sanctions, but also China's conservatives would likely take this as an opportunity to impose vast additional restrictions of their own.

To say this is not to argue that the U.S. should tolerate a huge deficit caused in part by unfair Chinese practices. But other levers can be applied to the trade deficit without expelling China from the system. Moreover, much of the trade deficit could turn out to be an artifact of: (1) inevitable difficulties in adjusting a managed economy to the requirements of international trade, even though there have been some relatively heroic measures such as the rapid adjustment of exchange rates to eliminate export subsidies;¹¹ (2) the temporary necessity, last year, for an austere anti-inflation program; (3) prudent measures to raise reserves in the face of a Western financial boycott; and (4) the export into China of much Hong Kong and Taiwan low-end manufacturing, which in effect transfers the trade surpluses of those countries to China while leaving much of the profit in Taiwan and Hong Kong.

The correct policy for the U.S. is to act directly against unfair Chinese trade practices such as the piracy of intellectual property and unreasonable barriers against imports.

CHINA AND HUMAN RIGHTS

Tiananmen Square and Tibet rightly have provoked outrage and rightly demand a world response. Unlike the areas of strategic behavior and economic reform, one

cannot argue that Beijing's recent policies have been predominantly in the right direction. Abuses have become both deeper and more extensive.

But here too it is important to discuss American policy in the broadest context and to ensure that our policies are likely to achieve their objectives.

When Deng Xiaoping became China's leader in 1978, China was a totalitarian system. The entire population's access to information was tightly controlled. Movement of people was totally controlled. Political controls on thought, speech, and action were omnipresent and universally effective. The Communist Party dominated social life and controlled all of China's business enterprises. Foreigners were a rare curiosity, and few Chinese were allowed abroad. Even China's intellectuals were terrified to criticize the political leadership.

Today, the situation is quite different. It is more common than not for Americans visiting China to find that their official Chinese government hosts begin criticizing the political leaders within minutes of their first contact. Intellectuals and officials vigorously and openly debate the merits of a wide range of economic and political options. Ordinary Beijing citizens quickly pour out their bitterness about Tiananmen Square and tell the visitor juicy anecdotes. The Asian Wall Street Journal (probably the most anti-Chinese of the world's major newspapers) and CNN are available in the major hotels, and any Chinese who has Foreign Exchange Certificates (which includes almost any of the millions who have learned enough English to make use of English media) can get access; both The Journal and CNN, incidentally, are banned in Singapore. This is not to say China has become a bastion of freedom of speech; it is to say there has been remarkable improvement in a bad situation.

Part of the reason for this change is the relative benevolence of some Chinese leaders before Tiananmen Square. But the primary reason is structural; this is why greater freedom has persisted even under a leadership hostile to human liberties. Hundreds of thousands of foreigners visit China, and hundreds of thousands of Chinese travel abroad. Throughout China, one encounters some of the hundreds of thousands of Taiwanese visitors to China, who tell about the better life in Taiwan and often do not hesitate to harangue local people about the deficiencies of communist management. While there are still restrictions on freedom of movement, students and businessmen travel all over China, and millions of workers migrate, legally or more often illegally, to better lives in the coastal provinces. Workers from Sichuan in the interior work in coastal processing plants and, once a year, travel back to Sichuan with tales of a different kind of life. Along the coast, tens of millions of Chinese have access to foreign broadcasts, and, unlike before, they have radios; they have the money to afford radios; and China's more dynamic economy now produces plenty of radios. In Guangdong, people have televisions that receive Hong Kong television, and they see Western images including videos of Tiananmen Square.

The Communist Party no longer monopolizes control over the flow of information, the range of opinions, the details of business decisions, or access to jobs. It can strongly influence them but not monopolize control of them. After all, many workplaces are now wholly foreign-owned. Many more people have the right to choose their jobs or to change jobs. All these result from the opening of China's economy and the willingness of the rest of the world, most notably the United States, to encourage that opening.

The dynamics of the relationship between economic opening and social liberalization are powerful beyond what Americans could ever have imagined in 1972, when we began to encourage the opening. A professor manages to send his son to graduate study in New York. The son gets a summer job at the university, earning ten dollars an hour or eighty dollars a day—daily earnings substantially higher than the father's monthly pay. The father is shocked and tells his colleagues, who study how this could happen. Soon the whole university knows the story and some of the analysis that goes with it. Shortly the story spreads throughout the city. From that moment, the university and the city are changed.

All this goes on even while the country experiences a Tiananmen Square and even while thousands of political offenders are imprisoned. The number of political prisoners declines a few hundred or a few thousand under a liberal and rises under a conservative, but meanwhile the freedom of speech and thought of several hundred million people is being expanded by the dynamic of economic progress, contacts with the outside world, expanding communications, and enough money to enjoy a radio and a bit of travel.

This progress is inexorable. It has changed China from a totalitarian society where the state controls virtually all thought and action into an authoritarian society where, despite chilling human rights abuses, most people have substantial space, legal or illegal, in which to form relationships, receive information, form and ex-

press opinions, and make a wide range of personal choices. So long as the economic progress continues, Beijing's leaders cannot reverse or halt this change. Even while government policy has regressed, the enhancement of freedom caused by changes in social structure has moved forward.

Moreover, the experience of Taiwan and South Korea shows that the national forces of communications, rising incomes, education, mobility, and social complexity lead inevitably to broader freedom and to movements for democratization. These can be stopped only when national trauma has left the population in thrall to a totalitarian ideology—a situation China's population has experienced and put behind it. These forces will lead any nation down the slippery slope of liberalization—not quickly but inexorably over several generations.

The problem with MFN deprivation as a human rights policy is that it halts or reverses such forces. Other measures—welcoming dissident students, acclaiming the Dalai Lama, beaming Western views into China, spreading the story of Tiananmen Square, confronting Chinese leaders in international fora—all promote official human rights without hindering the social changes that create permanent unofficial human rights progress. To say this is not to say that one should accept a Tiananmen Square incident in order to facilitate economic growth. It is not to ignore political prisoners. The point is to use levers that promote progress rather than hinder it.

There is another problem with MFN deprivation as an instrument of human rights policy, namely the direct impact of economic deprivation on millions of people. While Americans rightly reject the narrow Marxist equation of human rights with having a job, and job security, at the price of political repression, it is equally narrow-minded to focus exclusively on political rights when families live on the edge of subsistence.

In the mid-1980s, a World Bank study showed that over 100 million Chinese had incomes of less than US\$30 per year.¹² In other words, a person has to work for a year for about the amount many people in this hearing will spend on a restaurant dinner tonight. One aspect of this was the widespread incidence throughout China of the one-pants family—the family which was so poor that it could afford only one pair of pants. Typically, the husband would wear the pants to work during the day, and the wife would remain in bed. Then the wife would get to wear the pants while the husband stayed in bed.

A major consequence of the Chinese economic takeoff has been the elimination of one-pants families from large regions of China. This is an enormous improvement in human dignity that human rights advocates need to respect. Conversely, a measure which would slow or reverse this progress cannot rank as a satisfying way to promote human rights. While it is obviously not the intention of those who would remove MFN to subject millions of Chinese women to the unnecessary indignity of the one-pants family, they must accept responsibility for consequences as well as intentions.

ENDNOTES

1. Although IAEA inspection is an important first step that should rule out weapons production, very serious concerns remain as the reactor does not seem configured properly for either power or research, creating suspicion as to its intended use.

2. The second order consequences are estimated in Miron Mushkat, "Is She Out of Favor? The Question of China's Most Favored Nation Status," *Baring Securities*, Hong Kong, May, 1991, p. 10. All other figures come from official Hong Kong government publications. It is not generally realized that these widely quoted government estimates do not include second and third order effects and, therefore, could drastically underestimate the consequences.

3. Hong Kong Trade Department, "The United States and Hong Kong," (draft), p.2.

4. Workers' 1988 annual per capita income in Guangdong was 1,600 yuan compared with 1,024 for China's overall average. Source: Statistical Bureau, "China's Social Statistics—1990."

5. Joint Economic Committee, Congress of the United States, "China's Economic Dilemmas in the 1990s: The Problems of Reforms, Modernization, and Interdependence," Volume I, pp. 13, 16. Of course, all of China's reformers are not on the coast nor are all important officials in Beijing are conservative. But a reformist society has been created along the coast with two characteristics: (1) structural changes caused by economic development make life freer and better than in the interior regardless of official policy; and (2) reformist success has reached a critical mass that would require massive force to reverse.

6. Countries currently denied MFN status are Afghanistan, Albania, Cambodia, Cuba, Laos, Mongolia, Romania, the USSR, and Vietnam. Source: U.S. Consulate in Hong Kong, citing an official document dated May 15, 1991.

7. The 1989 data for China, Brazil, the U.S. and Japan are from IMF, *International Financial Statistics* (1990 Yearbook). Data for Soviet trade are from IMF, *Direction of Trade Statistics* (1990 Yearbook) and for Soviet GNP a CIA study which gives Soviet GNP as \$2.5 trillion. 1990 China figures are from the U.S. Consulate in Hong Kong (exports \$61 billion; imports \$59 billion; GNP 1,772 billion yuan, which at an exchange rate of 4.7832 equals \$370.46 billion). The latter exchange rate is the average 1990 exchange rate as specified in *International Financial Statistics* (March 1991).

8. Nicholas Lardy, "Redefining U.S.-China Economic Relations," National Bureau of Asian and Soviet Research, June 1991.

9. China's 1990 tax revenue was \$54 billion out of a GNP of \$5,463.3 billion. This is based on U.S. Consulate in Hong Kong calculations derived from China's *State Statistical Bureau Annual Report* and from the 1990 report of the Minister of Finance. The Consulate uses a foreign exchange rate of 5.209 renmenbi per dollar.

10. For further details of China's financial reforms, see William H. Overholt, "The Emergence of Chinese Financial Markets," *Asian Survey*, May 1991.

11. As this is being written, a spate of articles has appeared based on Washington criticism of China for trying to expand its exports by devaluing its currency. While it is true that China has devalued its currency several times, the currency is still overvalued and, therefore, on balance a deterrent to exports. It would be complete hypocrisy to criticize China for moving closer to market-level exchange rates. The real issue is whether China will, as promised, eliminate its export subsidies and refrain from using exchange controls for protectionist purposes.

12. Unskilled workers in foreign firms, a relatively privileged class, start as low as RMB 100 (US\$20.90) per month. See "PRC Labor in Brief," *Business China*, April 15, 1991, p. 52.

COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

The American Association of Exporters and Importers (AAEI) hereby formally submits its views on the question of extending most-favored-nation trading status to the People's Republic of China for another year. AAEI is a trade association representing over 1100 U.S. companies engaged in importing, exporting and support activities.

Our member companies believe firmly that the Congress should not act to block President Bush's proposed extension of MFN status to China for another year. Nor should Congress impose conditions on MFN renewal that would amount to withdrawal or the threat of withdrawal of MFN status.

Extension of MFN is in our national interest for a variety of reasons. Most basically, MFN should not be thought of as some kind of special benefit to be conferred only on those foreign nations whose policies meet our approval. We must strive for a multilateral trading system based on rules, which encompasses all nations and encourages them to liberalize both their economies and their political systems. We cannot afford to opt out of the web of relationships that supports the multilateral structure by unilaterally deciding to shun a nation which represents 20% of the world's population. Resorting to "light-switch" diplomacy will only diminish our influence with foreign governments. We can enhance that influence by encouraging normal trading relations.

This is particularly true in light of the fact that terminating China's MFN status is unlikely to have the effect hoped for by critics of China's domestic policies. As we have learned elsewhere in the world, economic reform is usually the necessary precursor to political reform. Taking action which will severely damage China's fledgling non-state sector would therefore seem quite counter-productive if the goal is promoting new policies in China.

Additionally, trade with China is crucial to the health of many American companies and their workers. Some of these are our member companies. Since there is no indication that our major trading partners are willing to join us in imposing multilateral sanctions on China, proposals to cut off MFN for China unilaterally appear to be another example of self-destructive U.S. moralism, much like the largely ineffective trade sanctions imposed against Cuba for the past 30 years, and against the Soviet Union after the invasion of Afghanistan.

WHAT IS MFN?

AAEI believes that the debate over China's trade status has become clouded by a misunderstanding among many regarding what most-favored-nation status truly means. MFN as a term has perhaps become somewhat outdated, for it still carries with it its original connotation of deviance from the norm of international trade. It implies, quite wrongly, that countries accorded MFN status are being given a special benefit granted only the privileged few.

Of course, nothing could be further from the truth. Thanks to the remarkable success of the post-war U.S.-led effort to create and expand a rule-based multilateral trading system, nearly every nation is accorded MFN status by every other, and only a special few, such as Cuba, Vietnam, North Korea and the Soviet Union, are excluded by the U.S. This effort traces its origins to the Reciprocal Trade Agreements Act of the Roosevelt Administration and was forged by the cooperative effort of Congresses almost exclusively controlled by Democrats and Administrations led equally by Democrats and Republicans. All MFN really means today, thanks to the global reach of this system, is that the U.S. applies the same low tariffs on goods from virtually every nation. President Bush's intention to renew China's MFN

status therefore simply reflects his desire to continue to treat China as we treat nearly every other trading partner.

Clearly among the more than 100 or so nations that enjoy MFN status there are some, indeed a significant number that pursue domestic and foreign policies with which we do not agree. Yet we do not seek to withdraw MFN from them. And we must keep in mind that the sole alternative to renewing China's MFN status would be to impose the protectionist tariffs erected by the notorious Smoot-Hawley law of 1930. Imposing these extraordinarily high tariff rates would end nearly all trade between the U.S. and China, and sunder the cornerstone of U.S.-Chinese relations.

Terminating MFN would therefore be qualitatively different from imposing or threatening to impose the various other forms of trade sanctions available under U.S. and international law. Granting a country MFN status essentially admits it into the game of international trade. If a country violates the rules of the game, there are numerous targeted penalties that can be imposed, from minor slaps on the wrist to serious sanctions. But the resolution of such disputes should be carried out according to the rules of the system, thereby further engaging the parties in the rules oriented process. Removing MFN goes well beyond any of these possible sanctions, however, because instead of focusing on the dispute and attempting to resolve it, it ends the relationship between the parties, with all the consequences that flow from such a rupture.

BACKGROUND ON U.S.-CHINA TRADE

Since the late 1970s when the U.S. and the Peoples Republic of China formalized diplomatic and commercial relations, trade and investment relations between the two nations have increased dramatically. According to statistics collected by the U.S. Department of Commerce, U.S.-China two way trade grew steadily from \$8 billion in 1985 to \$20 billion in 1990. As Table 1 below indicates, there is a major difference of opinion between U.S. and PRC government sources as to which nation has been the major beneficiary to this trade expansion. U.S. government sources indicate that the surplus has expanded rapidly in China's favor, growing from a U.S. deficit of \$400 million in 1985 to \$10.4 billion by 1990. On the other hand, PRC government figures show a U.S. surplus which grew from \$1.7 billion in 1985 to \$3.5 billion by 1989. This discrepancy is attributable to the large volume of Chinese goods using imported components that are processed and shipped through Hong Kong, and the fact that China counts only the value added within its borders in its statistics. In recent months U. S. policymakers have become increasingly concerned by this "deficit" with China. In reality the "deficit" is highly exaggerated in terms of direct benefit to the PRC economy, and effectively hides the adverse effect a denial of MFN would have on Hong Kong and other Pacific Rim countries.

The Chinese government claims, with some credibility, that the predominantly export oriented producers located in the special economic zones (i.e., specially designated areas in the Southern Provinces where foreign direct investment is welcomed as an experiment in free market enterprise) manufacture with components from Taiwan and Southeast Asia for re-export to the U.S. through Hong Kong. As of 1990, roughly 14,000 enterprises in Guangdong Province were engaged in "outward processing" activities employing two million workers. After calculating the cost of imported materials and the service "value added" in Hong Kong, these Chinese processing firms only contribute a value added of 7-8% of the exported value. Nevertheless U.S. customs calculates these goods as direct exports from China. Chinese authorities have also pointed out that many goods classified as Chinese origin are actually produced by joint ventures with majority Southeast Asian ownership operating in the Special Economic Zones (SEZs).

Table 1.—U.S.-PRC BILATERAL TRADE

| CATEGORY | (\$ billion) | | | | | |
|-------------------------------------|--------------|------|------|------|------|------|
| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
| U.S. EXPORTS (FAS) | 3.9 | 3.1 | 3.5 | 5.0 | 5.8 | 4.8 |
| U.S. IMPORTS (CIF) | 4.2 | 5.2 | 6.3 | 8.5 | 12.0 | 15.2 |
| TRADE BALANCE | 1.7 | .8 | .8 | N/A | 3.5 | N/A |
| U.S. SHARE OF PRC IMPORTS (%) | 9.6 | 7.2 | 9.6 | 9.8 | 9.8 | 9.5 |
| U.S. SHARE OF PRC EXPORTS (%) | 15.9 | 16.9 | 18.2 | 18.0 | 23.0 | 27.0 |

* U.S. DEPARTMENT OF COMMERCE STATISTICS.

Of course, however the numbers are calculated, there is no doubt that our bilateral trade is, by either size or direction, important to both the U.S. and China. The United States is China's third largest trading partner following Japan and Hong Kong. While China's share as a market for U.S. goods has oscillated between 7.8% and 9% of total U.S. exports, the U.S. market for PRC exports has grown from 15.9% in 1985 to a projected 27% in 1990. It should also be noted that although China is not one of our largest trading partners, in overall terms, it is a very significant export market for some of our most important economic sectors.

As Table 2 below indicates, in 1989 the PRC purchased 19% of all U.S. grain exports (an increase of 61% from 1988); 9% of U.S. aerospace products (up 60% from 1988) and 8% of U.S. fertilizer exports (up 168%). Over the past five years the PRC has purchased a total of 25 U.S. made commercial aircraft at a total transactional value of \$2 billion.

Table 2.—SELECTED U.S. EXPORTS TO THE PRC, 1989

| Commodity | Value (\$ millions) | Percent total U.S. Exp. | Percent change 1988 |
|------------------------|---------------------|-------------------------|---------------------|
| GRAIN..... | 1,126.6 | 19 | 61 |
| AIRCRAFT..... | 536.2 | 9 | 60 |
| FERTILIZER..... | 487.4 | 8 | 168 |
| MACHINERY..... | 361.3 | 6 | 10 |
| TEXTILE FIBERS..... | 355.1 | 6 | 253 |
| ORGANIC CHEMICALS..... | 286.6 | 5 | 2 |
| IRON/STEEL..... | 244.4 | 4 | 299 |
| POWER TOOLS..... | 201.7 | 3 | 42 |
| PLASTICS..... | 197.5 | 3 | 66 |
| WOOD PRODUCTS..... | 179.1 | 3 | 60 |

With respect to imports it is estimated that in 1989 the PRC sold the U.S. 24% of our imported clothing, 12% of U.S. toy imports and 8% of U.S. imported telecommunications equipment.

Exports and imports are only part of the importance of the U.S.-Sino economic relationship. The PRC has the world's largest population (1.2 billion) and based on GNP, ranks 9th in the world. The potential of this market has made the PRC a tempting location for foreign direct investment with some \$15 billion in aggregate United States FDI since 1979 (based on PRC data). Much of this foreign direct investment is concentrated in the Chinese special economic zones which are set up as "capitalist enclaves." These SEZs, which permit wholly-owned foreign investment, have grown rapidly throughout the Southern and coastal regions of China since their inception in 1980.

MFN VERSUS NON-MFN TARIFF RATES

It is not so, as some have asserted that the movement from column 1 MFN tariff rates to column 2 rates would have only a "nominal" impact on U.S.-Sino trade. As Table 3 below indicates, for the top ten non-petroleum 1989 U.S. imports from the PRC, the average tariff rate would increase from 7.04% to 57.5%.

Table 3.—TOP TEN U.S. IMPORTS FROM CHINA IN 1990, MFN VERSUS NON-MFN COLUMN 2

[Measured in \$ millions]

| Item | Value | MFN tariffs | Non-MFN | 1989 collected duties | Non-MFN equivalent duties |
|-------------------------|-------|-------------|---------|-----------------------|---------------------------|
| FOOTWEAR..... | 582.8 | 6% | 35% | 34,965 | 203,963 |
| SWEATERS..... | 527.3 | 6% | 60% | 31,636 | 316,380 |
| TOYS..... | 377.9 | 6.8% | 70% | 25,698 | 264,543 |
| FOOTWEAR (LEATHER)..... | 246.5 | 10.0% | 20% | 24,650 | 49,300 |
| TELEPHONES..... | 231.8 | 8.5% | 35% | 19,700 | 81,116 |
| STUFFED TOYS..... | 227.4 | 6.8% | 70% | 15,461 | 159,157 |
| TOY DOLLS..... | 200.8 | 12.0% | 70% | 24,090 | 140,527 |
| SILK BLOUSES..... | 194.8 | 7.5% | 65% | 14,609 | 116,875 |
| TOY ANIMALS..... | 170.0 | 6.8% | 70% | 11,557 | 118,971 |

Table 3.—TOP TEN U.S. IMPORTS FROM CHINA IN 1990, MFN VERSUS NON-MFN COLUMN 2—
Continued

(Measured in \$ millions)

| Item | Value | MFN tariffs | Non-MFN | 1989 collected duties | Non-MFN equivalent duties |
|---------------|-------|-------------|---------|-----------------------|---------------------------|
| PLASTICS..... | 154.2 | 5.3 | 80% | 8,170 | 123,322 |

* U.S. DEPARTMENT OF COMMERCE STATISTICS.

As Table 3 demonstrates, the tariff difference between MFN and non-MFN tariffs is certainly not a "nominal" increase. In percentage terms the increase amounts to a monumental 1000% for numerous commodities. Historical evidence from the 1930s indicates that these Smoot-Hawley tariffs would in actuality cut off the China market from U.S. trade. The final column in Table 3 assumes that import levels would stay constant with the shift from MFN to column 2. Based on information AAEI has obtained from numerous member companies, it is clear that import levels would in fact fall considerably as a result of member companies being forced out of China. Those companies that would continue to source goods from China would be forced to raise consumer prices dramatically.

IMPACT OF MFN DENIAL ON SPECIFIC U.S. BUSINESSES

The staggering cost of failing to renew MFN treatment for the PRC becomes even more disturbing when the impact such a policy would have on individual U.S. companies is examined. One AAEI member that imports driving gloves from the PRC, would face a tariff increase from approximately \$1.80 per dozen to about \$8.10. The firm which sells these gloves for \$15.00 per dozen, with a \$.75 net profit, would face an out of pocket loss of \$5.55. Thus in order to "break even" this company would have to raise retail prices by more than 25%. For other AAEI firms, the denial of MFN would cut off supply for products that can only be sourced in the PRC. The American Greetings Corporation, which retails throughout the U.S. as Summit Corporation, purchases over \$15 million worth of stuffed animals and Christmas ornaments from the PRC. Many of their ornaments contain a plastic resin that can only be sourced in mainland China. American Greetings manufactures many of these ornaments in other Asian countries including Korea, Taiwan and Thailand, but the majority of these manufacturing arrangements use the imported resin from the PRC. The ornaments which are imported retail between \$6.98 and \$12.95. Keeping corporate profits constant, the retail price for these items would rise to \$20 at a minimum were MFN not renewed. Aggregate retail prices for Summit imports would rise 20 to 40% for all their imports which face an average 70% column 2 tariff. Due to the increase in tariff for stuffed animals, the retail price, keeping net profits constant, for a small 22 inch stuffed bear would increase from \$39.99 to \$60.00 or more at constant profits.

China is the sole supplier for a vast amount of toys. Despite the fact that many of these firms could shift manufacturing to third countries, the high costs of plant relocation and the short run price increases for U.S. consumers would be significant. One AAEI member firm, employing 30,000 people sources 20% of its imported toys from the PRC. The average tariff on its imports is 5.5% amounting to \$341,000 annual duty. Without MFN, the duty would increase to 70%, an additional \$4 million. The company estimates that the duty increase would lead to significant job losses while alternative sources would have to be located for roughly \$100 million worth of commodities.

In addition, our statistics indicate that the removal of MFN treatment would have a regressive impact on low income consumers. Retail prices for basic necessities including low cost footwear would increase as retail stores are forced to pass higher duties on to the consumer. One AAEI member firm that produces low cost canvass sneakers selling at retail for about \$5 per pair would face a tariff increase from 48% to 84%. Given the low net profit this company is making on these items, in order to maintain these imports the duty increase would have to be passed on to low income consumers who purchase these commodities.

IMPLICATIONS OF MFN DENIAL ON U.S. EXPORTERS

The removal of MFN status for the PRC would also have dire implications for U.S. exporters. Official Chinese government sources have already stated that should the United States deny or place conditions on MFN, the PRC will respond by with-

drawing MFN for U.S. goods entering China. Though precise figures are not available, such retaliation would have a major impact on U.S. exports of certain commodities as noted in Table 2 above. In particular, new export markets would have to be found for large quantities of U.S. grain exports, commercial aircraft, fertilizers machinery and textile fibers due to the fact that China could easily purchase these commodities at lower prices from the European Community, Japan, Southeast Asia and other sources. Recapturing the China market at a later point could be difficult once our competitors have filled the void in China.

IMPLICATIONS OF MFN DENIAL ON HONG KONG

Among the unintended victims harmed by termination of MFN, none would suffer greater devastation than Hong Kong. According to figures compiled by the Hong Kong Trade Development Council, in 1990 Hong Kong re-exported \$10.5 billion of Chinese origin products to the United States. This figure amounts to 20% of Hong Kong's re-exports to the world. It is estimated that without MFN status, such re-exports would likely drop by \$3.5 billion to \$4.6 billion. In aggregate terms, the drop in re-exports of China origin would reduce Hong Kong's overall trade by an estimated \$9 to \$12 billion in value. In GDP Hong Kong would lose \$.9 billion to \$1.2 billion in income. It is also estimated that between 32,000 and 43,000 jobs would be lost in Hong Kong should the U.S. deny MFN to the PRC.

IMPLICATIONS TO U.S. BUSINESS OF PLACING CONDITIONS ON MFN

The precise implications of conditioning MFN renewal are not quantifiable. Nevertheless, we do know that corporate decisions with regard to trade and investment are based upon future expectations of political and economic risk. Numerous AAEI members have stated that any conditions that threaten to take away MFN, now or in the future, would force their companies out of the China market. Given the great disparity between MFN and Smoot-Hawley tariff rates, it would be highly unlikely for any firm to continue trading relations with China if conditions were placed on MFN renewal. The uncertainty of future prices and costs would quite simply be too great.

Advocates of placing conditions on MFN renewal can point to no evidence that such conditions will lead to political reform, or changed domestic policies in China. In fact all indications point to a hardening of the position of the Chinese Government if such conditions are imposed, with a resulting cut-off in MFN. Taking away MFN in this manner would more likely slow the pace of the Chinese market reform program begun in 1979 and reduce the chances for political liberalization any time soon. AAEI is therefore strongly against conditioning MFN renewal.

UNDERMINING CHINESE REFORM

As noted above, the adoption of a policy that would deny or place conditions on MFN would have the detrimental effect of undermining recent Chinese economic liberalization policies. Despite the fact that many voices on Capital Hill have blamed the widening U.S. deficit with the PRC on the "managed trade" policies being implemented by the Beijing government, there is clear evidence that much of the surge in Chinese exports may be due to recent market opening reforms. Over the past two years, the Chinese Renminbi (RMB) has been subject to two large devaluations, thereby making Chinese goods "cheaper" on the world market and raising the price of imports in the Chinese economy. Other recent liberalizing reforms include the January, 1991 reduction of import duties on 40 products, mainly chemicals. In addition, the Beijing government has announced that it will abolish all export subsidies to Chinese trading corporations in 1991.

Much of the recent Chinese export surge can be attributed to the reform policies that created the Special Economic Zones in Southern China. Industrial output in the Southern provinces of Guangdong, Fujian, Hianan and Jiangsu grew by over 13% between January and April 1991. The export driven economic development model being implemented in these "open economies" of Southern China follows a similar pattern of development adopted in the 1980s by the Asian "tigers" (Singapore, Hong Kong, South Korea and Taiwan). The success of export led growth in Asia has been nothing short of remarkable. China has wisely followed the example set by its Asian neighbors, but the adoption of a U.S. policy that would deny MFN to goods being produced in these dynamic regions would cut off China from international trade and Western cultural influence.

In sum, denying or placing conditions on most-favored-nation treatment for the People's Republic of China would do nothing to advance U.S. interests. It is clearly not in our national interest to inflict tremendous costs on U.S. importers, exporters,

retailers and consumers. Nor would the U.S. benefit by cutting off a reform-minded China from Western economic and cultural influence.

Admittedly, China's adaptation of an Asian model of export led growth has contributed to a widening of the U.S. trade deficit. Nevertheless we should not punish China for its success. If the U.S. has valid policy disputes with China, including allegations of managed trade and the possible use of prison labor, these matters should be considered in the context of the specific trade laws designed to address them. AAEI and its member firms believe strongly that issues such as human rights violations and nuclear proliferation should be solved through political pressure applied in bilateral and multilateral fora intended for this purpose, not by the isolation of China from the multilateral trading system, or the cessation of commercial interchange with the United States. AAEI therefore urges Congress to let stand the President's extension of unconditional MFN to the People's Republic of China.

STATEMENT OF THE AFL-CIO

The AFL-CIO strongly believes that under circumstances that now prevail in the People's Republic of China, Most Favored Nation (MFN) status should not be renewed. The extension of this trade benefit will only serve the interests of two relatively small groups—the Communist Party elite of China and the American and other foreign firms doing business with that elite—and will have the effect of propping up a tyrannical regime discredited by its own people.

Under the terms of Title IV of the Trade Act of 1974, as amended, China is not eligible for the privilege of MFN. China, a country with a "non-market economy," is required by law, to among other things, permit freedom of emigration before it receives MFN. China fails that test badly. It does not permit freedom of *internal* migration, much less freedom of *external* migration. But U.S. law allows an exception: the President can annually waive that requirement if there is evidence that the government of China is making substantial progress toward granting freedom of emigration to its citizens. As evidence that the People's Republic continues to deserve that exception, the President has cited the fact that China used all 16,751 immigration visas that the U.S. issued in 1990. No mention was made of restrictions placed on the ability of Chinese citizens to emigrate to other countries. A White House document states: "U.S. limits—and not Chinese restrictions—prevent emigration in larger numbers." According to the Administration, the U.S., not China, is to blame.

Even if one were to accept that Orwellian statement at face value, the crucial issue about China's freedom of emigration is of course not *how many* Chinese emigrate, but rather *who* is allowed to do so. For example, Fang Lizhi, the world-renowned astrophysicist, and his wife, Li Shuxian, also a physicist, were able to leave China, but only after more than a year of sanctuary in the U.S. Embassy. Their freedom required the repeated personal intervention of the most senior officials of the United States government, a U.S. security escort to the airport in Beijing, and a special U.S. military flight out of the country. That is the reality of China's freedom of emigration. For millions of others, without the fame and international reputation of Fang Lizhi, no such assistance is available.

Beyond the narrow issue of emigration, it is abundantly clear, that throughout the decade of the 1980s, and in particular, during the two years since the crushing of the pro-democracy movement in Tiananmen Square, the Government of China has continued to deny to its citizens even the most basic human rights. The U.S. government's policy of dialogue and accommodation with China has simply not produced any change. Prolonged detention without charges and trials, torture, forced labor, religious persecution, and the crushing of independent worker and student organizations, remain standard practice.

Particularly severe punishment is reserved for those the government labels as "dissidents." To be a dissident in China, that is someone who merely exercises his or her freedom of speech, means facing banishment—banishment not just for yourself but for members of your family, born and unborn. You might even be denounced a criminal, depending on how "counterrevolutionary" your actions were deemed to be.

For example, a group of students, two years ago, dissatisfied with the existing student organization, formed a new one, separate from the Party-dominated All-China Students Federation. One of them, a young student from northeastern China, Wang Xing, became head of the All-China Students *Autonomous* Federation in the spring of 1989. For his activities as an independent student leader, he was arrested a few weeks later, was held in prison for nearly two years, and released recently only because he developed an acute case of tuberculosis.

Similarly, Peter Liu Guandong, a Catholic clergyman from a diocese near Beijing, participated in November 1989, in an unofficial conference attended by several dozen priests, bishops, and lay leaders, in defiance of the regime's policy on independent religious groupings. On May 21, 1990, Liu Guandong, without a trial, was ordered into detention for three years for "forming an illegal organization." This courageous man, over 70 years old, a bishop who was clandestinely consecrated by the Pope in 1982, is now gathering rubbish and cleaning toilets in a "reeducation through labor" camp.

Perhaps most instructive is the Chinese government's treatment of workers. One such worker is Han Dongfang, who joined together with thousands of co-workers to form a union organization separate from the government sanctioned All-Chinese Federation of Trade Unions. He became the top leader of his country's first independent labor union, the Beijing Workers Autonomous Federation, founded in Tiananmen Square on May 19, 1989. Like almost everyone involved in the demonstrations of that time, Han preached and practiced non-violence. He did not call for the overthrow of the Party. He simply asked that China comply with its own constitution. Nevertheless, branded a "counterrevolutionary," he was held for 22 months without a trial, often in solitary confinement. On April 28, 1991, Han Dongfang was finally released, subject to reimprisonment, a seriously ill man with advanced tuberculosis caused by confinement to dank prison cells, worsened by the absence of medical treatment. Han is now a non-person, not eligible for medical treatment and unable to get a job when he gets well. Thousands of other workers remain in prison.

It is clear that people in China who not only speak freely, but also dare to join together with others, independently, outside the control of the Communist Party pose the most serious threat to dictatorial government in Beijing. Group action outside the control of totalitarian rulers is inherently "counterrevolutionary."

Given Beijing's violent opposition to independent groups, why has the government of China permitted the establishment of an American Chamber of Commerce in Beijing? The Chamber's registration as a legal organization was officially accepted by the government in May. Here is a self-proclaimed "Socialist state," a "dictatorship," granting foreigners rights that the citizens of China are not permitted to exercise.

Apparently, the Communist elite, discredited by their own people and desperate for hard currency to alleviate China's huge economic problems, will turn to any source that will help it survive. But no matter how close its alliance with American and other foreign business interests, the Communist elite expect to maintain the upper hand. As a front-page article in the *People's Daily* (titled "Only Socialism Can Develop China") proclaimed just last December:

"For political needs, Marx once said, we can even form an alliance with the monster. The problem is we should lead the monster by the nose rather than the other way around. Let us always remember these remarks by the revolutionary teacher."

If the interests and motives of the Chinese elite are clear, then what about those of the American business proponents of this strange alliance? The purpose of any commercial arrangement, of course, is to make money, and this is no exception. While the United States as a nation suffered a \$10.4 billion trade deficit with China last year, and that deficit, under MFN, will increase this year to be America's second largest bilateral deficit, it doesn't mean that the businessmen involved with China are harmed. They can make money on imports or exports. How the transactions total out as a plus or minus in our national accounting is of no concern to them.

There were always some businessmen willing and able to do business with Stalin, with Hitler, with Ceausescu, and most recently, with Saddam Hussein. Those traders and investors simply take advantage of market opportunities as they find them. But it is up to the government to weigh such dealings from a broader perspective. Commercial dealings with Beijing is a *national interest* issue, to be considered wholly apart from the special interests and special pleadings of those who have opened offices in Beijing or who are doing business in China out of Hong Kong skyscrapers.

While, there is near-universal agreement, even within the business community, that the people of China are systematically deprived of their human rights, President Bush, in his own evaluation of the national interest, wants to continue to do business with China in the ordinary way. His central argument is that MFN promotes "the cause of ~~privatization~~ and human rights in China." As partial evidence to support this opinion, he cites the economic situation in the region bordering

Hong Kong, Guandong province, which he says is "proving that privatization can work."

The information that the President has received about Guandong province is in error. Guandong province has more forced labor institutions than any other province in China—at least 133 of the nearly 1,000 forced labor camps that are scattered throughout China. While China has tightened up its censorship on forced labor, news about the system continues to be heard. Most recently, a woman described the detention of her husband, a Hong Kong businessman, who has been jailed for five years in Guandong province for helping a pro-democracy activist to escape. The businessman, Luo Hai-xing, is in Guanzhou Number Two Detention Center assembling plastic flowers for export.

Moreover, child labor is rampant in the industries of China's coastal provinces. "In Guandong," says the State Department's latest Human Rights Report, "the problem of child labor is particularly serious." If MFN promotes human rights, it has yet to do so for the political prisoners and the children of Guandong province.

True, Guandong province has many new jobs, but its so-called "private sector" is difficult to recognize. To operate successfully, foreign business there (as elsewhere in China) must have influential Communist Party officials, or their relatives, as "partners." Whether it is called nepotism, political patronage or plain corruption, this communist-capitalist alliance supports the apparatus of the Communist Party. Moreover, only rarely can foreign company managers hire their own workers or pay them. The government hires and pays them, and in the process takes a large part of the payroll for itself. This is not privatization. It is foreign capitalists subsidizing Communism.

Commercial relations with a regime like Beijing tend to become addictive. As the dependence grows greater and greater, it becomes more and more difficult to be clear-headed about the realities of Communist China and about the national interest of the United States. It becomes easier and easier to be deluded into thinking that Beijing's willingness to accept U.S. dollars, Japanese yen, and German marks is a breakthrough for private enterprise and a sign that China's leaders are acceding to policies that will lead to the downfall of their system. Those delusions should have been shattered by the events in Tiananmen Square two years ago, and it is time for the U.S. to fashion new policies toward China.

The Congress is now considering a variety of bills and resolutions relating to the extension of MFN status for China. There is widespread agreement that maintaining the status quo is unacceptable. While the AFL-CIO believes that the policies of the Chinese government warrant immediate denial of MFN status, we also see merit in proposals that would place strong conditions on the renewal of MFN. Necessary conditions that have been advanced include the cessation of persecution of members of the pro-democracy movement, the release of political prisoners, an end to prohibition on the freedom to peacefully assemble, an end to religious persecution, the granting of freedom of emigration, and the termination of various unfair and discriminatory trade practices of the Chinese government.

All these conditions are important, but the AFL-CIO believes that if a conditioned renewal of MFN is to be seriously considered, it is essential that it include strict prohibitions on the export of goods made with forced labor, the release of all imprisoned trade union activists, and the granting of the right to freedom of association so as to allow workers to form their own independent trade union organizations. It has been ordinary workers who have borne the brunt of the Chinese government's oppressive policies, and the U.S. can no longer afford to ignore their plight. If change is to take place in China, it will occur, as it did in Eastern Europe, because of the energy and commitment of workers and their organizations. It would be tragic if the U.S. acquiesced to Chinese policies that allow U.S. corporations to join together in a Chamber of Commerce, while at the same time denying similar rights of association to its own people.

In addition to the inclusion in legislation of these basic rights concerning workers, the AFL-CIO believes that it is vital for Congress to insure that the conditions are fully implemented, based on findings received from the Administration and other sources. Partial implementation, or progress toward achieving certain goals, can no longer be acceptable. If China is to receive the benefit of MFN status, it must cease the persecution of its citizens and become a responsible member of the world community.

The central question before Congress is how can the U.S. help to bring about that result. The Administration argues that maintaining the current relationship is the only viable option, and the denial of MFN status would only serve to isolate China. The AFL-CIO does not seek the isolation of China, and the denial of MFN status would not have that effect. It would merely make oppression less profitable, and

send a powerful message to the regime in Beijing that the American people stand firmly behind those seeking freedom and democracy.

STATEMENT OF THE AMERICAN CHAMBER OF COMMERCE IN THE PEOPLE'S REPUBLIC OF CHINA

The American Chamber of Commerce in the People's Republic of China represents more than 100 American business firms doing business and having representation in the People's Republic of China.

We are very much aware of the fact that there are a number of issues concerning the relations between the United States Government and the Government of the People's Republic of China that need to be addressed. As American citizens and as American businessmen, we fully support the position of the United States Government on every one of these issues. We firmly believe that these issues must be addressed. However, we do not believe that removal or conditional extension of China's MFN trade status is the proper means of accomplishing that purpose.

If the intent is simply to send a message to the Chinese authorities, then removing or conditionally extending China's MFN trade status will most certainly achieve that end.

However, if the intent is to bring about movement on the part of the Chinese authorities in the directions we seek, then our long experience on the scene in China tells us that such action is doomed to failure. At least in the short term it will be counter-productive.

As we have pointed out in our carefully thought-out position paper which is appended hereto, there are already established channels and processes for addressing and, hopefully, resolving each of our areas of concern. There are approaches that should be taken.

We firmly believe that any action taken by the United States should be predicated upon the expectations that such will support our national position and bring about positive results in the furtherance of our national interests. Revocation or conditional extension of China's MFN trade status will not bring about that desired end. Those of us who have been on the Chinese scene for a number of years are unanimous in our conviction that the consequence of either revocation or conditional extension of China's MFN trade status will be retaliatory action by the Chinese Government which will lead to a further negative effort on both our commercial and our overall relationship with China.

As we look back over the past two decades of our relationship with China, we—who are in the forefront—would be the very first to agree that positive developments have not come as fast as we all would have liked to see. On the other hand, as we compare the situation today with what it was ten years ago, we see that there has been considerable progress made. That progress is a direct result of China's contact with the United States and other foreign countries, through commercial, cultural and other exchanges.

Revocation or conditional extension of China's MFN trade status will inevitably lead to the commencement of American commercial disengagement from China at the very time when we need to be enhancing that engagement and deepening our involvement both in and with China. This will not reap any rewards for either side.

The American business community's presence in China has had a definite impact on the lives of every day Chinese and, we believe, on the policy direction of the Chinese Government. We earnestly believe that, from our standpoint, this has been a positive and beneficial influence. This is, therefore, the time to further that influence, not to diminish it.

- If the intent in revoking or conditionally extending China's MFN trade status is either to impose a form of sanction or to pose a threat of such, we American businessmen have to question seriously the wisdom of that in the light of the fact that none of China's other major trading partners is contemplating any such action. Rather, both the Japanese and the Europeans are seizing the opportunity to expand their trading relationships with China, and already American business is finding it more difficult to compete. If we pursue such a drastic course of action, we will stand alone, and we will stand to lose.

Again, we stress that each of our national concerns about Chinese policies is a valid one, deserving our utmost attention in the pursuit of satisfactory resolution. But we need to pursue these constructively rather than destructively. At the same time, each of our concerns can and should be addressed within its own, appropriate context, not through the entire broad sweep of our commercial and political relationships with China. We seek to rebuild and to reinforce certain aspects of those

important relationships. It is neither necessary nor desirable to wreak massive damage to or to bring about the destruction of the entire framework in that process.

Our view is that we should seek to correct the various deficiencies that exist in our trading relationship with China, not abolish that relationship. We believe this can be done through a policy of constructive engagement and continuing strong positive efforts. Revocation or conditional extension of China's MFN trade status does not accord with this objective.

STATEMENT OF THE ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE

The Asia-Pacific Council of American Chambers of Commerce (APCAC), formed in 1968, represents the growing interests of over 40,000 businessmen and over 6,500 business entities participating in nineteen American Chambers of Commerce throughout the region. The APCAC membership manages trade volumes in excess of US\$200 billion and investments of over US\$50 billion.

APCAC is dedicated to furthering the strength and competitiveness of United States business in the Asia-Pacific region. APCAC believes that the national security of the United States in the twenty-first century rests on America's international competitiveness. APCAC also believes that the United States Government must separate trade issues from geo-political and moral issues if the United States is to compete successfully in the global marketplace. APCAC submits that the United States' geo-political and moral issues can be advanced without tying those issues to trade matters.

OVERVIEW

APCAC is deeply concerned about proposed legislation to condition the extension for another twelve (12) months of Most Favored Nation (MFN) tariff treatment for goods originating in the People's Republic of China (PRC). In particular, APCAC believes the bills introduced by Representatives Mitchell, Pelosi and Solomon and Senator Helms, which seek to disapprove extension of or place conditions on the extension of MFN to China, promise to:

- Threaten the competitiveness of American companies based in Hong Kong and adversely impact the economy of Hong Kong;
- Undermine pro-American sentiment in Hong Kong;
- Increase the price American consumers will pay for textiles, electrical appliances, toys and other articles at a time when millions of Americans are unemployed and facing difficult financial times.
- Injure the PRC's coastal regions, not the Beijing economic hardliners;
- Erode, rather than improve, China's efforts to protect intellectual property;

BACKGROUND

In accordance with the Jackson-Vanik Amendment to the Trade Act of 1974, President George Bush has conveyed to Congress his recommendation on China's MFN status. Legislators now must decide whether to support or oppose his decision.

Opponents of renewing MFN unconditionally—including Senate Majority Leader Mitchell, Representatives Pelosi and Solomon and Senator Helms—argue that the Chinese government is undeserving of favorable tariff treatment in light of its poor intellectual property protection record and longstanding maintenance of an array of tariff and non-tariff barriers as the PRC increases its trade surplus with the United States.

While these issues deeply concern APCAC, taking away China's MFN status threatens an equal harm—the undermining of American business' competitiveness in China and in the region, particularly since no other nation is contemplating terminating China's MFN status.

PENDING LEGISLATION

A. The Mitchell Bill

Senate Majority Leader George Mitchell in early May announced legislation calling upon President Bush to certify within 180 days (now to be amended to a period of 360 days) of the reinstatement of China's MFN status Beijing's cessation of unfair trade practices, among other conditions. If President Bush is unable to make this certification, China's MFN status would be terminated automatically.

B. The Solomon Bill

Representative Gerald Solomon and three sponsors—Representatives Edward Markey, Charles Rose and Richard Schulze—on May 1, 1991, introduced legislation (H.R. 2188) to disapprove an extension of China's MFN this year.

C. The Pelosi Bill

Representative Nancy Pelosi on May 2, 1991 introduced a bill requiring that China accept and document sweeping changes including human rights and a range of other practices as a prerequisite to receiving an extension of its MFN status in 1992.

D. The Helms Bill

Senator Jesse Helms on May 9, 1991 introduced a bill seeking to renew China's MFN status only upon the United States President's certification to Congress that Beijing has met specific trade and related conditions.

HARMING UNITED STATES' INTERESTS

A. Threatening the Competitiveness of American Companies in Hong Kong

According to a report issued by the American Consulate General, overall United States direct equity investment in Hong Kong had reached an estimated US\$7.1 billion by end-1989. Moreover, a large number of American companies—many of which export US-made products to China—would lose tens of millions of dollars if the PRC loses MFN. These companies would be forced to close their operations in the United States, as well as in China and Hong Kong.

A poll taken by the American Chamber of Commerce in Hong Kong (AmCham Hong Kong) in 1990 indicated that 70% of its United States corporate members would be adversely affected by the loss of MFN; almost 50% would consider reducing staff in Hong Kong and would undertake other cost-cutting measures. Another survey conducted by AmCham Hong Kong earlier this year indicates that a large number of United States companies—many of which export United States-made products to China—would each lose tens of millions of United States dollars and, in some cases, more than US\$100 million, if China lost MFN. Some of these companies would have to close operations in the United States as well as in China and Hong Kong and others would be forced to lay off employees across America.

In addition, Hong Kong depends heavily on entrepot US-China trade. The territory has benefitted from China's economic reforms over the last decade, acting as a middleman between China and key overseas markets such as the United States and maximizing production opportunities across the border. According to Hong Kong Bank (the territory's de-facto central bank), Hong Kong's losses on re-exports from China to the United States alone would total more than US\$5 billion per annum, or about 50% of the current annual total, were the PRC to lose MFN status.

The cumulative effect of these losses would adversely affect virtually every sector of Hong Kong's economy—banking, insurance, shipping, trading, legal services and even real estate—thus prompting severe financial difficulties for United States firms in the city-state. These economic blows would, in turn, further undermine the already fragile confidence among Hong Kong residents; this will leave the territory's future viability in doubt, regardless of what Beijing does after 1997.

B. Undermining Pro-American Sentiment in Hong Kong

American companies enjoy strong support in Hong Kong. As the territory's largest export market and one of its largest investors, the Hong Kong people hold the United States in special esteem. American companies employ 10% of the work force; the American presence serves to effectively promote American products, interests and values. If large numbers of workers employed by United States firms lose their jobs as a result of a decision to rescind MFN, this reservoir of goodwill would evaporate.

C. Increasing Costs to United States Consumers

If China's MFN status is rescinded, American consumers can expect to pay higher prices for textiles, electrical appliances, toys and other goods for which the PRC is America's number one low-cost supplier. Large duty increases (an increase on sweater tariffs, for example, from 6% to 35%, and on dolls from 12% to 70%) mean higher prices in the United States market, whether for Chinese products or replacement goods; finding new suppliers takes time and United States buyers would be forced to pay higher costs in the interim.

D. Injuring China's Reform-Oriented Coastal Regions

Many of the Chinese producers that would be affected most severely by stripping China's MFN status are in the coastal regions, where the heaviest concentration of the country's economic liberalization activists are located. Economic hardliners could use the removal of China's MFN status as a convenient scapegoat for the failure of more modern economic policies. By supporting economic reformers in the PRC's coastal regions (e.g. Guangdong and Fujian Provinces), APCAC believes America can accelerate the spread of capitalism and democratic ideals and values, including human rights.

E. Eroding Intellectual Property Protection in China

While China's record in protecting patents, copyrights and trademarks is dismal, APCAC believes that stripping China of MFN status effectively forfeits America's ability to influence Chinese policy. In fact, current United States trade laws threatening or implementing actions against Chinese exports now serve as a powerful weapon to encourage reform. China, for example, was included on the latest "priority watch list" provided for under Section 301 of the 1988 Omnibus Trade Act for its lack of intellectual property protection.

CONCLUSION

The bills sponsored by Representatives Mitchell, Solomon and Pelosi and Senator Helms purport to effect change in the Beijing government's economic and trade practices. If this legislation is promulgated, however, APCAC firmly believes it will erode American companies' competitiveness and the ability of the United States to influence PRC trade policy and economic development.

Additionally, the removal of China's MFN status would seriously hurt Hong Kong and its resident American businesses, thus undercutting the United States' strategic interest in maintaining a strong presence in a prosperous and pro-American Hong Kong. Moreover, stripping MFN status from the PRC would not only harm American consumers and producers, but such action would also result in a long-term estrangement of United States-China trade relations that would be difficult to repair. APCAC also believes that denying or conditioning MFN will not achieve better human rights in China. Achieving better human rights is an evolutionary process that can be facilitated by maintaining contact with the Chinese, which can only be achieved if Americans have the ability to do business in China.

APCAC strongly supports the extension of China's Most Favored Nation status without the attachment of additional conditions.

STATEMENT OF THE INTERNATIONAL TECHNOLOGY
DEVELOPMENT CORPORATION

(I) THEME:

Many members of Congress are upset with the current regime in the People's Republic of China, and propose punitive measures to force economic and political changes onto that government. Complaints have been raised that China's government has uniquely negative policies and practices in the field of human rights, trade practices, foreign policy etc., all of which merit punishment by removal of their current MFN trade status. I would argue that these complaints are flawed, due to an exaggeration of some of the issues plus their purported supporting facts, as well as a misunderstanding of some issues. The proposed cure for these problems- revocation of China's MFN status- would not solve the same conditions that Congress intends to remedy. To the contrary, certain perceived negative trends and policies in China that are opposed in Congress would increase, and without there being any effective outside instrument to moderate the same trends that Congress opposes. Moreover, far from being a corrective action that would reform certain objectionable situations in China- either real or perceived- the revocation of China's MFN status would have a most detrimental and lasting effect against the political and economic well being of the Chinese people, as well as upon American consumers and exporters. It would also create a negative impact for retaining China as a key participant in many multilateral agencies and forums used for the control and solution of key global issues, to include: pollution control; arms proliferation; United Nations actions; world aviation and maritime conventions; and narcotics control. Revocation of China's MFN status would reduce her ability to participate fully in these key areas, and to the detriment of America's global strategy and goals.

I am not an apologist for the Chinese Central Govt., and I do resent the actions taken at Tien an Men Square in Beijing in June 1989. However, the situation of martial law and loss of life was limited to Beijing, and did not extend to the interior or coastal provinces of China. As China has become an increasingly economically decentralized system, with the provinces retaining more economic power and accompanied by some corresponding political autonomy; it does not make any sense to impose economic punitive action on the whole of China. Such punitive measures are unlikely to affect the Central Government, and would surely destroy the positive economic and political trends in China's provinces. Congressional actions would destroy the very same positive trends in China that they profess to support. I believe that while there have been setbacks on China's road to economic and political reform, the overall trend is still positive. This continued development in a positive direction largely depends on China's maintaining and expanding trade relations with the USA. Having said that, the MFN status is the key step that Congress can use to either let China's development continue, or to reverse, that development, and with all the consequences to follow.

I have been working on a continuous basis in China with many Chinese Government agencies, research institutes, factories, industrial enterprises etc. since 1976. I therefore feel that I have some direct knowledge and expertise about China that would merit my comments to both the Congress and to the Administration. I run an independent consulting business which specializes in sales of technology and industrial plant to China, with a focus on the chemical, petrochemical, pharmaceutical and energy industries. My company is 100% American owned, and has no ownership interest or control by the Chinese Government or its agencies. I have successfully represented leading international companies from the USA, Canada and Western Europe, for their sale of goods and services to China. I have an office inside China, and legally employ a number of Chinese nationals as staff members- and with whom I have uninterrupted and free contact.

While I can agree that China has an authoritarian political system and a controlled economy, its performance must be seen in the context of their being a poor developing country that is trying to expand its economy to provide food, housing and employment for more than one billion people. Certain policies and actions under your current disfavor are not very different from previous policies of countries who are now present American allies such as South Korea, Taiwan, Turkey; as well as other neutral third world countries as India, Indonesia and Algeria - all of whom currently enjoy favored trade status with the USA.

While the Chinese Government does run a controlled economy, it has become increasingly decentralized, with many economic decisions made at the provincial levels. This move to economic decentralization, and the growth of a private economic sector, has run in parallel with the growth in China's foreign trade in the past 15 years. The level of control complained about in Congress is very much misunderstood. Some control measures are required to effectively use the country's limited resources to feed, house, and employ more than one billion poor people. The Chinese Govt. believes that a strong industrial planning and policy is necessary to provide the economic growth needed to transform an impoverished agricultural society into a prosperous industrial society. These views and practices on government planning are not very different in fact or form from those adapted by Taiwan, South Korea and Japan following World War II; and which received high praise from the prevailing American governments of those times.

The level of control imposed in China is not opaque as many critics have charged, but rather is more translucent. Some light does get in. The economic growth engine in China since the Cultural Revolution has been the growth of exports. The need to service a growing foreign trade has created opportunities for many individuals to enjoy personal affluence, overseas travel, and a degree of personal expression.

I started my contact with China in 1976 during the throes of the Cultural Revolution. When the political and economic conditions of the past Chinese regime then in power are compared to the present situation, there has been a world of difference. In the last 15 years, the Chinese economy has become progressively more open and less centrally controlled- accompanied by a decrease in political regimentation. Contact with foreigners in 1976 was most strictly controlled and limited. Access by foreigners to travel between Chinese cities was strictly limited. In comparison, the access that a foreigner has in China today and his ability to contact Chinese people is certainly greater than in the Soviet Union. Telecommunications between China and the USA are open and direct. Today, I can directly dial a call or fax to many Chinese offices and residences with without interference. The Chinese people are still able to emigrate and to travel overseas for study, tourism or business. News about the USA is extensive in China. During my last trip to China in April, it was gratifying to see how many ordinary people knew about General Schwartzkopf and General Powell and their success in the Gulf war. A country as devoid of human rights and preventing foreign contact as maintained by some members of Congress would prevent such contact, and would not issue passports for foreign travel.

The overwhelming force that has opened China in this time has been the expansion of foreign trade. Before 1976, China's foreign trade was negligible, and the entire economy was under tight Central Govt. control. Today, China's economy has a very large foreign trade component, reaching about 19% of that country's GNP. The Chinese economy is now so dependent on exports, that many parts of the Chinese society previously closed to Western contact are now open, and will become more open to provide the human infrastructure needed to sustain exports. China needs to maintain its present level of exports to generate the necessary foreign exchange to import food, and the capital goods needed to modernize their economy. Congress has stated many times their wish that China liberalize their economic and political spheres. However, this wish can only be realized, even partially, if the outside force that has sustained the described shift to openness; foreign trade, will remain in place. If China's foreign trade is forcibly reduced, then the trend towards more openness will be reversed.

In comparison to the imperfections of Chinese society that Congressional critics now complain about, I must advise that in the past, when there was no trade between China and the USA, from 1950 to 1972- China was a completely closed society and impervious to foreign influence. Under such closed conditions, the Chinese people had a very difficult life. In contrast, the Chinese economy has been transformed in the past 12 years, led by the growth of exports made possible by MFN status. This has resulted in big improvements in living standards and choices of expression. It would seem that the people who now recommend revoking China's MFN status have forgotten this real history. They are recommending to bring back a past policy of restricted trade that failed to help the Chinese people or to advance American interests in that region.

It is my strong conviction that the Congress should not destructively interfere with trade relations with China, as such actions would likely reverse the positive trend that has developed in China in the last 15 years, and create a negative impact on America's strategic interests. As Congress has made a list of various Chinese trade and political policies and practices that it finds abhorrent, I think that it is prudent that we examine each of the major complaints. We should examine the validity of each complaint, and discuss how these factors would be affected by revoking China's MFN status. I would like to also cover the likely damage to be caused both to Chinese and American interests if MFN status were revoked. And finally, we should hold China to consistent standards of international conduct. There are countries, to include our allies and neutrals, who in the recent past have committed far more serious abuses than the ones Congress has now levelled against China. These same countries were never threatened with loss of MFN status. To single out China as an exception for punitive treatment is not in America's best interests, and also will not advance the interests of the Chinese people.

(II) The Complaints Against China: Their Validity and How These Complaints May be Affected by MFN Revocation:

As I have read in the news media, and also in documents released by the House Subcommittee on Ways and Means, it seems that Congress has six major complaints against China. It is felt that revocation of China's MFN status would improve these conditions. These conditions are:

- (1) Trade imbalance with the USA
- (2) Abuse of American patents and intellectual property
- (3) Discrimination against import of U.S. products
- (4) Military sales to the Mid East and proliferation of weapons technology
- (5) Use of prison labor to make products for export
- (6) Human Rights Abuse

We must objectively ask what is the real extent of the above complaints? Are we providing a full and fair account of these complaints? What is the role of American trade in the control of each of the above complaints? Would these conditions be improved or worsened if China's MFN status is revoked? I would like to give a brief comment on each of these 6 conditions, according to my direct experience in China, and which are consistent with facts reported by the news media and confirmed by the U.S. Govt.

(1) Trade Imbalance With The USA:

It is a fact that China's trade balance with the USA is now sharply in surplus, and by an estimated US\$16 billion. The only country with a larger trade surplus is Japan, whose current trade surplus is US\$41 billion. Aside from its trade surplus with the USA, China also enjoys an overall international trade surplus, which is a new development. Previously, the China trade balance has been consistently in

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deficit, as the import of food, consumer goods and capital equipment exceeded their export revenues. We should examine the factors behind China's current trade surplus, and see if this has been the result of factors that have also hurt American trade with China, or not. And, has the trade surplus with America led to an increased overall American trade deficit?

It would seem that the answer to the latter question is no. America's overall foreign trade deficit has been reduced as of late. It is felt that the present Chinese trade surplus with America has not negatively impacted our country's overall trade imbalance. By looking at the trade statistics of the past several years, it would seem that while China's trade surplus with the USA has increased by several fold, this has not been done at the expense of severely reducing the Chinese import of American goods. While American exports to China have decreased in value, they have not done so near in any proportion to the increase in Chinese exports to the USA. Nor have American exports to China decreased in greater proportion to the imports of goods from other countries. While China's overall level of imports have been reduced, its import of goods from Japan, South Korea etc. have been reduced to a much greater extent than from the USA.

I would like to make some comments behind China's general reduction of imports, which is not a major factor behind China's trade surplus with the USA. In view of the political and economic turmoil in China in 1989, accompanied by severe inflation and a depletion of foreign exchange reserves, the Central Government imposed strict import controls and a very tight domestic money policy. All of this led to a severe economic recession. The resulting decrease in industrial production and consumption resulted in an overall decrease in imports, which primarily affected their import of consumer goods, to include televisions, cars etc. The countries most affected by these import restrictions were Japan and South Korea, and not the USA.

Moreover, as a result of the most unfortunate events in Beijing of June 1989, sweeping international sanctions were placed upon China. Commercial credit lines were cancelled, multilateral lending was frozen etc. Moreover, new foreign investment came to a halt, and large foreign exchange revenues received from international tourism dropped to nothing. Prior to 1989, related foreign exchange earnings from amounted to about US\$2 billion per year. These earnings were a major source of revenue used to service foreign debt and for the import of consumer goods. With the drop in tourism, and has still not recovered, this source of revenue is gone. Accordingly, import of goods from the USA to service the tourist industry has also dropped.

The Chinese Government is very concerned to maintain their good international credit rating above all other factors. Therefore, a priority was placed on the repayment of foreign debts and loans. Again, repayment schedules were met, but the foreign exchange made available for this purpose was produced from the general reduction of imports. However, China has still maintained high levels (but lower than previous years) of food and agricultural imports. The USA is a primary beneficiary of this policy. It would seem that in view of the economic sanctions that China faced, and the difficulty to secure any new foreign credit, their fiscal austerity policy was the prudent (but painful) course to follow. One can say that the economic sanctions imposed by the U.S. Govt. against China, and specifically those which restricted international lending to China, have been a major impetus for China to increase their exports to the USA. They are obliged to increase their export earnings in order to replace the lost lending from multilateral agencies and commercial banks resulting from sanctions. Such export earnings are largely directed to pay for their large internal infrastructure projects, and which also require the import of capital goods and manufactured products from the USA to complete. Presently, the severe economic austerity program has been relaxed, as inflation has been controlled and foreign exchange reserves have risen due to increased exports. China is now increasing their import of foreign products, but consumer goods have a low priority. The greatest value of American exports to China lie in capital and manufactured products, agricultural products, and forest product commodities, which continue.

It should be mentioned that while the export of many American consumer goods to China have been reduced, this sector was never the key part of total U.S. sales to China. Many U.S. exports to China are hidden in the trade statistics of other American trading partners. That is, many American consumer products sold to Hong Kong and now Taiwan are reexported to China, and largely through private sector channels. For example, one major American pharmaceutical company enjoys a large sale of their baby formula to China. But, these sales are indirect, as a result of resale from Hong Kong.

The other side of the trade balance equation concerns the large increase in Chinese exports to the USA. While Chinese plants have increased their exports of consumer goods to the USA, the range of goods exported to the USA also contain high value items such as crude oil and refined petroleum products, and industrial minerals. These products represent essential American imports, and represent an opportunity to diversify sources of supply to American users away from less stable parts of the world.

Moreover, at the same time as Chinese exports have increased to the USA, the trade surplus that South Korea, Taiwan and Hong Kong have with the USA has decreased correspondingly. There is a real explanation for this sequence. Many exporters of consumer goods based in Taiwan, Hong Kong and now South Korea have moved their production facilities to China, where costs are lower. These transplanted imports-although still managed by Taiwan, Hong Kong etc companies, are now counted in the trade statistics as being of Chinese origin. In the last several years, wages and other costs in these other countries have risen tremendously. To remain

competitive, these manufacturers moved their production sites to China. Most Hong Kong toy manufacturers have moved their production to China's southern Guangdong Province. Most Taiwanese shoe manufacturers have moved their production to China's Fujian Province. Therefore, the big increase in America's import of Chinese toys, sporting goods, shoes and apparel, shows a direct correlation with the big drop in imports of these same products from Hong Kong, Taiwan and South Korea. And, to produce the same products, many raw materials, especially in the field of plastics, are imported by China from the USA. A systematic breakdown of these trade statistics would show that the total value of Chinese products imported into the USA does not represent 100% Chinese content. Some studies indicate that the value of Chinese content in their overall exports to the USA is less than 50%; the balance is composed of raw materials and components now imported by China from the USA and from other countries.

Chinese exports will continue to expand, as this sector is the real growth engine for the entire Chinese economy. Those parts of the country that have major export industries, as in Guangdong Province, Fujian Province and other coastal areas to include Shanghai- have achieved the highest standard of living and degree of political autonomy for their residents. More prosperous residents will be able to increase their imports of American goods, in the same way as the increased prosperity of Taiwan, Hong Kong and South Korea have led to increased imports of American goods.

From my direct experience in China to develop projects in heavy industry, Chinese imports from the USA are likely to increase now and into the future. The Chinese eighth five year plan has started, and many large capital projects are now approved and funded. These projects will require importing manufactured products and technical services that American companies can provide. If the Chinese economy continues to grow, then the USA-China trade surplus should come more into balance. China's increased export of consumer goods will provide the foreign exchange necessary to import American technology and capital goods. However, this trend would be endangered if China were to lose its MFN status with the USA, or if new economic sanctions and international credit restrictions were imposed. In such an event, trade patterns would shift. It is likely that while the export of Chinese goods to the USA would be reduced, so would their import of American products. This would have a negative impact on the American trade deficit, as nearly all present Chinese exports to the USA would be alternatively sourced from other third world producers, although at a higher cost to the American consumer. It is also likely that Chinese trade would be redirected towards Japan, to the cost of both the American consumer and exporter.

These comments are meant to show that the trade surplus that China now has with the USA is not the result of Chinese trade policies that are harmful to the USA. Moreover, this current and new Chinese trade surplus also is based on the trade and investment decisions of other Asian countries, such as South Korea, Hong Kong, Taiwan etc. Furthermore, the overall import of Chinese goods are not a threat to the U.S. economy, and do not compete with nor displace the products of major American industries to include automobiles and trucks; steel; chemicals; computers; machine tools, etc. On the other hand, these very same U.S. industries are under severe competition by imports from Japan, South Korea, and the E.E.C. countries, who also have MFN status.

If China's MFN status were revoked, the problem of that trade balance would not be corrected, but would in fact worsen. What are now imagined restrictions against American imports into China would become reality. Therefore, while the imports of Chinese goods into the USA may decrease, there would also be a much greater decrease of American exports to China. The overall trade deficit of the USA would not likely be improved, as many low cost consumer goods now imported from China would be replaced by more expensive imports from other third world countries. However, America's principal exports to China would most certainly be replaced by comparable goods and services sold by our competitors. American sales of wheat and other grain would likely be replaced by Canada, Australia, Argentina and the EEC. Sales of forest products would be replaced by Canada. American sales of airplanes would be lost to Airbus Industries of Europe. Sales to China of computers and advanced industrial control equipment would be replaced by comparable Japanese products. Sales of telecommunication systems would be lost to Japanese and European competitors. American sales of industrial plants to include power plants, petrochemical plants and oil refineries etc, and which represent the procurement of a wide range of American products and engineering services, would be replaced by comparable goods and services from Canada, Europe and Japan. Sale of chemical products and fertilizers would be lost to competitors from Europe, Japan and Arabia. These likely consequences are not going to correct the problems that revocation of China's MFN status is intended to solve.

(2) Abuse of American Patents and Intellectual Property:

While there is some misuse by Chinese entities of American patents and intellectual property, the extent of this problem is somewhat exaggerated. This problem is also not a major factor affecting the current Chinese trade surplus with the USA. Moreover, the way in which this issue is presented ignores the fact that many American and European companies have sold technology licenses to China, and have been satisfied with the extent of Chinese compliance. The MFN debate suggests that abuse of American intellectual property is a uniquely Chinese problem. This is not correct. The abuse of American intellectual property is a world wide problem. There is a record of massive abuse of American patents and computer software by companies in Taiwan, South Korea, Japan, Thailand, India, Pakistan, Brazil, Argentina, and even in some of the EEC countries. While the record of patent abuse in these other countries has prompted a chorus of complaints from American companies, no one has called for revocation of Japan's MFN status, or India's, etc.

Nor will the revocation of China's MFN status encourage Taiwan, Pakistan etc. to comply with American regulations concerning intellectual property.

Much of the previous abuse of American intellectual property has its roots in the American embargo of China until 1972, and lack of MFN status until 1979. Until most recently, China did not have a national patent law, and these issues were treated out of sheer ignorance and inexperience. From my direct experience, the situation has improved in recent years, and will continue to do so as long their foreign trade will grow.

China has been taking steps to improve this situation, and laying the groundwork with their own patent laws etc. The Chinese Govt. has been in recent discussion with U.S. Govt. trade representatives to amend their new patent and copyright laws to better satisfy American requirements. While these efforts may be short of the mark, this dialogue is a positive trend, and which should be encouraged.

The Chinese Government realizes that they are dependent upon the purchase of license rights from the West as a necessary requirement on their road to modernization. In contrast, China's research institutes, universities, and industries are too weak to become a major national force to develop new technologies. Their previous near total dependency on indigenous research and development is a major cause of the present backward and inefficient state of Chinese industry. Accordingly, the Chinese Government recognizes that they are dependent upon their continued purchase of license rights from the West in order to modernize and expand their economy. Their key to maintaining and expanding access to international intellectual property rights is to comply with existing international regulations. The Chinese Govt. realizes this situation and does not want to jeopardize their future ability to acquire technology. Hence, they have become more careful in recent years to comply with terms of international licensing agreements. The need to expand foreign trade to develop their economy will become a self regulating factor to pressure the Chinese Govt. to comply with international intellectual property regulations. China in turn cannot expand their export trade unless their industry and infrastructure becomes more efficient. A cycle is created, which requires the import foreign technology on a sustained basis, and which will pressure the Chinese to comply with regulations governing American intellectual property. Revocation of MFN status will reverse this trend, removing the positive pressure of foreign trade expansion that is driving the piston of compliance.

I have specifically represented two U.S. companies that have successfully licensed technology to China, and who are satisfied with Chinese compliance with the license terms. One event concerns a large American chemical company, and the other a large American pharmaceutical company. I have also have direct knowledge that a large number of leading U.S. companies in the chemical and petrochemical field have had successful licensing experiences with Chinese entities. One American company has sold a key chemical license five times to the same Chinese Central Govt. agency, which constructed five different plants in China. That record would indicate that the Chinese agency involved did not pirate nor abuse the first license sale. The fact that some of America's leading companies have sold and continue to offer technology licenses suggests that the level of abuse is not so bad as some Congress members claim. Since the technology is the heart of these companies' assets, I believe that their decisions to license to China represent a careful evaluation of the risks and benefits.

Without the incentive of MFN, Chinese compliance with regulations concerning American intellectual property would likely decrease, and reverse the current positive trend. What is presently an annoying but improving situation could become an intolerable one. Moreover, having removed MFN status, Congress would have no effective means to enforce or control any future abuse of American intellectual property that may arise.

(3) Discrimination Against Import of U.S. Products:

I have heard on national television an interview in which the honorable Senator Mitchell states that there are wide restrictions imposed by the Chinese Government both selectively and specifically against the import of American products. I would strongly disagree. I have travelled widely throughout China, and have participated in the development of many projects that required the import of capital equipment, technical licenses, and engineering services. I have never been told by any Chinese Government agency nor by any Chinese customer that American companies or American equipment have been excluded from consideration. My company's ability to do business in China depends on our being able to investigate actual situations, and to be familiar with current Chinese policies and practices. I would have to frankly state that American companies are not discriminated against in China. In fact, American companies are often the preferred partner and vendor for a project. Why then, aren't American exports to China higher than at present levels?

The answer does not lie in the mistaken belief that American goods and companies are discriminated against. The answer can be found in the fact that American companies are not competitive in their sales efforts to China compared with their European, Japanese and even Canadian counterparts. American companies do not receive the same level of support from our government in comparison to a much greater level of support that their international competitors receive from their governments.

It is true that China is a difficult country in which to make a sale. The culture, language and business practices are quite different from American norms. In addition, most Chinese officials engaged in foreign business have relatively little experience and contact with foreigners. This lack of experience, rather than a fictional conspiracy, is the major reason for difficult encounters. Moreover, as a socialist country, authority in China is very diffuse. A wide consensus is

required for each decision. These features are time consuming, and are very frustrating to American businessmen, who are accustomed to quick results. Moreover, as the Chinese economy has become increasingly decentralized over the last ten years, it has become more important to visit the local customer in the provinces to initiate the sale. This is not easy, as both transportation and communication in China's interior are not convenient. Most American companies do not make the effort to travel within the territory, and so cannot properly investigate what are complex situations, and miss opportunities to their international competitors who do make these efforts. A stronger effort must be made by American companies if they are to get a market share. While many American companies have offices in the major cities of Beijing, Shanghai and Guangzhou; their representatives stay there as in comfortable garrisons, and don't travel sufficiently into the Chinese interior to contact the customers.

A far more serious handicap to American competitiveness in the China market is the lack of supportive U.S. Government trade policies. In project competition vs. Japanese or European competitors, the major reason for failure of American companies has been the lack of credit facilities to finance projects. The government of most every EEC country and also of Canada have loan guarantee programs in place that are used to support the exports of their constituent companies' goods and services. These loan guarantee or insurance programs are not soft loans, but are consensus loans from commercial banks. The interest rate available to China is somewhat below market rate, and with an extended repayment period. In the event of a default, the repayment is ultimately guaranteed by the host government. The Chinese record on loan repayment is excellent, with very few defaults. The near lack of Chinese loan defaults is to be contrasted with the various U.S. loan guarantees extended to other countries. In many cases, these countries have defaulted, and the American taxpayer has paid the bill. This would include defaults by Iraq for purchases of American grain.

While the American Export Import Bank offers similar loan guarantee programs as described above, their level of funding is too low, so that many applications are rejected. Moreover, due to sanctions enacted against China in 1989, they were excluded from U.S. Export Import Bank lending. In effect, the lack of credit facilities to finance the sale of American products is the major reason that American companies lose out on many Chinese projects. Our European, Canadian and Japanese competitors have these credit facilities in place and routinely available for China projects. China is a poor country, and cannot make large and sustained purchases of capital goods on a cash basis. China still has an excellent international credit rating, so that they are able to use credit facilities to finance projects. The complaints against China are part of a larger problem regarding American export competitiveness. Congress would be better served to seriously examine U.S. national trade policies and practices that restrict and hurt American export competitiveness.

Revoking China's MFN status will not increase the sale of American products to China, and also will not improve American export competitiveness to other parts of the world. As described in other sections of this report, American exports to China would drop sharply if MFN status was removed; since MFN status is a reciprocal relationship between the two countries. The subsequent loss in American export revenues, market share and related jobs would be very real and painful.

(4) Military Sales and Nuclear Technology Sales:

I will not argue about facts concerning Chinese international military sales that the U.S. Government may present. I also think that this is a legitimate issue for Congress to raise. However, the threat to revoke China's MFN status is not an effective way to solve the problem. To the contrary, it is more likely to have the opposite effect. I am familiar with many of the industries in China that are controlled by the military, and why they perceive some pressure to export arms. I don't believe that arms exports are a permanent feature of Chinese Government policy, and the present trend can be reversed. I further believe that this activity can be controlled if alternative civilian export opportunities were opened to the Chinese military, through the heavy industry enterprises they control. Plants now producing war planes can be subcontractors for civilian airplane parts. Metallurgical plants producing artillery can produce precision castings for machine tools. Military avionics plants can produce electronic components for telecommunications, and so forth. Congress has the opportunity to make an effective limitation of Chinese arms exports through the use of a creative and positive trade policy between China and the USA.

We should appreciate that Chinese arms sales are a comparatively recent development, and largely arose as a supply opportunity during the Iran-Iraq war in the 1980's. China supplied both sides with obsolete weapons. Those sales were not opposed at that time by the U.S. Government nor by the U.S. Congress. Unlike the Soviet military, which consumes an excessive portion of their national budget, the Chinese military is underfunded. Many state industrial enterprises, in the chemical, metallurgical, heavy machinery, transportation and energy sectors are run by the military. Their capital budget is limited, both to run their industrial plants and to procure weapons systems for domestic defense. The opportunity to sell weapons was perceived by the military to represent a means to earn the capital to modernize their defense industrial base and heavy industry enterprises. One should consider that while the Chinese sold mostly obsolete tanks and armored personnel carriers to Iraq, and which were largely destroyed in Operation Desert Storm, the French Government sold very lethal weapons to Iraq, and which put American troops at great risk. It was a French exocet missile fired by an Iraqi piloted French jet in 1988 that nearly sank the U.S.S. Stark in the Gulf, with a great loss of American lives. Moreover, Iraq's potent chemical warfare capability was built entirely by West German industry.

The sale of Chinese weapons is a serious matter. However, I believe that these sales can be controlled. The defeat of Iraq in the Gulf War has eliminated one former Chinese customer. Also, the American victory in the Gulf War should be a strong factor to discourage other countries in the region from buying Chinese weapons. The Administration and the Chinese Govt. are in serious discussion concerning compliance with the Nuclear Non-Proliferation Treaty and with the Missile Technology Control Regime. China has also accepted President Bush's invitation to participate in a major international conference to regulate arms sales to the Middle East. These are positive steps by the Chinese Govt., and should be encouraged. Congress can give the Administration its most effective tool to persuade China to restrict arms sales, by extending MFN status. A cooperative China, secured by strong trade ties, is likely to become a more effective partner to help implement the President's plan to restrict weapons sales. In contrast, other countries which are leading arms supplier to the Mid East, and which are participating in sales of missile technology, such as Brazil, Argentina, Egypt, Pakistan etc. are not under the threat of their MFN revocation.

I firmly believe that the Chinese Govt. can redirect their military industries to export non defense industrial goods to replace current weapons sales, and is willing to do so. However, this policy will require a continued MFN status to provide the trade opportunities the Chinese military needs for trade conversion. Revocation of MFN will reverse this trend, and deprive the Administration of its primary effective tool to secure Chinese compliance. Revocation of MFN is more likely to lead to a proliferation of Chinese weapons sales. Since Congress holds the keys to MFN, its revocation would be self defeating in this area of weapons proliferation.

(5) Use Of Prison Labor To Make Products For Export:

This is an emotional charge. However, I think that this complaint stems from a serious misunderstanding of the real situation inside China. While I have not been everywhere in China, I have travelled extensively through most of China's thirty provinces, autonomous regions, and municipalities under direct Central Govt. control. I have visited more than 150 different industrial plants, and have interviewed their staff and directors extensively. I don't believe that in any of the factories that I have visited, that prison labor was used for production. This would exclude the use of both political prisoners as well as penal criminals.

However, prior to 1978, there was a vast prison system which put dissidents into work camps. Most of these camps were set up during the Cultural Revolution, in Qinghai Province. However, these industrial prisons were disbanded in 1978 at the beginning of the Deng reforms, and all workers given amnesty. In most cases, those workers were returned to their former jobs in China's urban centers etc. To my knowledge, these prison camps for dissidents have not been reestablished. While some dissidents in China are currently imprisoned, this is not a repeat of the vast prison camp system of the sixties and seventies. Could there be some confusion in Congress about past Chinese practice?

China is a poor country, and their factory workers are paid a low wage and do work long hours. However, this is not prison labor. I have also witnessed large work gangs in the countryside building bridges and roads. While these workers receive low pay and engage in very arduous labor, they are not prisoners. They are peasants freely recruited for the work by Chinese Govt. agencies. I have also witnessed many times in the Chinese countryside large groups of soldiers engaged in road building and the like. I can produce recent photographs of both situations. I have spoken to members of both groups, and am satisfied that these were not prison laborers. They were poor people who were pleased to get the work to supplement their small incomes. In the face of general underemployment in the Chinese countryside, the Chinese Government would have a real problem of using prison labor for public works in favor of free peasants. Perhaps some sincere critics have confused the general poverty of Chinese workers with a perceived criminal status. Such a comparison would be mistaken.

There are prison farms for penal criminals in China, and which are not unlike American penitentiaries in some states. To my understanding, these farms are self sustaining, where the criminals are organized to grow all their food, produce their clothing etc. as required. It is most unlikely if facilities for penal criminals would be used for export production. Please consider that China is a country of shortages. Many Chinese industrial and agricultural enterprises that have no prison associations are fiercely competing with each other for export opportunities. Each exporter has a claim for a state allocation of raw materials, electric power, etc., and without which exports cannot be done. Many state factories do not export because they cannot get a sufficient allocation of raw materials, etc. As these enterprises are all directed by Communist Party officials of varying ranks, they have far more influence within the system and hence a call upon scarce raw materials, machinery and electricity, transportation etc., than would a prison farm. The possibility of a state enterprise competing against a prison facility for limited export opportunities would create a serious internal conflict, and which is not in the interest of the Chinese Government to create.

China does have a tough penal criminal code, and crime is dealt with severely. In comparison, the recently publicized jail sentences of Democracy activists in China were much lighter than given to criminals convicted of theft or violence, and was perceived as such by the general Chinese public. In fact, Michael Milken, the junk bond king, drew a longer jail sentence in U.S. Federal Court than did these same Chinese dissidents. Crime is also dealt with very severely in other third world countries, to include American allies as Saudi Arabia and Pakistan. It is also true that other countries have used prison labor extensively for domestic concerns. In fact, under the early period of American rule in the Philippines, the extensive fortifications built on Corregidor Island were carried out with large numbers of Filipino prison labor, and under American supervision. I also understand that many

states in our country use prison labor to produce license plates, U.S. postal mail sacks, furniture, and even laundry services. Could China's prison system be very different from this situation? I sincerely don't believe that the issue of China's employing prison labor for export production has substance. It would be unfair if Congress revoked China's MFN status over a speculative factor. In fact, this is a red herring rather than a red letter issue.

(6) Human Rights Abuse:

This is an even greater emotional issue than the previous topic. I will agree with some Congressional critics that China can improve its situation regarding human rights. But, I do not agree that the Chinese people are without human rights, and they are not in need of the protection of the American Congress, since Congress is not completely informed of their entire situation. However, any suggestions for change that Congress may offer must be based on the reality of China being a very poor, over populated country with a large rural population. Many suggestions that may be suitable for change in Poland or in South Korea may not be so effective for the Chinese situation. Recommendations for change should conform to local conditions. As the cooperation of the sovereign government is always the most effective manner to effect positive change, Congress should not unnecessarily antagonize the Chinese Government. If the Chinese Government perceives that Congress is using the human rights issue as an attack on their sovereignty, bad memories of the previous American containment policy over China would resurface. I would be very concerned if the Chinese Government not feel that dissidents and human rights advocates are agents of a hostile foreign power intent on the subversion of the present system in place. That perception, reinforced by MFN revocation could result in new domestic restrictions that Congress claims that it opposes. Does Congress want to be the agent for peaceful change or for repression in China?

I disagree with much of the hyperbole that suggests that China is one big concentration camp. This is not an accurate assessment of the real situation. I have met many Chinese people, and visited their houses, d phoned them from the USA, etc. I would have to disagree with critics that charge the Chinese Government with pointing a loaded gun at the head of each of their citizens. China is a regimented country, but one in which there is a trend towards some individual privileges and rights of association. I have witnessed increased religious freedom for Chinese individuals in recent years. In the large cities as Beijing and Shanghai, churches that had been closed for years are now open, and packed with worshippers. While some critics may say that these may be showcases for visiting foreigners, the same cannot be said for churches now open in far away provincial cities where foreigners seldom travel. I have seen Christian churches open in such more remote cities as Handan, Taiyuan etc.; numerous mosques in far away Urumqi in China's Xinjiang Province; and Buddhist temples in many small cities; all packed with worshippers, and with no guards. This situation does not conform to the black picture painted by Congress. This trend is a positive development, and should not be discouraged by Congress taking punitive action against the Chinese Government.

The trend in individual well being and security in China has increased tremendously since my first visit there in 1976. At that time, everyone dressed with the same drab conformity. Foreign travel was forbidden, as was personal contact with foreigners. Today, people in China enjoy a more individual life style, are receptive to American culture, and can travel to the USA. The major force which has opened up and liberalized China was the development of and expansion of China's foreign trade. Without that development, China would have remained a closed country, and with significantly inferior human rights conditions than what Congress is complaining about today. China is now so dependent on foreign trade that it cannot go back to its being a closed society. The open door can only be closed by Congress, by reducing China's trade with the USA through revocation of China's MFN status. Prior to the beginning of China-USA trade in 1972, Congress had many complaints about China and had no way to effect change. On this basis, The MFN policy for the last 12 years has been a great success to develop the changes in China that Congress clamors for. It is not logical that Congress should want to change a policy that has worked very well, and go back to a previous policy that was a complete failure.

The tragic events in Beijing of June 1989 are upsetting to all Americans. However, it must be appreciated that these events were localized to Beijing. There was no martial law in Guangdong Province, or in Shanghai, etc. Some of the rhetoric from Congress suggests that there was loss of life and martial law in every Chinese province. This was not the real situation. Nor were phone, fax, postal or travel contact between China and the outside world ever cut off by the Chinese Govt. during and after June 1989. These same coastal provinces in China which Congress applauds for making great economic and social progress, and setting a trend for a free market economy in China are very dependent on their export driven economies to improve their status. Their accomplishments came about because of two factors. One- the Central Govt. of China made the necessary and costly investments in infrastructure needed to create an export base. Two- the resulting large trade volume with the USA that followed, provided the demand for economic, social and political change to maintain this growth. Trade with America is the force that has made real change in southern China. However, we should not overlook that without Central Government concessions to these areas, the trade would never have grown so rapidly. These positive developments that Congress has cited in southern China will disappear if China's MFN status is withdrawn. The point here is that MFN revocation is not a selective precision or smart weapon Congress can use to punish the Chinese Central Government and leave Guangdong Province intact. The MFN revocation has all the selectivity and the resulting damage of an atomic bomb. It is not possible for Congress to let some parts of China, whose record it favors, to continue their exports to the USA, and to restrict the exports of other parts of China with whose performance it is dissatisfied with. MFN status is given for an entire country, and is revoked for an entire country.

(III) IF CHINA'S MFN STATUS IS REVOKED, WHICH PARTIES IN CHINA AND THE USA WILL SUFFER DAMAGE?

The answer is that MFN revocation would severely hurt both large sectors of Chinese society; regional economies in Hong Kong and Taiwan; and both American exporters and the American consumer.

The Chinese economy would likely go into a tailspin, bringing back the Central Govt.'s policy of retrenchment, but more severely this time. Many domestic capital investment projects would likely be cancelled due to a shortage of government revenues and reduced foreign credit. These projects would include the areas of housing, agriculture, public works, hospitals, flood control, transportation etc. The closing of many export factories presently supplying the American market, and which are located principally in Southern China, would lead to massive unemployment and severe economic dislocation. Such conditions would likely create great social tensions, leading to policies of tighter control by the Chinese Government to prevent instability. With China's most efficient production centers and services closed, the importance of Southern China to the rest of the national economy would sharply drop. Correspondingly, their present status as a role model for economic growth for the rest of China would be over. The loss of their investment value by American companies now producing in China can be severe, and should not be discounted. The corresponding contraction of China's export economy would likely lead to a restoration of much Central Govt. control of the provincial economies; thus arresting the trend towards economic decentralization and the accompanying political autonomy. The reduced volume of exports to the USA will mean that the Chinese Govt. will have less need to maintain extensive contacts with the USA.

Another casualty of MFN would be the Hong Kong economy, one of Asia's four tigers. However, by slapping China with the loss of MFN, Congress would shoot and stuff their beloved tiger. The relationship between the Chinese and Hong Kong economies is deep. Most of Hong Kong's manufacturing facilities have been moved across the present frontier to China, where production costs are lower. The bulk of Hong Kong's present exports to the USA are reexports from China. Much of their financial and service sectors depend on serving southern China and their export industries. Accordingly, withdrawal of MFN for China would be the typhoon to blow away Hong Kong's financial strength. As a result, Hong Kong's present and high import level of American goods would stop. On a per capital basis, Hong Kong is the largest importer of American goods. Hong Kong also invests large amounts of capital into the USA, principally in real estate. A financially weakened Hong Kong, would have a much smaller influence on China's economy after 1997, when it becomes part of China. Unless China remains a strong exporter to the USA, Hong Kong cannot remain as China's economic model after 1997, and would have less value to the Chinese Govt. The result is that Hong Kong would be unlikely to retain its present autonomous status, and would be integrated politically and economically with Guangdong Province.

The economies of Taiwan and South Korean would suffer some losses, in view that much of their export production to the USA has been shifted to China. These losses would likely be translated into Taiwan's and Korea's reduced imports of American products. Lower economic growth in these two countries can lead to domestic unrest, which is not in America's strategic interest.

The biggest loser from MFN would be the American consumer. Most of the goods imported from China are low end and low cost consumer goods, and cannot be relocated into higher cost American plants. The disruption in supply and eventual sourcing to alternative but higher cost third world producers would cost nearly every American consumer. The higher cost of imported goods from other third world countries would add to America's overall import bill. Higher costs to American consumers would hurt recovery from the present recession.

The losses to American exporters and reduction in American jobs as a result of MFN loss would be serious. Loss of agricultural exports to China would severely hurt the American farmer, and produce a severe setback to the Administration's attempts to move American agriculture away from subsidies and towards a market economy through increased exports. The drop in exports of American chemicals, fertilizers, forest products, etc. would lead to the loss of jobs and a drop in prices due to overcapacity in these industries. The resulting drop in their profitability would hurt the nation's recovery from recession. The loss of China as a major export market for strategic American products as airplanes, computers, telecommunication systems, and engineering services would be severe. Their likely replacement by the Chinese with comparable products from Europe and Japan will make it very hard for American exporters to come back in the future. In one stroke, Congress will have given a big help for Japan to pull China into their new East Asia Coprosperity Sphere. A Chinese economy with their extensive raw materials, energy supplies and raw materials subordinated to Japan's capital and export industries will make Japan an even more formidable American trade opponent. Can this be what Congress intends by withdrawing China's MFN status?

(IV) A STANDARDISATION OF JUDGMENTS IS NEEDED FOR ALL COUNTRIES RECEIVING MFN STATUS, AND CHINA SHOULD NOT BE SUBJECTED TO AN EXCLUSIVE AND DISCRIMINATORY STATUS

The point can be made that if Congress will hold all countries to the same standards proposed for China as conditions for trade privileges, hardly any nation would receive MFN status. It will be instructive to compare Congress' complaints against China with some factors concerning three of America's present trade partners: Japan, Syria, and Taiwan.

JAPAN: Japan has a much larger and consistent trade surplus with the USA than China (i.e. - U.S.\$41 billion for Japan vs. U.S.\$16 billion for China). Japan has been convicted of serious abuse of American intellectual property, and particularly concerning key areas of high technology. Japanese companies have been convicted of industrial espionage inside the USA. American exports to Japan are restricted by many unfair trade practices, and she does not have China's defense of being a poor country that has to reduce its imports to conserve capital. Yet Congress does not call for withdrawal of Japan's MFN status.

SYRIA: The Syrian Govt. brutally killed 20,000 of its citizens at Hama in 1982. Although this event was not televised, the bloodshed far exceeded the events of June 1989 in Beijing. Syria has also been involved in the death of many Lebanese citizens during their long civil war, culminating in the massacre of hundreds of Lebanese this year as she assumed de facto control of that country. Syria has been certified by the U.S. State Dept. as a sponsor of international terrorism. A Syrian Govt. agent nearly succeeded in blowing up an El Al airline several years ago. The State Dept. has linked the Syrian Govt. with the destruction of Pan Am Flite 103 over Lockerbee Scotland in December 1988. Syria is also linked with terrorism in Lebanon resulting in the destruction of the U.S. Embassy and the marine barracks, with great loss of American life. Syria is also a major participant in the international heroin traffic, protecting and then shipping out the opium crops in Lebanon's Bekka Valley. Despite these negative activities, Congress has not even suggested to withdraw Syria's MFN status.

TAIWAN: Taiwan has traditionally had a large trade surplus with the USA, and routinely pirates American intellectual property, ranging from text books to computer software and trade marks. Perhaps more interesting is Taiwan's active role in the international narcotic traffic. It was reported on the major television network news on June 21 that the biggest shipment of heroin to the USA was intercepted by DEA agents in California. The heroin was produced in Thailand's Golden Triangle, and then transhipped to the USA through Taiwan. While the famous French Connection in New York 20 years ago involved 60 lbs. of heroin, this shipment from Taiwan was over 1,000 lbs. of pure heroin. The news also reported that just as Panama under Noriega had been the money laundering center for South American cocaine dealers, Taiwan has now become a major money laundering center for the Pacific heroin traffic. The news further reported that the transshipment of heroin through Taiwan involved the collusion of their government officials. This is not surprising if one will recall that during the 1960's, the official role of the Taiwanese Govt. in the production and shipment of opium and heroin from the Golden Triangle of northern Thailand, Burma and Laos was fully documented in a book by Al McCoy entitled "The Politics of Heroin in Southeast Asia." That narcotics trafficking operation was protected by a Nationalist Army group that left China's Yunnan Province after the end of the Chinese civil war in 1949, and was maintained in north Burma into the 1970's by the Taiwan Govt. The accuracy of the book was confirmed by the U.S. Govt. In contrast to Taiwan, China is not a participant in the trafficking or transshipment of heroin or other narcotics, and has been certified as being 'clean' by the DEA. The Chinese Govt. has given valuable cooperation to U.S. Govt. agencies to intercept narcotic traffic shipments bound for the USA, and passing around Chinese territory. Lastly, in the past decade, a Taiwanese political dissident and resident in California was assassinated by official agents of the Taiwanese Govt. This incident was well publicized at the time, and was a shocking breach of American law and security by a foreign government, as well as a gross violation of human rights on American soil. The Chinese Govt. has not committed any terrorist act, assassination, or kidnapping on American territory. However, despite the above points, Congress has never suggested to withdraw Taiwan's MFN status.

In view of the three cases cited above, to single out China for punishment is not only discriminatory, but is not a poor use of American trade practices to advance America's strategic interests. In view that all of America's principal allies have removed their trade sanctions against China, and none have restricted Chinese the access of Chinese exports to their markets; the insistence by members of Congress to proceed with this course has no precedent nor counterpart in international trade today.

In closing, I would like to comment that China's participation in world affairs is needed. China represents nearly 1/4 of the world's population. Therefore, if many global issues and problems are to be effectively addressed- to include conventions for pollution and environmental control; arms control and weapons proliferation; multilateral security arrangements; population control; etc., then 1/4 of the world cannot be excluded from participation. China is not an adversary nation against the USA, and is not an outlaw nation. As China is a sovereign nation, Congress has far less ability to influence internal events over there than it may want to believe. The primary factor that will bring China to become an effective global participant in support of American global policies is their free access to trade with the USA. American trade is the glue that can bind China to support global policies consistent with America's strategic interests. Trade with the USA will be the force to further open the Chinese economic and political sectors in the directions favored by Congress. But conversely, the withdrawal of China's MFN status would be the solvent that dissolves the ties that bind China to the USA.

STATEMENT OF THE NORTH AMERICAN EXPORT GRAIN ASSOCIATION

INTRODUCTION

The North American Export Grain Association (NAEGA) takes this opportunity to join U.S. agriculture's voice together with the many other interests represented here today in strong support of the President's decision to renew most favored nation (MFN) trade status for the People's Republic of China (PRC). NAEGA is the national association of U.S. grain and oilseed exporting companies and cooperatives.

Few issues that the Congress will address this year will have as immediate and direct an impact on U.S. agriculture as the issue before the Committee today. The PRC represents U.S. agriculture's 11th largest market, with total sales in excess of \$2.2 billion since 1989. U.S. wheat sales to China since 1989 have topped \$1.5 billion; PRC purchases in 1989 represented fully 20% of all U.S. wheat exported that year. The PRC is a major market for U.S. commodities such as cotton, corn and forestry and tobacco products. In addition, agriculture-related exports of fertilizer and paper accounted for an additional \$1.2 billion in sales in the period 1989 to the present.

Sales of these agricultural and related commodities and products have traditionally been among the largest trade categories in our bilateral trade with the PRC and accounted for 37% of all U.S. exports to the PRC in 1989. These exports would be imperilled—and could be lost altogether—if PRC MFN status is denied or otherwise circumscribed by the Congress, such as some currently propose.

PRC RETALIATION AGAINST U.S. FARM EXPORTS LIKELY

PRC retaliation in the event of disruption of MFN status should not be considered a matter in doubt. Retaliation against U.S. exports will almost certainly and immediately follow such action. The only question, therefore, is the nature and severity of the retaliation; and against whom in the United States the retaliation will be directed.

Past PRC retaliation against the U.S. in major bilateral trade disputes has historically (and disproportionately) been directed against U.S. farm exports. As previously indicated, U.S. agricultural sales to the PRC currently are among our Nation's leading exports to that country. Consequently, such sales present the most substantial and likely target for retaliation in response to unilateral U.S. government action designed to disadvantage or damage PRC commerce in the U.S. market.

U.S. AGRICULTURE HAS LONG-TERM STAKE IN PRC MARKET

The PRC market represents one of American agriculture's best future long-term growth potential markets. The PRC's share of world gross national product (GNP) has grown rapidly in recent years. Its share of total world population (21% in 1988) alone makes its long-term future a vital concern to U.S. agriculture.

The dual impact of rising income and population has the potential to substantially fuel PRC demand for U.S. agricultural commodities and products well into the next century. Basic commodity production in the PRC (including wheat, corn, millet, potatoes and soybeans) has leveled off at approximately 380 to 390 million metric tons (MMT) during the decade of the 1980s. At the same time, demand for basic food and feedstuffs has grown dramatically.

The U.S. share of this growing market would be arrested, and could be extinguished altogether, if normal bilateral trade is disrupted. The result would be to offer up this market to our trade competition, particularly to European Community (EC) countries, Australia, Canada, Argentina, and other agricultural exporting nations.

U.S. agriculture has, over a decade of hard-won sacrifice in the direction of greater global competitiveness, earned a right to unrestricted access to the PRC market. Furthermore, the Chinese people themselves have a right to the rising standard of living their imports of U.S. agricultural commodities and products allow.

Denial or disruption of MFN status would be a betrayal of trust with our Nations' farmers and exporters and progressive elements of the Chinese people alike. It would not, in our view, serve in any fashion to modify the policies of the PRC government. Indeed, if history is judge, it may result in a hardening, and not a softening, of current PRC government attitudes.

DENIAL OF PRC MFN A DE FACTO GRAIN EMBARGO

Regarding sanctions, there is no middle ground. Advocates of conditionality applied to PRC MFN status must understand that this policy is not risk-free or cost-free or without potential penalty to the United States. The penalty to U.S. agriculture could be severe and long-lasting. Indeed, disruption of MFN may be tanta-

mount to imposition of a unilateral U.S. grain embargo against the PRC if, as expected, the PRC retaliates through suspension of its imports of U.S. farm commodities and products.

U.S. agriculture's past bitter experience with grain embargoes imposed to achieve foreign policy objectives should be argument enough for avoidance of similar action with respect to PRC MFN. Unilateral trade sanctions rarely work. More often than not, they fail to achieve their intended objective at a cost of substantial hardship for affected domestic U.S. interests.

The 1980 grain embargo against the USSR resulted in a loss of perhaps \$11 billion in value to the U.S. economy. It reduced U.S. export sales and lowered farm prices. It undermined confidence in the United States as a dependable supplier and encouraged the Soviets to seek alternate sources of supply from U.S. competitors in the international marketplace.

Denial or disruption of MFN status to the PRC, if followed by PRC agricultural import restrictions directed at the U.S., would have all the same serious ramifications for American agriculture. It would serve the interests of our trade competition. It would deny the U.S. the leverage provided by on-going amicable trade relations. It would undermine Chinese confidence in the United States as a reliable trading partner and diminish the U.S. role in the PRC market at the very moment that market presents the greatest possible future potential for U.S. agriculture.

CONCLUSION

We should seek to avoid the mistakes of the past. MFN status for the PRC should not be used as a tool to achieve U.S. foreign policy objectives.

Denial or disruption of MFN would not result in a modification of PRC government policy. Indeed, the adverse economic impact of that action would be felt greatest by those elements of the PRC population least capable of bearing the brunt of the interruption in trade. These elements are, not by accident, the very elements within the PRC economy who have been most instrumental in advancing the goals of liberalization and democratization which we in the United States have so strongly supported. It would a mistake to turn our back on them—and the Chinese people in general—at this significant juncture in our evolving relationship with the PRC.

We have attempted in this testimony to express agriculture's many concerns regarding possible denial of MFN status to the PRC and the potential impact of such action on U.S. agriculture. The potential costs involved are great; the potential benefits questionable at best.

Congress should resist efforts to deny MFN status to the PRC. Trade should be held free of threat of sanction and our long-term relationship with China allowed to develop and grow, in the best interests of both our Nation and the Chinese people.

We have attached to this testimony a copy of a recent CRS study which analyzes the likely impact of PRC retaliation in the event of denial or disruption of MFN. The study predicts a substantial loss in farm income, a rise in government agricultural spending, and a declining market share for U.S. commodities in world markets. We concur with these findings; and offer the report as further evidence to be considered by the Committee and Congress.

CRS Report for Congress^o

Congressional Research Service • The Library of Congress

China's Most-Favored-Nation Status: U.S. Wheat Exports

Susan B. Epstein
Specialist in Agricultural Policy
Environment and Natural Resources Policy Division

SUMMARY

On May 27, 1991, President Bush announced that he intends to renew China's Most-Favored-Nation or MFN¹ (nondiscriminatory) trading status under the provisions of the freedom-of-emigration (Jackson-Vanik) amendment. If recommended by the President, such renewal is automatic and does not require specific congressional approval. It can be blocked, however, by the enactment of a joint resolution of disapproval considered under a special fast-track procedure, which must be completed within about 3 months. The Congress can also restrict or deny outright MFN status to China by specific legislation considered under regular procedure. Some Members are calling for such action because of China's human rights violations in recent years and because China has been selling nuclear technology to countries such as Pakistan and Algeria. (For more details on denial procedure, see IB90107.)

Some trade experts contend that China may retaliate by prohibiting imports from the United States if MFN is denied this year. While China is a major market for a wide array of U.S. products, it is especially important for U.S. agriculture, particularly wheat. In the past 3 years, wheat amounted to between 60 and 92 percent of China's agricultural imports from the United States. Furthermore, China is often among the largest importers of U.S. wheat, buying as much as 20 percent of total U.S. wheat exports in some years.

As Congress debates whether or not to support the extension of MFN status to China, an examination of possible effects of the outcome of this debate on the U.S. wheat sector might be useful.

BACKGROUND

China is considered a major U.S. agricultural export market, although its rank fluctuates widely from year-to-year. For example, in 1986, it ranked 60th; the next year, it ranked 17th. In 1989 China was the eighth largest foreign market for U.S. agricultural exports, purchasing more than \$1.4 billion worth

¹Most-Favored-Nation status means that trade privileges or concessions that the United States grants to any nation would automatically apply to the MFN country.

of products. Just last year, China ranked 11th among U.S. foreign agricultural markets, importing about \$800 million worth of agricultural products.

China imports an array of agricultural goods including wheat, corn, soybeans, cotton, livestock products, horticultural products, even wine and tobacco from the United States each year. Wheat, by far, makes up the largest portion of U.S. agricultural exports to China. In 1990, wheat accounted for more than 60 percent of U.S. exports to China; in 1989, it accounted for 80 percent; and in 1988, it accounted for 92 percent. The type of wheat China typically imports from the United States is high quality protein wheat such as hard red spring or winter wheat for use as flour for bread and other baked goods.

U.S. wheat exports often make up a large portion of China's market share; for example, U.S. wheat exports held more than 30 percent of China's market share in 7 out of the past 10 years. However, on a year-to-year basis, both quantity of wheat exports and U.S. market share of China's wheat market fluctuate significantly. This supports the claim by some agricultural economists that the United States is a residual supplier of wheat to China. (See figure 1.)

China has participated in two U.S. agricultural export promotion programs in recent years--the Export Enhancement Program (EEP) and the Targeted Export Assistance (TEA) program. China has never imported U.S. commodities under the export credit guarantee programs (GSM-102 and GSM-103), although it is eligible to participate in both. China's eligibility to participate in the P.L. 480 concessional sales program has not yet been established by the Administration.²

Since 1987, when China first became eligible for EEP commodities, it has imported more than 17.5 million metric tons of EEP-subsidized wheat. The Targeted Export Assistance (TEA) program, currently named the Market Promotion Program (MPP), has promoted in China more than \$2 million worth of exports of wheat, feed grains, plywood, seeds, table grapes, ginseng, meat and meat by-products, tobacco, and wine.

THE U.S. WHEAT SECTOR AND EXTENDING CHINA'S MFN STATUS³

A best case scenario for the wheat sector includes the assumption that China's MFN status will be extended, and China will continue buying U.S.

²Congress gave the President authority to designate China as a "friendly country" and determine if China satisfies the criteria for participating in P.L. 480's Title I program. U.S. Congress. Senate. Report of the Committee on Foreign Relations, International Security Enhancement Act of 1982, 97th Congress, 2d Session, May 28, 1982, pp. 38-39.

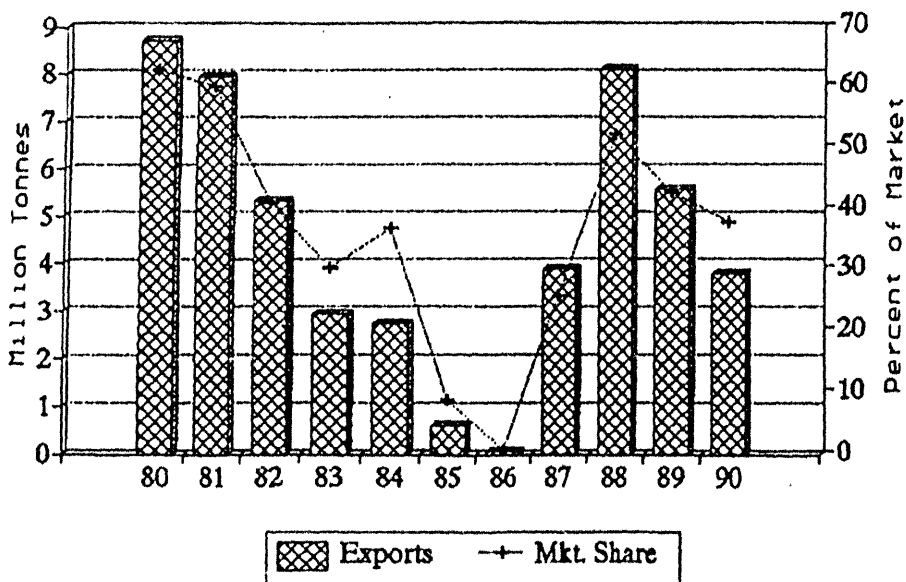
³Some of the estimates in this section were calculated by the WEFA Group, a consulting firm located in Bala Cynwyd, Pennsylvania. For this analysis, years referred to in this section are wheat crop years--July/June years.

wheat. So far this year, the United States has shipped a total of 3.8 million metric tons of wheat to China.⁴

A worst case scenario is based on the assumption that China is denied MFN status this year and will retaliate by not importing any wheat from the United States. For the purpose of this analysis, the loss of U.S. wheat export sales was set at 4.2 million metric tons (or about 155 million bushels), which is the long run average of China's wheat imports from the United States. Important to note is that other wheat producing countries currently have wheat carryover stocks that are sufficient to fill China's lost supplies from the United States, if China chose to reject U.S. wheat exports altogether. (See figure 2.) Thus, while trading patterns would likely change over time, worldwide wheat export and import patterns would not have to change in the current year.

Figure 1

US Wheat Exports to China Volume & Market Share

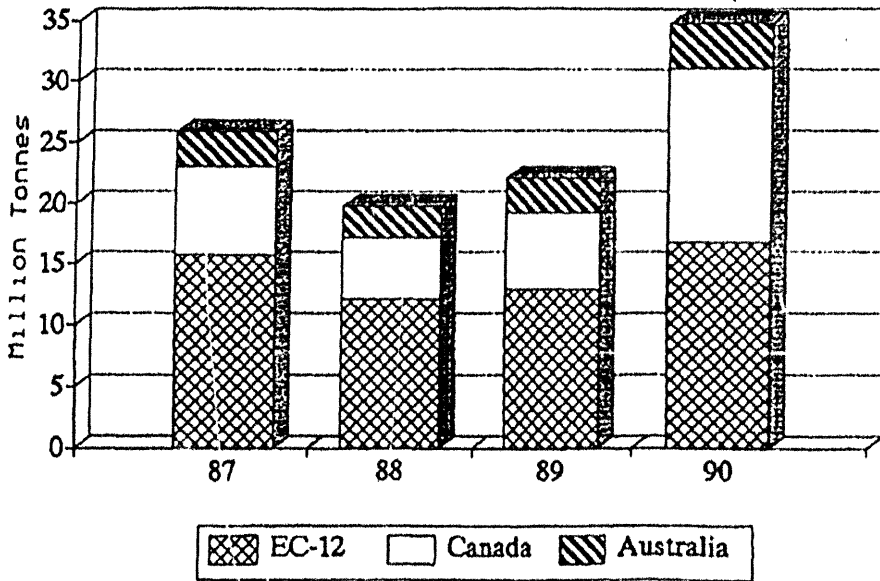


Source: Agriculture Service, The WEFA Group, May 17, 1991.

⁴Telephone conversation with Renee Schwartz, Grain and Feed Division, Foreign Agricultural Service, USDA, May 20, 1991.

Figure 2

Wheat Carryover Stocks Selected Competitors



Source: Agriculture Service, The WEFA Group, May 17, 1991.

According to WEFA analysis, in the worst case scenario, the U.S. wheat sector would experience a net loss of 89 million bushels in sales over the best case scenario. Export sales would decline by 137 million bushels, but domestic sales would increase by 48 million bushels, since the lower export demand would result in a reduction in wheat prices. The loss of exports amounting to 137 million bushels is less than the 155 million bushels assumed to be lost in sales to China, because other foreign markets would import more than they otherwise would have due to lower wheat prices. (See table 1.)

If China refuses to buy U.S. wheat, the resulting weaker demand and larger U.S. stocks could combine to reduce U.S. wheat prices. (In contrast, however, world wheat prices may rise initially, since closing China's market off from the U.S. supply would effectively raise demand for non-U.S. wheat and reduce the world supply.) The U.S. wheat price is estimated to drop by 27 cents per bushel or about 10 percent from the levels expected in the best case scenario. In addition, psychological effects of losing one of our biggest foreign wheat markets might push prices down even further in future time periods.

U.S. wheat ending stocks would drop from year earlier levels in either scenario. In the best case of renewing China's MFN status, the 1991/92 wheat stocks are expected to drop by 267 million bushels from 1990/91 levels. In the worst case scenario of not extending MFN and loss of the China wheat market, wheat ending stocks are expected to drop by 178 million bushels.

Reduced wheat sales and lower prices would reduce farm cash receipts and aggregate farm income. Income of wheat producers that participate in price support program (80 percent) would be supported by Government deficiency payments. Therefore, Government costs would increase if China refused to purchase U.S. wheat. Because of the triple-base feature of the 1991 program, wheat farmers would lose income from the marketing of wheat from nonpayment acres at the lower wheat price. Other crop farmers might face more competition if, in the next crop year, wheat farmers plant other crops such as soybeans and cotton, causing the price of those commodities to decline.

It is possible to estimate potential Government and farm losses if wheat prices were to have dropped last year by 27 cents per bushel. If this worst case scenario had occurred last year, based on USDA's 1990 U.S. wheat production level estimates of 2,739 million bushels, and using USDA's estimates that 80 percent of wheat acreage was covered under the wheat program, the potential increased cost to the Government in deficiency payments might have been as much as \$592 million in that crop year. Furthermore, wheat farms might have lost an additional \$148 million in market receipts last year. Therefore, estimates of the worst case scenario using 1990 wheat production data result in a total Government and wheat sector cost estimate of more than \$740 million. Although 1991 production levels and program participation data currently are unavailable, and wheat farmers may make decisions and adjustments over the crop year that would change this scenario somewhat, the above calculations suggest the potential losses that might be attributed to denying China MFN status.

Table 1

**Wheat Situation
1991/1992**

million bushels

| | With Most Favored Nation | Without Most Favored Nation |
|-------------------|-----------------------------|--------------------------------|
| Beginning Stocks | 893 | 893 |
| Production | 2105 | 2105 |
| Total Supply | 2998 | 2998 |
| Domestic Use | 1214 | 1262 |
| Exports | 1158 | 1021 |
| Total Use | 2372 | 2283 |
| Ending Stocks | 626 | 715 |
| Kansas City Price | 3.17 | 2.90 |
| Farm Price | 2.96 | 2.69 |

Source: Agriculture Service, The WEFA Group, May 17, 1991.



**North American Export Grain
Association Incorporated**

June 11, 1991

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski,

The North American Export Grain Association (NAEGA) -- representing the Nation's grain and oilseeds exporting companies and cooperatives -- takes this opportunity to urge you to support the President's decision to unconditionally extend most favored nation (MFN) status to the People's Republic of China (PRC).

Neither denial nor conditional extension of PRC MFN, such as currently being advocated in Congress, would, in our view, have any serious impact on domestic policies of the PRC government, while it would almost certainly have dire consequences for U.S. industries dependent on U.S.-PRC trade. U.S. agriculture has accrued in excess of \$2 billion in export earnings from PRC purchases of U.S. agricultural commodities and products in the last two years alone. These exports, especially important to our Nation's wheat farmers and exporters, would almost certainly be lost if PRC MFN status is denied or otherwise constrained by legislative action.

We in agriculture have taken great faith and comfort in past assurances that U.S. agricultural trade will be held safe from the threat of embargo or suspension; and by pledges made not to use food as a foreign policy weapon. We ask the Congress to stand by these principles in the matter of future U.S.-PRC trade. Suspension of PRC MFN status could threaten progressive elements of the PRC economy and society, and would be equally injurious to Hong Kong interests. Furthermore, such action would represent a virtual gift of markets to our trade competition at the very moment the U.S., through the GATT process, seeks to expand U.S. trade opportunities throughout the globe.

We understand that the problems posed by this issue for non-agricultural U.S. interests are easily as serious as those threatened for U.S. agriculture. For all interests potentially threatened, we urge you to support the President in his desire to unconditionally extend PRC MFN status. Such a policy is, in our view, necessary to ensure the maintenance of stable, long term trade with the PRC.

We thank you for your consideration of this matter. With warm regards in behalf of the Officers, Directors and Members of the North American Export Grain Association,

Sincerely,

Steven A. McCoy
President

June 13, 1991

Honorable Brock Adams
 United States Senate
 Washington, DC 20510

Dear Senator Adams:

The United States has been an active exporter of farm products to the People's Republic of China since relations were normalized in the 1970's. Barring any disruption to current trade flows and buying patterns, we firmly believe that China will remain one of our top customers through the end of the century. Continuation of China's most-favored nation trading status is of paramount importance to American agriculture.

In FY1990, the value of U.S. farm exports to China was over \$900 million. Cessation of U.S. trade relations with China, which revocation of China's MFN would amount to, will have an enormous negative impact on U.S. farmers.

The 1990 Farm Bill, like its predecessor, strongly advocates a market-oriented U.S. agricultural policy. Our farmers are vitally dependent on free trade and reliable access to markets. At this time, China represents one of our best markets. It is one we cannot afford to lose.

We, the undersigned organizations, believe that solid commercial trading relations between the U.S. and China can foster both economic and political development. We urge your support for the renewal of MFN trade treatment for the People's Republic of China.

Sincerely,

American Farm Bureau Federation
 American Seed Trade Association
 American Soybean Association
 Export Processing Industry Coalition
 Millers' National Federation
 National Association of Wheat Growers
 National Barley Growers Association
 National Corn Growers Association
 National Council of Farmer Cooperatives
 National Grain and Feed Association
 National Grain Sorghum Producers Association
 National Grain Trade Council
 National Oilseeds Processors Association
 National Turkey Federation
 North American Export Grain Association
 The Corn Coalition
 The Fertilizer Institute
 United Egg Producers

STATEMENT OF THE PUEBLA INSTITUTE

INTRODUCTION

Since the Communists came to power in 1949 and began their comprehensive effort to suppress all ideological competition, religion in China has been closely circumscribed. Concerned to control religion and sever worshipers' ties with churches abroad, the government created the Catholic Patriotic Association (CPA) and the Three-Self Patriotic Movement of Protestant Churches of China (TSPM). By law, Christians must belong to one of these state-run organizations. Although membership does not ensure freedom from persecution, those who fail to join—Vatican-loyal Catholics or independent Protestants—are especially vulnerable to it.

The degree of religious persecution in China has waxed and waned with political cycles. The recent purge of the independent Christian churches, dating back to several months before the Tiananmen Square demonstrations, seems directly connected to the democratization of Eastern Europe, which Chinese authorities think was instigated and nurtured by the churches. Beijing's anxiety increased after the Tiananmen Square protests, and the government continues to tighten restrictions on religious activity, especially on contact with foreign church groups. The government repeatedly accuses Christians of being used by "hostile foreign forces" to influence China's internal affairs. This is a dangerous charge, carrying criminal penalties of imprisonment or even death.

China's inhumane treatment of religious prisoners violates international agreements about basic human rights. "Reform through labor" is a common punishment for crimes of belief or practice deemed "counter-revolutionary," and the recent resort to indoctrination camps ominously recalls the brainwashing tactics of the 1950s. Puebla has found that electric shock and other torture is being used against some of the religious prisoners, resulting in at least four deaths (two Catholics and two Protestants) since mid-1989.

Puebla has documented that some religious prisoners in China are receiving sentences longer or more oppressive than those meted out to the majority of student democracy leaders. A number of clergy have received sentences of seven to ten years or more, and there are currently about 25 Catholic leaders, including four bishops, being held in indoctrination camps in Hebei Province and brainwashed in state religious policy. We also have evidence suggesting that religious prisoners may be afforded even fewer due process protections than the students. Bishop Joseph Li Side, arrested on December 8, 1989, for trying to administer last rites, was sentenced at a secret trial to eight years in prison. Having completed an eight-year sentence in March 1990, 74-year-old Father Francis Wang was arbitrarily ordered to serve an additional three years for stubbornness."

Where most of the Tiananmen Square protestors are young, many of the persecuted religious believers are elderly, and some of those now in detention have already served previous sentences of up to 25 years. Father Han Dingxiang, a priest currently imprisoned in an indoctrination camp in Hebei Province, was jailed between 1960 and 1979 and was again detained in 1989. Lin Xingao, a 65-year-old Protestant pastor from Guangzhou, had served a 2-year sentence before February 1990, when authorities arrested him and ransacked and closed his church. Father Philip Wang Ziyang refused release under the government's terms and was still in detention when he died in January 1990 at the age of 90, over 30 years after first being incarcerated.

CATHOLICS

Puebla has documented the names of and other information about 63 Catholic leaders who are currently in prison, under house arrest, or otherwise restricted in China for religious reasons. We also have information on three Catholics, one a priest, who are reported to have died in prison during the last two years. Since hearings on MFN for China were held last June, there have been 55 more arrests or detentions of Catholics, among them seven bishops, 10 priests, eight seminarians, and six sister novices.

Catholicism's connection to the Vatican makes its leaders especially vulnerable to government prosecution. Under Article 91 of China's Criminal Law, whoever "colludes with foreign forces in plotting to harm the sovereignty, territorial integrity and security of the motherland" is subject to prison sentences ranging from 10 years to life, and in particularly serious cases, even the death penalty. These provisions have been broadly interpreted to imprison Roman Catholic clergy who oppose state religious policies, refuse to join the CPA, and maintain contact with the Vatican or with foreign religious groups.

Some Catholic leaders—including all those on Puebla's list—on Puebla's list—have remained loyal to the Vatican, operating what is in effect an underground Catholic Church. The "crimes" of which they are accused tend to involve defiance of or opposition to CPA policies, including ordaining priests, maintaining contact with the Vatican, or simply associating with clergy known to be in contact with the Vatican. Such activities, viewed as "counter-revolutionary crimes," are often punished by "reform through labor," or, in an alarming development in late 1990 and early 1991, by brainwashing.

The government's efforts to repress underground Catholicism predate Tiananmen: on April 18, 1989, thousands of policemen in an estimated 270 military vehicles embarked on a rampage against 1500 pro-Vatican Catholics in Youtong Village in the northern Hebei Province, arresting thirty Catholics, killing two, and wounding approximately 300, 160 of them severely. Such actions reflect the government's growing concern at the liberalization of Eastern Europe. At a December 1989 Chinese Communist Party meeting, the Catholic Church and Pope John Paul II were held responsible for political changes in Eastern Europe, and the Pope was accused of having "reactionary and subversive" intentions toward China, as well.

Since early 1989, attempts to repress underground Catholicism have continued unabated. In November 1989, when bishops loyal to the Vatican met to establish an independent episcopal conference in Shaanxi Province, authorities arrested at least nine participants, including 72-year-old Bishop Peter Liu Guandong and Father Anthony bang Gangyi, an 83-year-old priest who has spent a total of 30 years in prison between 1949 and the present. Those arrested were accused of seeking to "overturn the lawful Catholic Patriotic Church."

In March 1990, Chinese officials met in Hebei Province, an underground Catholic stronghold, to discuss strategies for repressing clandestine Catholicism. The mayor of Hebei recommended increased control of Catholics at the village level; his plan called for citizens to cooperate with the Public Security Bureau by investigating Catholic clergymen's licenses, identity cards, and residence permits. He also urged resistance to "infiltration" by "external Catholic Church forces" in order to preserve "the authority of the Church . . . in the hands of patriotic forces."

Recent events indicate that such recommendations are being acted upon and that the campaign to repress underground Catholics in China is intensifying. On June 4, 1990, police arrested 15 Catholics in a raid against the village of Zhaozhuang in Hebei Province. Among those apprehended were Father Liu Heping, eight seminarians, and six sister novices. Father Liu has since been freed, but there is no news of those imprisoned with him. On July 27, 1990, Bishop Xie Shiguang was arrested along with nine priests during a meeting on Church affairs at Luojiang Church in Fu'an city. In a separate incident occurring on the same day, Bishop Huang Shou-cheng was arrested along with four deacons.

In the most recent large-scale aggression against Catholics documented by Puebla, police beat novices and seminarians and arrested as many as 23 Catholic leaders—including bishops, priests, and laity—on December 13 and 14, 1990, in Baoding and Yixian, both in southern Hebei Province. The arrests were reportedly made to prevent these Catholics from celebrating Mass during the Christmas season. Those reported arrested include Bishop Paul Shi Chunjie, who is blind; Bishop Paul Liu Shuhe; and Bishop Peter Chen Jianzhang, who is confined to a wheelchair. Although police apparently undertook the arrests with a list of specific names, they also apprehended everyone else present during the raid, including children. As of June 1991, members of the originally targeted group remained in detention. They are now being indoctrinated in official state religious policy and pressured to practice their religion under the auspices of the state-approved CPA.

Even the head of China's "legal" Catholic Church is urging repression of underground Catholics: in March 1991, China-appointed Bishop Joseph Zong Huaide charged clandestine Catholics with inciting the people against the government and "launching illegal activities" in China. He also suggested that the arrest and brainwashing of clandestine Catholics in Hebei Province last December were an effective response to the threat that Vatican-loyal Catholics present.

PROTESTANTS

China's Protestants have also endured increasing repression and violence in the last two years. Since June 1989, there are reports of close to 400 arrests for such activities as preaching, attending meetings, and distributing or receiving Christian literature. Although some Protestants have suffered arrest and long-term imprisonment, many more have been subjected to searches of their homes, closings of their churches, confiscation of Christian literature and other church materials, fines, arrests, and detention from a few days to a few months.

The Three-Self Patriotic Movement, the government-controlled religious organization that Protestants must join, makes evangelizing, preaching, and distributing Christian literature outside the officially approved channels illegal. The TSPM also requires that all churches register with it.

Over the last ten years, many evangelists and others involved in independent religious activities in China have been detained, and their churches have been closed. According to Protestant sources, between 1982 and 1985 there were over 1,000 incidents in which members of Protestant groups were detained for short periods for their religious activities. Seventy-nine Protestant leaders were charged or sentenced to terms of imprisonment during the same period. These sources confirm that the rate of harassment has increased since June 1989.

Much of the government's aggression against Protestants in the last decade has been aimed at stemming the growing "house-church" movement. House-churches are meeting places where Protestants gather to worship. Some are registered with the TSPM and thus function with official approval, although in the last six months, registered churches have been made to submit to increasingly restrictive government regulations. For unregistered house-churches, closings and other forms of harassment have become more and more common over the last two years. Puebla has information indicating that close to 300 churches operating in defiance of government regulations have been closed between June 1989 and the present. The activities of Protestants not registered with the TSPM are closely watched by an array of official organizations, including the Public Security Bureau, the Religious Affairs Bureau, and the TSPM itself.

The crackdown on Protestants, like that on Catholics, predates the events at Tiananmen Square. Closings rose noticeably following the issuance of the religious regulations of Guangdong Province of March 1988, known as "Document No. 44." This law, which allows provincial governments to regulate local churches, apparently represents a move to bring more local Christian communities under the control of officially-appointed TSPM pastors.

These and similar restrictions have much to do with democratic movements in Eastern Europe. In instances such as that in Zhangzhou, where 20 house-churches were closed in July 1990, officials pointed to events in Eastern Europe, particularly Romania, as evidence that foreigners were seeking to use religion to change China. Although Chinese Protestants tend to be apolitical precisely in order to avoid conflicts with the government, the authorities nevertheless fear the unofficial Protestant movement as politically destabilizing.

Two documents issued by the government early last year to restrict Protestant influence seem to reflect official anxiety about parallels to Eastern Europe. The first, dating from January 1990, warned against foreign Christian professionals in China; as of summer 1990, it had resulted in the deportation of two foreigners and increased repression of Chinese Christians with foreign connections. In April 1991, officials videotaped and broadcast a raid on a meeting between a group of house-church leaders and a foreign Christian group to warn Christians against foreign contacts. The second document called for a stop to "illegal religious activity" in the eastern coastal provinces, indicating a shift in the government's concerns from the central province of Henan, where over one-fifth of China's house-church Protestants are located, to the eastern provinces. This document has reportedly led to a number of arrests, and to the closing of over 200 small house-churches in the Shanghai area.

Protestants have also been affected by an ideological campaign begun by the Chinese government in December 1989. Intended in part to wipe out "superstitious activities," this political purification campaign is being used as a basis for arresting Protestants, particularly those involved in house-church activities in central China. In addition to superstition, Protestant activists are most often charged with belonging to the Shouters, a Protestant evangelical group; plotting to overthrow China's proletarian-dictatorship and socialist system; having contacts with overseas reactionary forces; receiving and distributing foreign materials; disturbing the social order; and disturbing and breaking up normal religious activities.

Some of the recently arrested Protestants had already completed prior sentences of up to 20 years. Pastor Lin Xiangao, for example, had served a 2-year sentence before his rearrest in February 1990 for refusing to join the TSPM. Since his release from prison a few days later, he has been interrogated by the police at least 11 times. When Xu Yongze was rearrested in April 1988, he had been living in hiding for close to a decade after escaping from a labor camp. His arrest, which took place when he was in Beijing to attend a service led by American evangelist Billy Graham, makes clear the government's suspicion of alliances with foreign Christians.

Protestants also suffer greatly in China's jails, labor camps, and indoctrination camps. In January 1990 a father and daughter were tortured to death in prison; both belonged to a Protestant church established by American missionaries. A man charged with selling Bibles and organizing illicit religious activities was one of seven prisoners sharing a six by six foot cell; Public Security Bureau officers who interrogated him for the two months of his imprisonment beat him and tortured him with electric shocks. A Protestant who had studied in the United States was arrested in Shanghai in December 1989 so that he could be "rehabilitated"—that is, brainwashed. He is still being detained.

Public Security Bureau officials more commonly employ other less drastic tactics to discourage defiance of the TSPM, and the severity with which official policies are enforced varies by location. Pastors are made to sign statements assuring that their churches will be registered with the TSPM; worshipers are issued fines equal to a year's salary; meetings are disrupted by officers who frequently outnumber the congregants; and Christian literature and other materials, including furniture, are confiscated.

CONCLUSION

Every sign indicates that the situation for China's Christians is worsening. The majority of students who protested at Tiananmen have avoided government retribution by curtailing their democratic activities, but Christians cannot simply suspend their deepest-felt beliefs. They continue to practice their faith, and they continue to be hounded and punished by the state.

Religious freedom is acknowledged as a fundamental human right in such international agreements as the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the United Nations Declaration on the Elimination of All Forms of Intolerance and of Discrimination Based on Religion or Belief. Religious freedom is also a fundamental principle of democracy and one deeply cherished by the American people. We recommend that renewal of MFN to China be conditioned on human rights reforms that take religious prisoners into account.

PERSECUTED CATHOLICS

1. Bishop Song Weili. Bishop of Langfang diocese, Hebei Province. Arrested in late December 1990 or early January 1991.
2. Bishop Cosmas Shi Enxiang. Seventy-one years old. Auxiliary Bishop of Yixian, Hebei. Reportedly arrested after mid-December 1990 with Bishop Paul Shi Chunjie (No. 3).
3. Bishop Paul Shi Chunjie. Auxiliary Bishop of Baoding. Born in 1920 and now almost blind. Arrested along with at least 22 other Catholic priests and leaders on December 13 or 14, 1990, in southern Hebei Province, reportedly to keep him and the others from celebrating Christmas Mass. Being held in an indoctrination camp.
4. Bishop Peter Chen Jianzhang. Bishop of Baoding. Currently confined to a wheelchair, he disappeared in mid-December 1991 at about the same time as Bishop 5h1 (No. 3) and may have been arrested for the same reason. Being held in an indoctrination camp.
5. Bishop Paul Liu Shuhe. Second Bishop of Yixian, Hebei Province. Sixty-nine years old. Arrested and imprisoned in Beijing on October 30, 1988; a three-year sentence was commuted to house arrest on January 16, 1989, because of ill health. Rearrested on December 13 or 14, 1990, reportedly in order to prevent his holding Christmas Mass. Being held in an indoctrination camp.
6. Bishop Joseph Fan Xueyin. Retired Bishop of Baoding, Hebei Province. Born on Dec. 29, 1907. Previously imprisoned for 21 years between 1958 and 1979. Most recent arrest in 1981; sentenced to "reform through labor." Imprisoned from 1981 until 1987, when transferred to house arrest. In the beginning of November 1990, Bishop Fan disappeared from Baoding. The authorities reportedly removed him to prevent his having contact with Catholics during the Christmas season.
7. Bishop John Baptist Liang Xisheng. Bishop of Kaifeng diocese, Henan Province. Born in 1923. Arrested in October 1990. Under police surveillance as of February 1991.
8. Bishop James Xie Shiguang. Bishop of Xiapu, Fujian. Arrested on July 27, 1990, during a meeting on Church affairs at Luojiang Church in Fu'an city. Arrested with nine priests (Nos. 24-32). All are being held without trial.
9. Bishop Vincent Huang Shoucheng. Bishop of Fu'an, Fujian. Arrested along with four deacons on July 27, 1990, in an unspecified location. The deacons have been released, but the Bishop remains in detention.

10. Bishop Philip Yang Libo. Bishop of Lanzhou, Gansu Province. Arrested in late December 1989 and reportedly now serving a three-year prison sentence.

11. Bishop Bartholomew Yu Chengdi. Bishop of Hanzhong diocese, Shaaxi Province. Arrested between mid-December 1989 and mid-January 1990, and imprisoned in Xian until July 1990. He is currently under travel restrictions by the government.

12. Bishop Mathias Lu Zhensheng. Bishop of Tianshui, Gansu Province. Born on January 23, 1919. Arrested in late December 1989. Nothing has been heard from him since that time.

13. Bishop Guo Wenzhi. Bishop of Harbin, Heilongjiang Province. Born on January 11, 1918. Previously interned between 1954 and 1964. He was rearrested in 1966 and interned in a prison camp for "reform through labor" in Xinjiang Autonomous Region until his release in 1979. Most recent arrest on December 14, 1989; released in March 1990 to home village in Qiqihar, which he is forbidden from leaving and where he is under strict police surveillance.

14. Bishop Joseph Li Side. Bishop of Tianjin diocese. Arrested on December 8, 1989, and reportedly now imprisoned. Seized by Public Security personnel while on his way to administer last rites. Elderly and frail, he was kept in a small cell with 20 other prisoners in Prison No. 2 in Tianjin city. He was reportedly tried secretly and sentenced to seven years in prison.

15. Bishop Paul Li Zhenrong. Bishop of Xianxian diocese, Hebei Province, and member of the Society of Jesus. Born on September 29, 1919. Previously imprisoned between 1957 and 1980. Most recent arrest in December 1989; in March 1990 released to confines of home village. Now in hiding and being sought by the police.

16. Bishop Jiang Liren. Bishop of Hohhot, Inner Mongolia. Date of arrest not definitively known, although it may have taken place in November or December 1989. He is reported to have been released from prison in April 1990 and put under house arrest. He is now confined to his home village, where the authorities are subjecting him to character assassination.

17. Bishop Peter Liu Guandong. Seventy-two years old. Bishop of Yixian diocese, Hebei Province. Arrested November 26, 1989. Charged with "planning, organizing, and forming illegal organizations" and of having "den part in illegal activities," a reference to his part in forming an underground episcopal conference in Shaanxi Province in November 1989. Sentenced on May 21, 1990, to three years' "reform through labor" at a labor farm near Tangshan, Hebei province. At least eight others were arrested following the November 1989 conference (see Nos. 36-41, 57, and 58).

18. Bishop Julius Jia Zhiguo. Bishop of Zhengding, Hebei Province. Born in 1935. Arrested April 7, 1989, and transferred to house arrest in his native village of Wuqiu on September 11, 1989. To remain under house arrest for three years.

19. Bishop Hou Guoyang. Of Sichuan Province. Arrested early January 1989 and detained until early 1991. Now under police surveillance.

20. Bishop John Yang Shudao. Bishop of Fuzhou, Fujian Province. Previously arrested, time period unknown; released in 1980. Most recent arrest occurred in Liushan village, Fujian Province on February 28, 1988. Transferred to house detention in February 1991.

21. Bishop Casimir Wang Milu. Bishop of Tianshui diocese, Gansu Province. Born in 1939. Arrested in April 1984. Sentenced in 1985 or 1986 to ten years of "reform through labor" and four years' forfeiture of political rights. Reportedly now imprisoned in a labor camp in Pingliang, Gansu.

22. Father Han Dingxiang. Priest of Handan diocese, Hebei. Fifty-four years old. Arrested December 26, 1990. Currently forcibly detained in an indoctrination camp in Handan with at least twenty other Catholics, including Father An Shi'en (No. 23). Previously imprisoned between 1960 and 1979 for religious activities and beliefs and detained again in 1989.

23. Father An Shi'en. Priest of Daming diocese, Hebei. Born in 1914. Exact date of arrest is unknown. Currently forcibly detained in an indoctrination camp in Handan.

24-26. Fathers Zhu Ruci, Liu Guangpin, and Zou Xijin. Priests of Fu'an, Fujian Province. Arrested on July 27, 1990, with Bishop Xie Shiguang (No. 8) and six other priests during a meeting on Church affairs at Luojiang Church in Fu'an airy. Currently imprisoned.

27-29. Fathers Xu, Zheng, and Zhu. Three of the nine priests arrested in Fu'an on July 27, 1990. Currently imprisoned.

30-32. Fathers Guo. Three priests, all of the same name. Among the nine arrested in Fu'an on July 27, 1990. Currently imprisoned.

33. Father Mark Yuan Wenzai. Priest of Haimen, Jiangsu Province. Sixty-nine years old. After a period of police detention, he was placed under the custody of the local Patriotic bishop, Yu Chengcoi, in July 1990.
34. Father Wang Ruohan. Priest of Tianshu diocese, Gansu Province. Arrested in December 1989 and reportedly now imprisoned.
35. Father Yu Chengxin. Priest of Hanzhong diocese, Shaanxi Province. Brother of Bishop Bartholomew Yun Chengdi (No. 11). Arrested between mid-December 1989 and mid-January 1990 and imprisoned in Xian city. Released in July 1990, he remains under travel restrictions.
- 36-37. Fathers Zhang Xiaocheng and Sun Ximan. Priests of Tianshui diocese, Gansu Province. Arrested in connection with underground episcopal conference between mid-December 1989 and mid-January 1990; reportedly now imprisoned.
38. Father Wei Jingyi. Priest of Qiqihar, Heilongjiang Province. Arrested in connection with underground episcopal conference between mid-December 1989 and mid-January 1990; reportedly now imprisoned.
39. Father Pei Guojun. Priest of Yixian diocese, Hebei Province. Arrested in connection with underground episcopal conference between mid-December 1989 and mid-January 1990; reportedly now imprisoned.
40. Father Anthony Zhang Gangyi. Priest in Sanyuan diocese, Shaanxi Province. 83 years old. Imprisoned several times for a total of 30 years between 1949, when he returned from Italy where he served as a chaplain for the resistance during World War II, and the present. Arrested in connection with underground episcopal conference on December 11, 1989, then released; rearrested on December 28, 1989, and imprisoned. Released because of ill health on June 6, 1990, but remains under travel restrictions.
41. Father Su Zhemin. Fifty-nine years old. Vicar General of Baoding diocese, Hebei Province. Arrested on December 17, 1989, for his role in helping to establish an independent episcopal conference in Shaanxi province in November 1989. Sentenced with Bishop Peter Liu Guandong (No. 17) on May 21, 1990, to three years "reform through labor" at a labor farm near Tangshan, Hebei province.
42. Father Shi Wandu. Priest of Baoding diocese, Hebei Province. Arrested on December 9, 1989, in Xushui, about 70 km. southwest of Beijing, and reportedly now imprisoned.
43. Father Pei Zhenping. Priest of Youtong village, Hebei Province, site of bloody police raid in April 1989. Arrested on October 21, 1989, and now imprisoned.
44. Father Xiao Shixiang. Priest of Yixian diocese. Arrested on October 20, 1989, and reportedly now imprisoned.
45. Father Pei Ronggui. Trappist priest of Youtong village, Hebei Province. Fifty years old. Arrested in Beijing, reportedly on September 3, 1989; reportedly now imprisoned. As a priest who officiated at Youtong village, where police went on a bloody rampage against the town's 1500 Catholics on April 18, 1989, he had been on the wanted list ever since. According to an unconfirmed report, Father Pei has been sentenced to six years' hard labor.
46. Father Feng Yongbing. Thirty-five years old. Priest of Changle county, Fujian Province. Arrested on September 14, 1988. He has reportedly since been released, but this has not been independently confirmed.
47. Father Wang Yiqi. Priest of Fujian Province. Reportedly arrested in Liushan village, Fujian Province on February 28, 1988. He has reportedly since been released, but this has not been independently confirmed.
48. Father Francis Wang, Seventy-four years old. Priest of Wenzhou diocese. Arrested on May 19, 1982, and sentenced to eight years' imprisonment. In March 1990, he was sentenced to an additional three years' "reform through labor" for "stubbornness." Father Wang was previously incarcerated from 1955 to 1967 in labor camp for his religious activities.
49. Father Joseph Guo Fude. Member of the Society of the Divine Word. Sixty-nine years old. Had already spent 22 years in detention at time of most recent arrest and imprisonment in spring 1982. As of late 1986, interned in a labor camp in southern Shandong; unconfirmed reports indicate that he has been transferred to house arrest and/or strict police surveillance.
50. Father Joseph Jin Dechen. Vicar General of Nanyang diocese, Henan Province. Previously jailed between 1958 and 1973. Rearrested on December 18, 1981, and sentenced on July 27, 1982. Reportedly still imprisoned, serving a 15-year sentence.
51. Father Liao Haiqing. About 50 years old. Priest of Jiangxi Province. Arrested on November 19, 1981. As of last report in 1988, he was still interned in Prison No. 4 in Nanchang, the capital of Jiangxi Province. There has been no news of him since.

52. Father Fu Hezhou. Sixty-eight years old. Attested and imprisoned on November 19, 1981. Reportedly transferred to house arrest and/or strict police surveillance.

53. Father Huo Binzhang. At time of arrest, Vicar General of Boading, Hebei, and Bishop Fan's deputy. Seventy-three years old. Previously served a three-year sentence in the late 1960s or early 1970s. Most recent arrest and incarceration in 1981. Sentenced in 1983 to 10 years of "reform through labor." Reportedly transferred to house arrest in 1987 or 1988.

54. Father Wang Yijun. Priest of Wenzhou diocese. Imprisoned since 1982. Scheduled for release in March 1991, but still detained as of June 1991.

55. Father Li Fangchun. Priest of Guide diocese, Henan Province. Arrested in early 1980s and reportedly still imprisoned.

56. Zheng Weiming. Catholic apprehended with his wife, Hou Chongyan, on December 14, 1990, and held without charge. Released after two months of detention, Hou Chongyan was told that her husband, who remains imprisoned at this time, was being held for religious and political reasons.

57. Li Yongfu. Layman from Tianjin diocese. Arrested in connection with underground episcopal conference between mid-December 1989 and mid-January 1990; and reportedly now imprisoned.

58. Wang Tianzhang. Deacon from Lashou diocese, Gansu Province. Arrested in connection with underground episcopal conference between mid-December 1989 and mid-January 1990; reportedly now imprisoned.

59. Wang Tongshang. Deacon and community leader in Baoding diocese, Hebei Province. Arrested on December 16, 1989, and reportedly now imprisoned.

60-61. Pei Shangchen and Pei Jieshu. Community leaders in Yutong village, Hebei Province. Arrested on October 23, 1989, and reportedly now imprisoned.

62. Chen Youping. Layman of Fujian Province. Arrested on March 1, 1988, in Liushan village. Reportedly now free, but this has not been independently confirmed.

63. Wang Jingjing. Layman of Fujian Province. Arrested probably on February 28, 1988, in Liushan village. Reportedly released, but this has not been independently confirmed.

PERSECUTED PROTESTANTS

1. Xu Guoxing. Born March 16, 1955. Protestant preacher arrested in Shanghai in early 1991 for "illegally establishing Church of God." Sentenced to three years in a labor camp. Currently confined in Da Fung farm in Jiangsu province. Previously arrested on March 14, 1989, and held for three months.

2. Lin Xiangao (Samuel Lam). 65-year-old pastor of the large Damazhan church in Guangzhou. Apprehended on February 22, 1990, and interrogated about his refusal to join the TSPM. About 50 officers searched his home and church, confiscating religious literature and Bibles as well as video and recording equipment, a mimeograph machine, and an electric organ. Released on February 24 after signing a document agreeing to the closing of his church, Lin was still under a form of house arrest as of December 1990, and his activities are closely watched. Since his arrest, Lin has been interrogated by PSB officials at least 11 times. He was first arrested in September 1955, when he was imprisoned for 16 months. He was rearrested in 1958 and incarcerated for twenty years.

3. Liu Huanwen. Member of a Beijing TSPM church. Sentenced in November 1990 to two years' detention in a labor camp after he carried a cross in the June 1989 Tiananmen Square demonstrations. He was apprehended by the authorities during the wave of arrests that occurred after the protests.

4. Ding Hai. Active in the house-churches in Henan Province. Arrested before June 1990 and sentenced to three years' "reform through labor."

5. Xu Guoxing. Born March 16, 1955. House-church leader in Shanghai. Arrested in March or June 1989 and detained for interrogation until June 13, 1989. Charged with setting up the Shanghai Area Church of God and with evangelizing outside the city limits. Rearrested on November 6, 1989, and sentenced to three years of "reeducation through labor." On January 8, 1990, reportedly sent to a work farm in Dafeng County in Jiangsu Province.

6. Liu Qinglin. From Zalantun. House-church evangelist of eastern Inner Mongolia. Arrested on September 14, 1989, and charged with "wide-scale superstitious healing activity." Sentenced to "reeducation through labor."

7. Sha Zhumei. Born May 12, 1991. Member of an independent Protestant church. Arrested at her home in Shanghai on June 3, 1987, and reportedly beaten by police. Tried November 3, 1987, reportedly in secret; convicted of "harboring a counter-revolutionary element." Now in poor health serving a five-year prison sentence. Sha

had allegedly urged her son, a religious protestor sought by the police, to leave Shanghai. She had previously served a six-year sentence for her religious activities.

8. Xu Yongze. Fifty-year-old from Nanyang, Zhenping County, Henan Province. Leader of a house-church network in central China. Arrested on April 16, 1988, in Yuetan Park in Beijing by officials of China's Ministry of State Security and sentenced to three years' imprisonment. Mr. Xu is reported to have been in hiding since 1983 after escaping from a labor camp where he was held without trial for several months in connection with his religious activities. He is currently being held in Zhenping County Prison, Henan. At the time of his arrest, he was in Beijing to attend a service led by American evangelist Billy Graham. In November 1988, he was reported sick with tuberculosis and gastric disease and was lacking adequate warm clothing and medicine.

9. Song Yude. Thirty-six years old. Evangelical minister from Baimaio village, Yuehe district, Tongbo County, Henan Province. Arrested on July 16, 1984, for "counter-revolutionary" crimes in connection with his refusal to join the TSPM. Tried on January 29, 1986, and convicted of distributing "reactionary" religious publications and conducting illegal religious meetings. Sentenced to eight years of imprisonment and three years of deprivation of political rights. His appeal was rejected in April 1986. He is currently being held in Henan province.

10. Sun Ludian. From Shanton, Guangdong province. Sixty-seven years old. Arrested in September 1983 and charged with having illegal connections overseas and belonging to the Shouters, an evangelical group outside the TSPM. Sentenced in January 1986 to nine years of imprisonment for "counter-revolutionary propaganda and agitation." Now detained in a labor camp in Mei County Prison. He is very ill.

11. Pei Zhongxun (Chun Chul). Seventy-one-year-old Protestant activist from Shanghai. Arrested in August 1983. Charged with spying for the Taiwanese government because of his connection with Taiwanese Christians and activity in the house-church movement. Sentenced to 15 years of imprisonment and currently reported to be in prison near Shanghai. Previous reports of his release have been retracted. Pei is an ethnic Korean.

The following seven house-church lay leaders and elders were arrested and tried together in 1986. All were accused of the same crimes: membership in an evangelical group outside the government-sanctioned TSPM; planning to overthrow China's proletarian-dictatorship and socialist system; linkage with overseas reactionary forces; receiving and distributing foreign materials; disturbing the social order; and disturbing and breaking up normal religious activities.

12. Mr. Wang. Thirty-six years old. Evangelical leader from Zhandeun Village, Fuling Brigade, Xinji Commune, Lushan County. Sentenced to 15 years' imprisonment.

13. Mr. Zhang. Sixty-five years old. Evangelical leader from Zhaozhuang Village, Houying Brigade, Zhanian Commune, Lushan County. Sentenced to 14 years' imprisonment.

14. Mr. Qin. Fifty-four years old. Evangelical deacon from Xinji Commune, Lushan County. Length of sentence is unknown.

15. Mr. Cui. Forty-two years old. Evangelical elder of Lushan County. Length of sentence is unknown.

16. Mr. Xue. Thirty-five years old. Evangelical elder from Linzhuang Village, Xinhua Brigade, Zhangdian Commune, Lushan County. Length of sentence is unknown.

17. Mr. Wang. Sixty-four years old. Evangelical elder from Second Street, Chengguan Township, Lushan County. Length of sentence is unknown.

18. Mr. Geng. Sixty-three years old. Evangelical elder from Sunzhuang Village, Malon Commune, Lushan County. Length of sentence is unknown.

STATEMENT OF THE TOY MANUFACTURERS OF AMERICA, INC.

On behalf of Hasbro, Incorporated, for which I serve as Vice Chairman, and the Toy Manufacturers of America (TMA), I submit the following statement in strong support of unconditional renewal of most-favored-nation status for the People's Republic of China.

Hasbro is the largest toy producer in the world and TMA is a trade association representing more than 230 manufacturers and importers of toys, games and dolls, whose products account for 90 percent of the toys sold in the United States each year. The toy industry accounted for two billion of the \$15 billion of imports from China in 1990. Hasbro's imports from China included Cabbage Patch dolls, G.I. Joe,

and My Little Pony. Toys 'R Us, the largest toy retailer in the United States (and the largest in the world) has reported that more than one third of the toys that they sell in the United States were produced in China.

Having recently returned from a trip to Beijing where the President of TMA and I personally consulted with high level Chinese Government officials about the China MFN renewal issue, I believe the toy industry has a significant message to present to the U.S. Congress. The United States must find a more effective, and less self-damaging, way to vent its anger at the Chinese Government. Further, the current strategy of engagement, including economic interaction and constant dialogue, both at the Government to Government level and the business to Government level, is having a positive impact upon the Chinese, even though the evidence may not be as pronounced as some in Congress would prefer or are able to recognize.

As much as Hasbro and TMA understand both the politics and substance of the China MFN debate, it still astounds us that the Congress is so willing to completely disregard the interests of the private sector, consumers, and U.S. competitiveness generally.

Hasbro has been in China since 1981. We now have two major facilities operating through joint ventures there, employing more than 500 people. Many other jobs in the United States, as well as jobs in Hong Kong, are directly dependent upon our Chinese production. With these facilities, Hasbro is able to provide American consumers with the toys they want at prices they can afford. While we have facilities in other countries as well, nowhere in the world can we produce a comparable volume of quality toys at such good value.

Believe me, we have tried to expand our low-cost sourcing, but our options are limited. In part because of the new focus on the annual renewal of China's MFN trade status, Hasbro recently made an attempt to utilize a production facility in Thailand. Despite our best efforts and considerable capital outlays, we could not make a go of it. The Thai workers could not meet our quality requirements. We also were limited by the lack of a stable and predictable government, as well as an inefficient infrastructure. Because of the continuing precariousness of U.S.-China relations, Hasbro has no choice but to continue looking for alternative sources of low-cost supply. However, our experience in Thailand makes clear that the process will not be easy and surely will take at least two to four years.

Moreover, the relocation process will be extremely costly, both to our company and its employees as well as to American retailers and consumers. We will have lost the capital we have invested in China over the past 10 years and be forced to invest all new capital in new potential sources of supply. This is in addition to the added duties we will have to pay on the toys we continue to source from China pending the establishment of new facilities elsewhere. Thus, the additional costs we will have to pass on to our consumers will include not only increased duties, but also increased overhead.

Hasbro also, no doubt, would lose the Chinese toy market it has developed. We do currently sell some of the toys we produce in China to the Chinese. One example is The Transformers. This is a line of toys that also was popular in the U.S. In China, our Transformers remain popular, and even have their own U.S.-produced television show, which has a large and loyal audience whose awareness and appreciation of Western culture and values are greatly enhanced by such foreign produced shows.

Our experience in China leads us to believe that, were we to abandon our facilities in China, producers in other countries, such as Japan and the European Community, would be more than willing to take advantage of the vast investments we have made developing the infrastructure of China and training its people. Since no other country in the world is as willing as we are to attempt to influence the moral conduct of another country by using trade sanctions, businesses from other countries may simply take over the factories we abandon, without concern for human rights.

To those who would say that Hasbro and other American companies care about renewal of MFN status for China solely for their bottom line, and are doing nothing to promote the cause of human rights, the record must be corrected. Hasbro cares greatly about the Chinese people and about improving their lives. We are proud to note that Hasbro's joint venture contributed to the building of a children's hospital in one of the Southern Provinces. Further, we take seriously the responsibility of ensuring that no under-age children are employed in our factories and that no prison labor is used to produce our goods. To accomplish this, Hasbro has more than 300 employees, including engineers and quality assurance personnel, whose job it is to regularly inspect each of our facilities to maintain the quality of our production.

Hasbro and TMA do not defend the Chinese record on human rights, weapons proliferation, trade issues, or intellectual property rights. Nor do we question

United States policies with respect to these matters. It is our view, however, that unilateral denial of MFN is inappropriate to dealing with these issues and that the Congress and the Administration have existing laws and powers to deal effectively with each one of these issues.

We respectfully urge the Congress to deal with China on specific issues by using existing laws and procedures. Certainly that is what we in the toy industry are doing when it comes to issues in which we are directly involved, possess the expertise, and have the standing to act or comment. For example, we have consulted with the Chinese Ambassador here in Washington, and during our visit to Beijing discussed directly with the Chinese Government, about the need for effective laws protecting intellectual property rights, particularly trademarks and copyrights. We clearly stated to them that such laws are in the best interests of both China and the United States.

We also have supported the Administration in its decision to initiate a Special 301 investigation regarding China's failure to provide sufficient protection for intellectual property rights. We have encouraged the Chinese to take the Special 301 consultation process seriously, but we also know that if MFN is not renewed, or is encumbered with conditions, there will be no consultations at all.

The toy industry views conditional renewal of MFN as synonymous with outright revocation of MFN. We do so because we, along with all other American industry, view conditionality as uncertainty; and we cannot operate under these conditions. In addition, as business partners of the Chinese for more than a decade, we have a good idea of how they will respond to the imposition of conditions: The Chinese Government will reject them and refuse to compromise. In reaching these conclusions, we must note that we cannot distinguish between what some would call moderate conditions as opposed to more extreme conditions. Even if the Congress would enact a so-called moderate conditions bill, which is highly doubtful given the nature of the law-making process, the business community cannot operate with uncertainty nor would the Chinese Government view the conditions as moderate.

Obviously, as toy manufacturers, it would not be appropriate for us to negotiate with the Chinese on issues such as human rights or weapons proliferation. However, we do believe that there are appropriate arenas for dealing with those concerns. Once again, terminating our trading relationship is not going to goad the Chinese into following international rules limiting the proliferation of weapons of mass destruction. In fact, severing trade relations would exacerbate the need for foreign capital and could increase the sale of weapons.

We believe, based upon our experience in China over more than a decade, and based upon our recent conversations in Beijing with the Chinese Government (as well as repeated meetings with Chinese Embassy officials in Washington) that inroads are being made, and that slow but real progress can only be accomplished by continued bilateral trade relations. Economic freedom does lead to political freedom. As was noted in a recent article in the *The Economist*, "[As] the non-state businesses grow bigger and stronger still, [it makes] the next [Chinese Government] clamp-down in favor of state firms that much harder to impose and maintain. . . . The private enterprises of the country side are surrounding and threaten eventually to swamp, the state-owned industries of the cities." The continued and spreading presence in China of the U.S. toy industry and others, and the determination of our Government to maintain pressure on the Chinese, through such administrative procedures as the "Special 301" process and through other multilateral mechanisms, is our best hope for improving the fate of the Chinese people.

For all of these reasons, we urge this Committee to disapprove the resolution of disapproval and the bills that would establish conditions on renewal of China's MFN status. Most-favored-nation renewal may be a convenient and high visibility mechanism for venting displeasure with the Chinese Government, but it is the wrong one. Not only will it not accomplish any of the objectives that have been stated in the many "conditions" bills before the Congress, it will undermine those objectives.

