

# EXTENDING MOST-FAVORED-NATION STATUS FOR CHINA

---

---

## HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

---

JUNE 20, 1990

---



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1991

36-816 ⇒

---

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

S361-22

**COMMITTEE ON FINANCE**

**LLOYD BENTSEN, Texas, *Chairman***

<b>DANIEL PATRICK MOYNIHAN, New York</b>	<b>BOB PACKWOOD, Oregon</b>
<b>MAX BAUCUS, Montana</b>	<b>BOB DOLE, Kansas</b>
<b>DAVID L. BOREN, Oklahoma</b>	<b>WILLIAM V. ROTH, Jr., Delaware</b>
<b>BILL BRADLEY, New Jersey</b>	<b>JOHN C. DANFORTH, Missouri</b>
<b>GEORGE J. MITCHELL, Maine</b>	<b>JOHN H. CHAFEE, Rhode Island</b>
<b>DAVID PRYOR, Arkansas</b>	<b>JOHN HEINZ, Pennsylvania</b>
<b>DONALD W. RIEGLE, Jr., Michigan</b>	<b>DAVID DURENBERGER, Minnesota</b>
<b>JOHN D. ROCKEFELLER IV, West Virginia</b>	<b>WILLIAM L. ARMSTRONG, Colorado</b>
<b>TOM DASCHLE, South Dakota</b>	<b>STEVE SYMMS, Idaho</b>
<b>JOHN BREAUX, Louisiana</b>	

**VANDA B. McMURTRY, *Staff Director and Chief Counsel***

**EDMUND J. MIHALSKI, *Minority Chief of Staff***

# CONTENTS

## OPENING STATEMENTS

	Page
Bentsen, Hon. Lloyd, a U.S. Senator from Texas, Chairman, Committee on Finance.....	1
Packwood, Hon. Bob, a U.S. Senator from Oregon.....	3
Moynihan, Hon. Daniel Patrick, a U.S. Senator from New York.....	4
Symms, Hon. Steve, a U.S. Senator from Idaho.....	4
Baucus, Hon. Max, a U.S. Senator from Montana.....	5
Dole, Hon. Bob, a U.S. Senator from Kansas.....	11
Chafee, Hon. John H., a U.S. Senator from Rhode Island.....	14
Heinz, Hon. John, a U.S. Senator from Pennsylvania.....	14
Rockefeller, Hon. John D., IV, a U.S. Senator from West Virginia.....	15

## COMMITTEE PRESS RELEASE

Senator Bentsen Announces Hearing on Extending MFN Status for China; Chairman Concerned About Effects on U.S. Interests.....	1
--	---

## PUBLIC WITNESSES

Congde, Feng, advisor to president, Independent Federation of Chinese Students and Scholars, Paris, France.....	7
Gong, Xiaoxia, chairperson, board of directors, China Information Center, Auburndale, MA, accompanied by Pei Minxin and Heping Shi.....	9
Minxin, Pei, Independent Federation of Chinese Students.....	16
Sullivan, Roger W., president, the United States-China Business Council, Washington, DC.....	19
Lyons, David, director, North American Export Grain Association, Inc., Washington, DC.....	21
Kamm, John, president, American Chamber of Commerce in Hong Kong.....	23
Hassenfeld, Alan G., president, Hasbro, Inc., testifying on behalf of the Toy Manufacturers of America, Pawtucket, RI.....	25
Bahr, Morton, president, Communications Workers of America, AFL-CIO, Washington, DC, accompanied by Ronald Charlton, AFL-CIO, legislative department.....	25
Burkhalter, Holly J., Washington, director, Human Rights Watch, Washington, DC.....	38

## ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Bahr, Morton:	
Testimony.....	36
Prepared statement with attachment.....	43
Baucus, Hon. Max:	
Opening statement.....	5
Bentsen, Hon. Lloyd:	
Opening statement.....	1
Burkhalter, Holly J.:	
Testimony.....	38
Prepared statement.....	45
Chafee, Hon. John H.:	
Opening statement.....	14
Prepared statement.....	51

## IV

Page

Congde, Feng:	7
Testimony .....	7
Prepared statement .....	52
Dole, Hon. Bob:	
Opening statement.....	11
Prepared statement .....	62
Letter from John A. Young, president and chief executive officer, Hewlett Packard, Palo Alto, CA, dated June 7, 1990 .....	64
Letter from Burt Cutler, president, Educational Insights, Dominguez Hills, CA, dated May 21, 1990 .....	65
Letter to His Excellency Zhu Qizhen, Ambassador of the People's Republic of China, dated May 23, 1990.....	66
Gong, Xiaoxia:	
Testimony .....	9
Prepared statement .....	67
Hassenfeld, Alan G.:	
Testimony .....	25
Prepared statement .....	69
Heinz, Hon. John:	
Opening statement.....	14
Prepared statement .....	71
Kamm, John:	
Testimony .....	23
Prepared statement with attachments.....	71
Lyons, David:	
Testimony .....	21
Prepared statement .....	117
Minxin, Pei:	
Testimony .....	16
Prepared statement .....	52
Moynihan, Hon. Daniel Patrick:	
Opening statement.....	4
Packwood, Hon. Bob:	
Opening statement.....	3
Rockefeller, Hon. John D., IV:	
Opening statement.....	15
Sullivan, Roger W.:	
Testimony .....	19
Prepared statement .....	118
Symms, Hon. Steve:	
Opening statement.....	4

### COMMUNICATIONS

AVIA Group International .....	122
Bradford Exchange, Ltd.....	123
Cohen, Mark A., Esq.....	128
Emergency Committee for American Trade.....	131
Footwear Distributors and Retailers of America.....	134
Gund, Inc. ....	140
International Mass Retail Association, Inc.....	141
International Trade Council .....	142
National Association of Manufacturers.....	144
National Association of Wheat Growers .....	148
National Space Society .....	150
NMTBA—The Association for Manufacturing Technology.....	151
Panda Motors Corp.....	156
Puebla Institute.....	160



# EXTENDING MOST-FAVORED-NATION STATUS FOR CHINA

WEDNESDAY, JUNE 20, 1990

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

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

Also present: Senators Moynihan, Baucus, Rockefeller, Packwood, Dole, Danforth, Chafee, Heinz, and Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-36, June 8, 1990]

## SENATOR BENTSEN ANNOUNCES HEARING ON EXTENDING MFN STATUS FOR CHINA; CHAIRMAN CONCERNED ABOUT EFFECTS ON U.S. INTERESTS

WASHINGTON, DC.—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, announced Friday that the Committee will hold a hearing this month on the President's decision to renew most-favored-nation (MFN) trade status to China.

Bentsen (D., Texas) said the hearing will be at 10 a.m. on Wednesday, June 20, 1990 in Room SD-215 of the Dirksen Senate Office Building.

"Events in China over the past year demonstrate that the Administration's policy of accommodation toward China has not worked to this point. This hearing will cover the full spectrum of issues involved in this decision, from U.S. commercial and economic interests to our very real concerns about human rights," Bentsen said.

On May 24, 1990, President Bush recommended to Congress that MFN trade status for the People's Republic of China be extended for a year. China has received MFN treatment since February 1, 1980. Under the requirements of the Trade Act of 1974, this status can be renewed each year if the President certifies that the continuation of MFN will substantially promote freedom of emigration. Upon the recommendation of the President, MFN treatment continues automatically unless Congress acts to disapprove the President's recommendation.

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

The CHAIRMAN. This hearing will come to order. As so many times happens, Senators have to be three places at the same time. I will get this hearing started but then will have to leave for the Budget Summit meeting at about 10:30.

On May 24, President Bush announced his decision to extend most-favored-nation status to the People's Republic of China for another year. That decision, of course, is subject to congressional review. Today's hearing marks the beginning of the review by the Finance Committee. This committee has the responsibility to consider both the narrow issues of emigration policy and the broader

questions of trade policy before we make any recommendations to the U.S. Senate.

As I promised in May I want us to cover the full spectrum of those issues, from American commercial and economic interests, to our very real concerns about human rights. In recent years we have seen broad, general support in the United States for increasing trade with China in order to improve U.S. relations with China. Most-favored-nation treatment was first extended in 1980 and has been renewed each year with very little question; however it has been conditioned on the President's determination of whether it will promote further emigration in China.

As set forth under the Jackson-Vanik amendment to the Trade Act of 1974, the standard in the law for granting most-favored-nation status to China, as to other Communist countries, is freedom of emigration. That freedom is a basic human right. Without it, people can be chained to a repressive regime in a country; but with it, they have an opportunity escape and go to another country.

Congress has not challenged these Presidential determinations over the past decade. Although the law does set forth specific legislative procedures for disapproving determinations, we have collectively concluded that most favored nation has been justified. Both the United States and China have benefited from these decisions. During the 1980's we saw a dramatic growth in our bilateral trade, from \$2.3 billion in 1979. Just before most-favored-nation status trade between our countries soared to \$17.8 billion in 1989, making China our 10th largest trading partner.

On June 4, 1989, the Chinese Government sent tanks into Tiananmen Square in a brutal effort to destroy the fledgling democracy movement. Although the Congress and the President agreed on a series of sanctions, we stopped short of trying to change the most-favored-nation status for China. Now, we have to face up to that issue. The administration's policy of accommodation has not led to the results from which we had hoped.

Moreover, there has been a troubling inconsistency between the administration's words and its actions. They say we will suspend Government contacts, and then they send high-level officials to Beijing on secret missions. They apply economic sanctions and then they weaken them. We have to consider now whether most-favored-nation trade status for China will promote a return to political reform, or whether such action will merely be taken by hardliners as a sign of approval of their repression of the Chinese people.

We cannot overlook the connections between trade and other important bilateral issues between the United States and the People's Republic of China. As we look at the potential impact of changing most-favored-nation status, we also have to consider the global context of our policy and especially what other countries are doing. Economic sanctions only work for this country when we find other countries joining with us in putting them in force.

No country wants to put an embargo on another country, or sanctions on another country, unless the sanctions hurt the other country more than they hurt the country imposing them.

I hope these witnesses today will address the full range of questions that I have mentioned this morning so that we can better determine whether or not to accept the President's recommendations.

I now defer to Senator Packwood for any comments he might have.

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

Senator PACKWOOD. Mr. Chairman, thank you. When the philosopher Hegel came up with his idea of the dialectic and the constant ebb and flow of ideas I think he added to philosophic history a very vital element. Marx stood it on its head with dialectic materialism and assumed that the dialectic ended when the Communist society was achieved. I think Hegel never would have stood for that; and he would have realized that if there is any constant in history it is change.

That change over the centuries has been a movement toward democracy. There were a handful of city States in the early part of this millennium and no more than one or two democracies probably in 1700, and one or two more in 1800, and a few more in 1900, and a lot more in 1950, and in the last decade in Latin America, in Eastern Europe, in Asia, we have seen a sea change in the direction towards the principles that this country has always stood for.

I think we do not do well as a country when we try to pragmatically base our decisions on geopolitics. Who is the strongest ally we have right now? What do we do to avoid offending somebody right now? That is an attitude that Europe had at Munich. It is an attitude that many countries in the world have. But if you follow that attitude then all alliances are shifting and all you care about is who is strong now and do not upset that government.

I think this country is better off to say we believe in the principles upon which this country was founded and we think those principles will work for other countries. We will not attempt to impose them by force, but we will do everything possible in our power to cajole, to persuade, to move countries in that direction. I think the issue before us today is: What is the best way of moving China in that direction? Do we withhold most-favored-nation status and say that that economic coercion will move China faster? Or do we say, no, despite the fact that we do not extend most-favored-nation status to them, or if we do, that they will move at their own pace regardless of what we do.

I am inclined to think that even China—as large as it is, as powerful as it is; in some ways isolated as it is—is responsive and receptive, I won't say to pressures, but I will say to ideas and ideals. I think the United States would be unwise to take any action that gives some impression to the leaders of China that we are willing to temporize in those ideals for the sake of temporary commercial advantage.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Moynihan?

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

Senator MOYNIHAN. The Senator from New York wants to first of all acknowledge and welcome the revival of Hegel in the halls of Congress. [Laughter.]

This is something that we thought to have last been seen in City College in the 1930's. Mr. Havel's appearance in a joint meeting this spring, and if indeed as Marx said, you turned Hegel on his head, I think you can say that Mr. Havel put him back on his feet. Not every day do you see the U.S. Congress break into cheers when a man announces that he is an Hegelian. But if you recall he said, "I hold," I believe, "that consciousness proceeds being." And then not for nothing is he a playwright, he knows an applause line when he gets one, he says, "Contrary to what the Marxists think." And then we all broke into high philosophical cheer.

I would just make that point. A year ago I introduced a bill that would deny most-favored-nation treatment to China—the PRC—and not in the context of Jackson-Vanik or other issues that really arose in a cold war context that does not now exist. It is a different context, although it is singular that we continue to deny most-favored-nation treatment to the Soviet Union, which is clearly in a democratizing process.

You know, they are passing laws about press freedom and they hold elections every weekend. They have open immigration policies the way they were asked to do. We say no to them and yes to the last remaining totalitarian tyranny. It is unbecoming of us at the end of the age of totalitarianism to do this.

The Chinese not only press their own people in ways we have seen, they have conquered and brutally assaulted Tibet. Tibet was a country, a real place. They have perhaps killed a third of the Tibetan population, perhaps driven another—almost a third—into exile, and populated the country with Chinese. I mean nothing comparable has happened since World War II save Cambodia, which was internal to Cambodia. No external aggression of that kind has happened since World War II. It is far away—there are no cameras—but we know it has happened.

There is nothing more poignant about the American symbols than when those Chinese students brought the Statue of Liberty into Tiananmen Square. We owe them something. And we owe them at least not continuing to give most favored nation to approve in effect what happened there. If we would deny most favored nation to the Soviet Union and give it to the People's Republic of China, it is a statement that we prefer the regime in China to the regime in Russia. I do not think we should.

The CHAIRMAN. Thank you, Senator.  
Senator Symms?

**OPENING STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR  
FROM IDAHO**

Senator SYMMS. Mr. Chairman, I am delighted you are having these hearings. I am very interested in the witnesses' testimony this morning. I am also very interested in hearing the proponents of the President's action. I think it is a very important issue. I

must say I was quite surprised at my recent trip to President Lee's inauguration of the Republic of China on Taiwan about 3 weeks ago, and I was quite surprised to find a prevalent positive attitude in the Republic of China concerning President Bush's plan. There was not any very visible opposition to it.

So I am interested in these witnesses. I have to say I have a great deal of respect for what Senator Packwood and others have said here this morning. I will keep my mind open on this. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

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

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman, last year we were all shocked and appalled by the brutal steps that the Chinese Government took to repress the student democracy movement. I, like you, will never forget the picture of a Chinese student singlehandedly blocking a line of tanks. I will never forget the shock and horror that we all felt when we heard the news of the slaughter in Tiananmen Square.

The question we are considering today is not whether or not we approve of China's actions. Clearly, we do not. Every Member of the Senate has condemned the actions of the Chinese Government. The question before us today is whether or not removing most-favored-nation status from China would improve the human rights situation. Sadly, in my judgment, removing most-favored-nation status from China would not increase respect for human rights in China.

In most cases, China would find new markets for the products they would otherwise export to the United States. The economic impact that might be felt would certainly not be sufficient and force China into changing its domestic policy. Quite to the contrary, economic sanctions could cause China to further withdraw from the world community. Remember, the positive changes we saw in China in the 1980's were closely linked to expanding economic ties to the West. If the economic ties to the West are broken the incentive for further progress will be gone.

I have also heard from a number of thoughtful Chinese students studying in America who argue that economic sanctions by the United States could cause a further deterioration in China. In my judgment, it is the wrong time to impose economic sanctions. Sanctions now could reverse progress rather than encourage it.

Further, economic sanctions always have costs. In 1979 we were all shocked by the Soviet invasion of Afghanistan. And to express our rage we imposed a limited trade embargo on the Soviet Union. What were the results of those sanctions? Their impact on the Soviet Union was virtually nil. Soviets continued their occupation of Afghanistan until long after many of the sanctions had been lifted. The one tangible impact to the embargo was that U.S. businesses and U.S. farmers lost exports and our economic competitors immediately moved in to fill the void.

If we imposed economic sanctions on China we would see a repeat of this pattern. No other Western nation plans to impose

similar economic sanctions on China. China will find alternative markets for its products. And if we impose sanctions, China has made it quite clear it will impose similar sanctions on U.S. exports to China. There is every reason to believe China's threats.

China retaliated against U.S. wheat exports to China in 1984 after the U.S. restricted Chinese textile exports. In all likelihood wheat, the U.S. major export to China, would again be the target of China's retaliation. Last year China was our largest export market for wheat. American wheat farmers stand to lose more than \$1 billion annual sales to China if sanctions are imposed. Short, wheat farmers could once again be forced to bear the cost of foreign policy sanctions just as they did when the United States imposed a grain embargo on the Soviet Union.

I believe it would be a serious threat to repeat the mistakes we made by imposing the Soviet grain embargo. Every Member of the Senate, every Member of the House, and the overwhelming majority of the U.S. citizens desperately want to show their disgust with the current Chinese Government. We all wish there was a way to strike out to strike a blow for student protesters. But the reality is there is no easy way.

Further, I am not willing to sacrifice the interests of American farmers and businessmen and workers in a hollow show of outrage. And unfortunately, I believe withdrawing most-favored-nation status from China would be just that, a hollow show of outrage. It may make us feel better, but it would do nothing for the democracy movement in China. It might even make the situation worse.

Further, sanctions would damage our commercial interests. And for these reasons, I intend to support the President's decision to continue to grant China most-favored-nation status.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Danforth, any comments?

Senator DANFORTH. I have no statement, Mr. Chairman.

Senator SYMMS. Mr. Chairman, if I could just make one other comment I would appreciate it. I will be very brief.

The CHAIRMAN. Yes, sir.

Senator SYMMS. I have questions concerning the Chinese International Trust and Investment Co. It is called CITI. As I understand, it is a German incorporated firm. It is very secretive. It handles the investments for the People's Republic of China overseas; and that some of the elite Communist leaders, like Deng Xiaoping and others are the ones that stand to profit from any investments made through CITI. I do not know whether this is entirely true or not, but I would hope if there are any witnesses today that have any information on it, they would make it available for this committee.

I recall a few years ago that CITI tried to buy a bank in Seattle, but the Reagan Administration prevented the sale. The question we would like addressed, and that Senator Baucus just spoke of, is the possibility of denying MFN status to China as a punishment to the Communist elite in China, who may have strong connections with CITI, without hunting the new emerging capitalists in the process.

I think that is the question we want asked. I would appreciate it if any witnesses who testify today have information on the Chinese

International Trust and Investment Company that they would at least address this issue.

The CHAIRMAN. Thank you, Senator.

Our first two witnesses will be Mr. Feng Congde who is the advisor to the president of the Independent Federation of Chinese Students and Scholars, Paris, France. Another witness on this panel will be Ms. Gong Xiaoxia, the chairperson of the board of directors of the China Information Center in Massachusetts. Please come forward.

We will have 5-minute question periods per member and the witnesses have time limitations on their statement. Mr. Feng Congde, if you would proceed with your testimony, please. You can be seated and speak directly into the microphone.

**STATEMENT OF FENG CONGDE, ADVISOR TO PRESIDENT, INDEPENDENT FEDERATION OF CHINESE STUDENTS AND SCHOLARS, PARIS, FRANCE**

Mr. CONGDE. Mr. Chairman, Mr. Congressman, and Representatives, my name is Feng Congde. I started at Virginia University for 7 years until last spring. I actively participated in a democracy movement and later on was put on the most wanted list by the Chinese gunmen. I was forced to hide for 10 months in China before I finally managed to escape with my wife 2 months ago.

During our escape over 100 people helped us. None of them betrayed us.

The CHAIRMAN. I couldn't understand you. Would you repeat your translation again?

Mr. CONGDE. During our escape over 100 people helped us. Nobody betrayed us. We did spend a single penny that came from abroad. We did not rely on any organization abroad.

I am very grateful to be given this opportunity to testify here today. I would like to speak on behalf of the students at Beijing University, the students in Beijing, and the students who gathered in Tiananmen Square last spring from all parts of China and those ordinary Chinese citizens who helped us during our escape. I am going to inform you of my viewpoint of the event.

I shall be responsible for every word I say. I am against the unconditional renewal of most favored nation; and I am for condition of suspension. I take such a position because the Chinese Government is still arresting and killing people in China. This can be testified by our latest issue of Newsweek. I hope that the Congress will keep this in record.

I am against the unconditional renewal of most favored nation to China because many of my classmates, schoolmates and fellow citizens are in prison. Please look at this picture. His name is Yong Dang. He is about 21 years old. Such a peaceful youth like him is accused by the Chinese Government of being a criminal and a rioter. He is number one on the most wanted list.

The last one on the most wanted list is named Hu Yan who is also a friend of mine. He is a third year graduate in the Department of Law at Beijing University. He was regarded as the most promising student in his department. But he sacrificed his own interests for the future and democracy of China. He had been mar-

ried but 4 months when he participated in the earliest independent student organization.

The first time I met Hu Yan's wife was in their home, a small basement, less than 40 square feet. That was a very small room, very thin.

The CHAIRMAN. We will double that time because of the loss of time in translation, but your entire comments, as well as your written comments, will be put in the record. Go ahead.

Mr. CONGDE. I am worried about his wife living under terror in Beijing.

The other student was arrested 1 day after the renewal of most favored nation was declared. His name is Pe Hu. Another student was arrested because he heard of a slogan saying why China is so poor.

Another reason I'm against the unconditional renewal of most favored nation is because this would send a wrong signal to the Chinese people. Early in my escape an old farmer told me that foreign countries were supporting jobs. Obviously he learned this from the voice of America. But 3 months ago, shortly before I left China, he said after all they know the better because the American President send official to see him, but he did not send official to see the American President. This is a common viewpoint of the ordinary Chinese citizens.

The fourth reason I'm against the unconditional renewal is that it would send a wrong signal to Dang Shi Pen on his hotliners, too. Shortly before the massacre last year Dang Shi Pen said, we do not have to be afraid of the public opinion in the West. They will come back to invest because we have an immense market. The unconditional renewal of most-favored-nation status to China would prove that Dang Shi Pen was right and the hotliners were right in their cracking down of the democracy movement.

So when the next democracy movement comes Dang Shi Pen would need background data to make similar prediction and to carry out a similar crackdown.

The last reason I'm against the renewal of most favored nation is that there is no freedom of immigration in China. Because in China it is not a citizen's right to get a passport, but a privilege. The deteriorating situation of human rights in China constitutes the main reason why I am against the unconditional renewal. I am convinced that the students and the fellow citizens in China with me they will support my viewpoint.

The unconditional renewal would not support, would not strengthen the reformist forces in China, but the hotliners. If we let the hotliners ride out their difficulties without incurring any punishment then the China people would become desperate. The desperation would probably result in obedience, but more likely it would result in opposition.

During the last 10 years we narrowly escaped revolution. So if we renew it now, the most-favored-nation status, then how could we guarantee that there would not be a revolution. The young generation in China have demonstrated their strengths to the whole world last year. The United States is a banner, the flag, of a freedom democracy.



If the younger generation is desponded with the United States, then the United States will not just lose its position of the leader in the democracy world. In closing I would like to say the human right is about everything and the younger generation is better than the old generation.

Thank you.

Senator MOYNIHAN. We thank you, Mr. Congde. We thank you, sir, for that very able translation.

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

Senator MOYNIHAN. Now we are to hear from Ms. Gong Xiaoxia, who is chairperson of the China Information Center based in Auburndale, MA. Ms. Gong, we welcome you to the committee and you go right ahead under the same rules.

**STATEMENT OF XIAOXIA GONG, CHAIRPERSON, BOARD OF DIRECTORS, CHINA INFORMATION CENTER, AUBURNDALE, MA, ACCOMPANIED BY PEI MINXIN AND HEPING SHI**

Ms. GONG. Thank you, Mr. Chairman. My name is Xiaoxia Gong. I'm a graduate student in the Department of Sociology at Harvard University.

I realize that when people raise the issue of the removing of most favored nation to China their major concern is the human rights situation in the country. Doubtlessly, the current situation in China, since the brutal massacre last June is dreadful. Thousands of the demonstrators in the pro-democracy movement have been arrested, many of them tortured, some of them even executed. Among those who were arrested, some of my very close friends and school mates.

Moreover, the Chinese Government has set up a series of new regulations which restrict free flow of information and the free immigration. So I fully respect the effort of those Chinese students and Senators to promote the cause of human rights in China. The difference is not over the eventual goals, but over relative marries of different tactics and costs of difference courses of action we want to take.

There is no question that the current Chinese leadership has attempted to reverse the course of graduate, political and economic openness that China undertook for 10 years, since 1978. But in our judgment their efforts to crack down on dissidents and reverse the reformance course have not been completely successful.

One of the most important reasons is that China today compared with the villain world of Mowsaton is much more open to the outside world. Therefore, we should make every effort to keep China's doors open. Keeping China's doors open will provide us with leverage to a positive inference future, developments, and to prevent an already bad human rights situation in China from going worse.

The most-favored-nation status for China constitutes one of the most important components of keeping China's doors open. We offer the following reasons to support renewal of most-favored-nation status for China:

First, keeping China's doors open is the best means of restraining political passions in China. Here I can offer my personal experience. In 1974 my friends and I conducted an investigation in Guan

Don Province about political persecutions and human rights abuses. We found that in only one province, that's Guan Don Province, between mid-1966 to late 1968 there were 42,000 in one province. Innocent people were executed without a protection of any legal procedure.

At that time our only wish was to find a way to release the information to the outside world. We failed. Because then China's doors were tightly closed and we paid the dear price. Some of my friends were put behind bars for conducting the investigation.

The Chinese Communist regime has the history of political passions. Tiananmen massacre in June 1989 was only one of the many painless crimes that the Chinese regime committed against its own people. However, the critical difference of this crime with the previous ones is that it was committed in front of the world. To be more specific, it was committed in front of the cameras of the world.

As a result we know many of the names of those thrown into jail and we have a rough estimate of the numbers of those in the correctum. Furthermore, new ideas and new values introduced to China through open door policies have made it very difficult for Chinese Government to carry out its compense of lies and have made the stand for repression very difficult. It is the openness that makes such a great difference.

For this reason the first thing the Chinese Government did after the massacre was to close the door of China by sparing the brave reporters. So if we do want to punish the murders the best way, I think, is to force them to keep the door open.

Secondly, we believe that revoking China's most favored nation may affect leadership dynamics in China detrimental to forces of political moderation and the democratic restorations. We must realize that the current leadership is deeply divided. To apply excessive foreign pressure at this time may unite an otherwise divisive leadership worse yet. Isolating China may benefit such a conservative union. These are the leaders who have thrived on the monophobia and the total rejection of Western ideas.

Senator MOYNIHAN. Ms. Gong, we are going to have to keep to our time limits.

Ms. GONG. Can I have 2 more minutes?

Senator MOYNIHAN. Of course.

Ms. GONG. Okay.

So I, myself, hate Mr. Chin as much as the other Chinese do, if not more. Because being a political dissident in China for 16 years I suffered a lot in political campaign and even in prison for my ideas.

Senator MOYNIHAN. Finish, but don't finish in too much of a hurry.

Ms. GONG. Okay. [Laughter.]

So just like Mr. Feng mentioned, I, myself, was in jail. I spent by 21st birthday in jail. But we Chinese people have already suffered too much in blood shed, in coercion, political coercion, in turmoil. We need peaceful transition. That is what we need. That is what the most favored nation can provide for the Chinese people.

Senator MOYNIHAN. Thank you very much. Thank both of you for a most able, lucid addressing of a subject from a different point

of view, but with civility and with reason. We are much in your debt.

What is your dissertation going to be?

Ms. GONG. About a Tiananmen Square movement.

Senator MOYNIHAN. Oh, that will be an important book one day and we look forward to reading it.

Ms. GONG. Thank you.

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

Senator MOYNIHAN. We would like to thank our panel. But before you leave our distinguished Republican Leader has been able to come for just a moment and I know we would like to hear from him at this point if he would like to say something.

#### OPENING STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Thank you, Mr. Chairman. I would like that my entire statement be put in the record as though given in full.

Senator MOYNIHAN. Of course.

Senator DOLE. Again, I want to thank Chairman Bentsen, Senator Packwood, and others for holding this initial hearing. This is a very tough decision and I certainly respect the witnesses I have just heard. I know you have different views, but certainly if anyone can understand the problem, the two of you can do that much better than we can.

But I happen to believe that President Bush has made the right call. I think he has taken the course which has the best chance of encouraging the Chinese Government to get back on the path of reason and reform; which will do the most in a concrete way to encourage the forces of reform in China. I happen to share the view of the last witness. We want to keep the door to China open.

It also serves American interests, whether political or economic interests. I think the issue that divides us is not whether we want, or whether we insist on, real change in China. We all agree that we cannot resume business as unusual in any sense with the People's Republic of China, until China ceases a systematic and brutal repression of the rights of its own citizens.

So the issue is not whether China must change; the issue is how can the United States best encourage change in the right direction. I also believe that most of us, including those of us who will support the President's decision, see this year as a kind of last chance for the Chinese leadership.

Recently I met with the Ambassador from the People's Republic of China, along with Senator Simpson, and we made that point to him in clear terms. We followed it up with a letter. I ask consent that that letter be placed in the record.

Senator MOYNIHAN. Without objection.

[The letter appears in the appendix.]

Senator DOLE. I am convinced the President made the right decision for four basic reasons, and I would just go over them very quickly because I know you have a number of outstanding witnesses.

First, we are not granting some new benefit. This is not something new. This is an extension of a benefit that has been around

since 1981. We are not rewarding the PRC, nor are we sending a signal that would be misunderstood in Beijing as a green light for continued human rights abuses. We are simply extending a status quo that has been in place for a full year, since Tiananmen Square. And until now has been seen almost universally as serving the national interest of the United States. Remember, that there were sanctions imposed following the crackdown, and they are going to remain. Those sanctions will remain.

Overall our diplomacy will continue to focus on and stress the need for a real turnaround in current Chinese attitudes and actions on human rights.

Secondly, it seemed to me that terminating most favored nation now would hurt the reform movement we are all determined to support, more than it would hurt the repressive elements inside the Beijing regime. It would hurt the Chinese people more than it would hurt the Chinese Government. The American business presence in China in terms of investment and trade has grown rapidly since the opening of China to the West. It is not just a coincidence that until Tiananmen the Chinese political and social system also became increasingly open and democratic during that same period.

I believe the total impact of our presence in China, including our private sector presence, has been very positive, and I doubt that even those who oppose the President's decision will dispute that. The fact is that reducing our involvement in China, including our business presence, will only further isolate and make more vulnerable the very forces we are most interested in helping. It will hurt the Chinese people who have found in our presence inspiration, opportunity for economic advancement, and access to ideas and technology which have never been available in their country.

Just let me give you one quick example. I was recently visited by a representative of Payless Shoe chain, which I believe is the largest shoe retailing chain in the United States. Payless estimates that termination of most favored nation for China would force it to raise its prices by about \$1 per pair of shoes, a huge price rise in the low-price markets in which it sells. The resulting loss of business would severely jeopardize the jobs of 300,000 workers in southern China now making shoes for Payless; and it is hard to make the case that those Chinese would be better off if we cut off most favored nation.

I have also had the opportunity to speak with a number of young Chinese students and other young Chinese, and they have told me how much most favored nation has meant and what a difference it has made in the People's Republic of China. You know, there is a certain amount of wonder about our political system and economic system, and a certain interest in getting jobs. Are those young people going to be better off if we terminate most favored nation? I do not think so. It seems to me that cutting our business ties might make us feel good in the short run, but would we really be doing good in the long run. So it is feel good versus do good.

Third, we have another problem: Hong Kong. We are going to have a witness I think later from Hong Kong.

Senator MOYNIHAN. We are?

Senator DOLE. Yes. We all hope Hong Kong after 1997 will become a highly contagious enclave of democracy and free enter-

prise in China. These are critical times for Hong Kong. They are already facing a very precarious transition to a fundamentally different future. They have been shaken by the crackdown in the People's Republic of China. Economic confidence is waning and capital flight, long a problem, is accelerating. Now is precisely not the time for us to deliver a body blow to Hong Kong's economy.

I believe that, as I have said, you will have a panelist here that will go into that in much more detail. But loss of most favored nation would be severe to the Hong Kong economy, measured in billions of dollars, and I do not know that they can survive that kind of problem.

And what about this country? I know Senator Baucus—I heard his testimony earlier, and maybe we shouldn't be parochial here—but now and then we look at the interests of our country, and damage to our economic interest. And as I said, without helping foster democratization inside China. So we are going to be shooting ourselves in both feet, if we do not take a careful look at this.

Our own economic stake is impressive, and before Tiananmen Square it was rapidly growing. The investment totals about \$4 billion; exports last year exceeded \$6 billion. The Chinese consume about 20 percent of American wheat exports, something that some of us on this panel have some interest in. But in addition to that, there are other things—fertilizer, cotton, timber, paper—that add up to another billion dollars, plus computers and related equipment. And we also have big toy manufacturers which import Chinese goods.

So I would just conclude by placing in the record two other letters—one from a major business concern, Hewlett Packard; and another from a small toy manufacturer, Educational Insights. They are only samples of letters that I have received and others have received, laying out the real dollars and cents cost to American business if we have a cutoff of most favored nation for China.

Do not make any mistake about it, if we do not supply China the goods someone else will. I am certain a number of eager countries are waiting for us to pull the plug on most favored nation, so they can move in and capture our market. Again, maybe we feel good about what we have done, but have we really done any good in the long run. And it seems to me for all those reasons, it is a case of feel good versus do good.

I think in this case we ought to take a hard look at it. I am certain this committee will. We want to be very careful. But in the final analysis I believe we should support the President's position.

I thank the Chairman.

Senator MOYNIHAN. We thank the Republican Leader; and we will place those letters in the record.

Senator DOLE. And the entire statement.

Senator MOYNIHAN. And the entire statement.

[The prepared statement of Senator Dole along with the letters mentioned above appear in the appendix.]

Senator MOYNIHAN. Senator Chafee, did you wish to make an opening statement.

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

Senator CHAFEE. Thank you very much, Mr. Chairman. I will just briefly say that I will concur on those remarks. I have a statement that without prior consultation ends up concluding just as the Majority Leader did. I have spoken out on this before in connection with the President's statement.

Senator MOYNIHAN. He is not the Majority Leader yet.

Senator CHAFEE. Excuse me. [Laughter.]

Senator DOLE. Most-favored-party status.

Senator MOYNIHAN. Most favored party.

Senator CHAFEE. The wish is there anyway.

Basically, Mr. Chairman, I think it is important to review the testimony of the last person who spoke. What are we trying to do? How do we achieve these human rights that we speak about? Is it by dropping all contact? Our greatest opportunity, it seems to me, for supporting the ideas of pro-democracy and pro-reform in China is through the people with whom we trade.

I do not think we are going to foster the beliefs that we consider so important by isolating China. I mean China has had years and years of isolation and they are perfectly prepared to do it again. They have had a history of xenophobia. We all know that. I think this modest contact that we have with China should be continued. We have invoked the sanctions, about which the Senator from Kansas already has spoken. We are trying to bring China back into the family of nations to respect the ideals that we believe in.

We are not going to achieve that, in my judgment, by cutting off everything, sending them into a corner, saying they are a pariah. We shouldn't say to them retreat into your isolationism as you have in the past and as you are prepared to do now.

And finally, I just would like to make the point that was made about American trade with China. It is a significant amount. It is just going to be gobbled up by somebody else if we are not there.

Mr. Chairman, I do want to say that one of the witnesses is a representative from my State. The President of Hasbro, Mr. Alan Hassenfeld, who will be testifying on behalf of the Toy Manufacturers of America. He is president of the largest toy manufacturing company in the United States. I hope we will all pay attention to what he has to say on this subject.

I thank you, Mr. Chairman.

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

Senator MOYNIHAN. We most certainly will do, sir. We look forward to hearing Mr. Hassenfeld.

Senator Heinz, would you like to make an opening statement?

**OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR  
FROM PENNSYLVANIA**

Senator HEINZ. Mr. Chairman, very briefly, I would ask unanimous consent that my entire statement will be put in the record.

Senator MOYNIHAN. It will be done.

Senator HEINZ. Mr. Chairman, just to summarize, as these hearings open I do have a definite inclination and that is to continue

most favored nation to the People's Republic of China, but on two conditions.

The first is that the President maintain in effect his package of sanctions; and secondly, that the administration between now and the time we conclude our consideration of the legislation enunciate, at least better than it has, a strategy for increasing the willingness of the People's Republic of China to stop harassing the press and those who attempt to keep a free flow of information and news and contact a reality; and that there be a strategy to reduce and hopefully eliminate the continued harassment of the students and others who were a part of the peaceful reform movement.

It is my hope that the administration will indeed come to us at our next hearing and indicate how they can affirmatively pursue those goals. So I, on those conditions, am willing at least for now to support a continuation of most favored nation.

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

Senator MOYNIHAN. We thank you, Senator Heinz.  
Senator Rockefeller?

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

Senator ROCKEFELLER. Just to comment, Mr. Chairman. My mind is not concluded as to how I will vote on this issue. But I think it is interesting that over the years, over thousands of years, the history of China unbroken, unique, on the face of the planet, has never responded well to pressure. It differs in that respect from Korea. It differs in that respect from Taiwan. It differs in fact in that respect even from Japan.

Japan is loathe to respond to pressure in its public dialogue from its public leaders, but interestingly slowly, very slowly, it does make changes more quickly as a result of foreign pressure. That is not the case with China. It has not been the case in the past and is not necessarily the case now in my judgment, and I have studied Chinese history.

But then, that does not help us because if we take that view, if we become simply philosophical, then we conclude that if pressure comes and we withdraw most favored nation that in turn in classic Chinese fashion would then come to hurt precisely those students and elements within China that are trying to change China into the kind of China that I think the entire world wants to see.

So the question is: If we put on conditions as the Senator from Pennsylvania is suggesting, are we doing that to make our own conscience feel better but in fact knowing realistically that not only will those conditions not be met but that they may, in fact, work a hardship upon the very groups that we are trying to encourage.

On the other hand what has been happening in China is wrong and it is wrong from our standards and there is nothing wrong with feeling strong, talking strongly or acting upon our standards, regardless of Chinese history, regardless of perhaps predictable outcomes. So I think it is a very serious matter. If you go back to May 4, 1919, the student movement then, Sun Yat Sen, China was

changed. What we are trying to see within our context but also within the context of evolution within China is to encourage change, to encourage change to liberate what is probably the most brilliant entrepreneurial streak of any people on the face of the earth and to bring gradual and stronger freedom to people who would glory under freedom.

So it is a difficult question for us, Mr. Chairman. It is a very difficult question. I will listen to the witnesses and very much ponder what I think is a very, very important decision by the U.S. Government.

Thank you.

Senator MOYNIHAN. If I may say, Senator Rockefeller, that we will listen to you as you are the one authentic scholar of Chinese history in the Senate, and you know with what regard we hold your views and we hear the complexities that you set forth.

Mr. Pei, would you like to make one statement, sir? We are going to have to hurry along a little bit.

#### STATEMENT OF PEI MINXIN, INDEPENDENT FEDERATION OF CHINESE STUDENTS

Mr. PEI. Yes. My name is Pei Minxin. I am a Ph.D. candidate in the Government Department at Harvard. I am here representing the Independent Federation of Chinese Students and Scholars which is an umbrella organization that represents over 42,000 Chinese students and scholars in the United States. It is the only national student organization, democratic elected, and the position of the organization is that we strongly oppose at the moment the extension of the most-favored-nation status to China.

We are grateful to you for giving us this opportunity to explain our views. We have recently conducted a survey of Chinese students in the United States. The results indicate clearly that the majority of the Chinese students favor the use of the most-favored-nation issue as a leverage to promote human rights in China. Thirty-four percent of the students interviewed urge that a conditional suspension of most favored nation be implemented for 6 months; 35 percent of the students urge that most favored nation be renewed for only 6 months, upon a set of specific conditions; only 6 percent of the students interviewed favor an unconditional renewal of most favored nation as the President has recommended to the Congress.

We base our arguments on the following reasons. First, in the spirit in the letter of the law, the Jackson-Vanik terms, China has clearly failed to meet the terms of that amendment; and, therefore, it does not deserve most favored nation in a narrow, technical legal sense. There is no free immigration in China.

Secondly, at this particular historical moment when the Soviet Union is democratizing and the rest of the Communist world is collapsing and turning into free market societies, China has clearly embarked on a huge step backward. At this moment, if we give China the most-favored-nation status I am afraid that we are signaling a double standard which is extremely unsettling to the Chinese people.



Just imagine if the Soviet Union conducted a similar massacre in Red Square which caused famous dissidents to hide, take refuge in the U.S. Embassy, or the U.S. Government even considered giving the Soviet Union an most-favored-nation trading status.

Mr. Chairman, before I forget, may I request that my whole statement be put into record; and also the results of the survey be put into the record. In my hurry I forgot this very important request.

Senator MOYNIHAN. Of course, Mr. Pei. The Chair notes with pleasure that they still do survey research at the Department of Government at Harvard University. [Laughter.]

[The statement appears in the appendix.]

Mr. PEI. Thank you.

Senator MOYNIHAN. And that the results are still enigmatic. [Laughter.]

Mr. PEI. To continue my statement, I think with full respect for what the Minority Leader said, I think suspending most favored nation temporarily or attaching a set of specific conditions to the renewal will not only make us feel good, but actually will do some good. Mr. Feng's friends are in jail. The pictures were represented to the committee show clearly that secret executions are going on and will take place if new pressure is put on the Chinese Government.

We hope that the following set of conditions will be attached to either a 6-month renewal of the most favored nation or a condition of suspension of the most favored nation.

First, immediate and unconditional release of all political prisoners arrested during and after the 1989 pro-democracy movement, as well as the political prisoners who were arrested in 1979 in another pro-democracy movement called Democracy War Movement. They have been in jail for more than years.

Certainly a codification of the immigration law in China. We are demanding that the Soviet Union codify its immigration law. Why don't we make China an exception?

Third, lift the restrictions on college students in China starting abroad. As a result of the massacre, or in the aftermath of it, the Chinese Government has imposed severe restrictions on Chinese students going abroad. Here we are saying that we given them most favored nation in order to keep the door open. But the people who have the lock to that door are the Chinese Government, not us. If they are closing the door, even if we give them most favored nation, we cannot do much.

I want to also add, finally, that China does respond to pressures. That is why it is releasing political prisoners all of a sudden before the Congress was about to hold hearings. It is why it would rearrest them as soon as the President granted China an unconditional renewal. I think if we attach conditions to the renewal of most favored nation it will work.

Here I want to challenge the last, fourth, assumption many of you have been hearing, that is, giving them most favored nation will help reform. Look at what is going on in China for the past year. Reforms in China are dead. They have been rolled back by the pro-central planners. I give you one figure, in the course of 1989 alone 3 million private firms were shut down by the govern-

ment. Let's talk about privatization of the economy. And the Chinese Government is the biggest beneficiary of the continuation of the most-favored-nation status, because the Chinese Central Government receives 90 percent of the export earnings from most favored nation.

Thank you.

Senator MOYNIHAN. Mr. Pei, I think we will have to keep the issues pretty much to the ones you addressed. You all three, four addressed so ably.

Before we leave, and thank you for your testimony, we have been told that there is a problem with Chinese students in the United States today, that their families are being harassed in China. Now I do not suppose there is any survey data on that.

Mr. HEPING. Mr. Chairman.

Senator MOYNIHAN. But Mr. Feng and Ms. Gong, you are two scheduled witnesses, could we hear your judgments on that matter and perhaps you do not have any right now.

Mr. CONGDE. About the harass of the students here, I have the evidence is Mr. Shi first. His wife is now in China and they almost mad and get killed their own daughter, 9-year-old daughter. That is a great pressure on the wife.

Senator MOYNIHAN. Okay, why don't you speak, sir.

Mr. SHI. Okay. To give you my own personal story, about 2 months ago I got a long distance call from my sister in Beijing and my sister was crying. She told me that the because of my involvement in the pro-democracy movement here, my wife went out of her mind and she tried to strangle our daughter and then committed suicide. But fortunately this was prevented. That is rough.

After about 1 month, when my wife regained her mind she told me over the phone that she had been approached. I can well imagine the situation. She has been applying for a visit to the United States, but her application has been rejected several times.

Senator MOYNIHAN. Perhaps, if you would wish, you would give us more in writing. The committee would like to have that and we will put it in the printed record.

Now, Ms. Gong.

Ms. GONG. Yes, I think that is not a new incident in China. Actually, even the honeymooner in the United States and China when China joined the most favored nation, the Chinese Government was still harassing the Chinese student and relatives in family in China if they were active against the Chinese Government overseas. That is not new. I fully understand your concern of the Chinese.

When people mention free immigration they concentrate on a free immigration abroad. But through my understanding, I was a peasant for 3 years and working ports for 7 years. I know the biggest social inequality in China is the inequality between the countryside and the city. The peasants are much free to immigrate to the city. It makes a really big difference than staying in the countryside.

Senator MOYNIHAN. There are internal passports?

Ms. GONG. Yes. And if revoke the most favored nation it will make many peasants now working in the city lose their jobs. Actually, I have some concrete information got from the Gong Dun Province, my home town.

Senator MOYNIHAN. We would welcome any written statement to that effect as well.

And so we thank this very able group of young students. And being graduate students, not quite so young students. We appreciate your testimony. We appreciate your candor and your coming here today. We thank you very much.

Now we will move to our next panel which represents economic business activities. Mr. Roger Sullivan who is president of the United States-China Business Council; Mr. David Lyons who is director for the North American Export Grain Association; Mr. John Kamm who is president of the American Chamber of Commerce in Hong Kong; and Mr. Alan Hassenfeld who is president of the Hasbro, Inc., of Pawtucket, RI, who is testifying on behalf of the Toy Manufacturers of America.

In order they are listed, Mr. Sullivan, we welcome you this morning, sir. We are going to have to stick to our 5-minute rule, but you understand why.

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

Senator MOYNIHAN. May I say all statements will be included in the record as if read; and you proceed exactly as you wish for your period.

#### STATEMENT OF ROGER W. SULLIVAN, PRESIDENT, THE UNITED STATES-CHINA BUSINESS COUNCIL, WASHINGTON, DC

Mr. SULLIVAN. I will be very brief. I think I may have to be since I am losing my voice.

But I think the argument is narrowing rather nicely. I think we have all agreed that the issue is not China's human rights record. We all can see that there is repression in China and, in fact, I think the business community is perhaps more aware than most sectors of the American public of the extent to which China has moved away from reform and liberalization.

The issue is also not the general one, whether the sanctions work or not. We are not going to assert that sanctions never work, but I would not concede that sanctions always work. Sometimes they do and sometimes they don't. I think everyone here could come up with examples in either category.

The first question is whether a particular sanction—in this case the withdrawal of most favored nation—after it has been in effect for 10 years against a particular country—China—is an appropriate and proportionate way to express our outrage at the human rights record of China. We have documented the high cost of such a gesture and I certainly hope that in the light of this that Congress would agree that it would be an appropriate, practically and ethically, to cause such severe pain to millions of innocent victims in Hong Kong, our farmers, consumers, exporters, retailers, and the people of South China, just so we can feel good about ourselves, having expressed our moral outrage.

So we really come to the key question, the fundamental judgment. And that is, would this particular sanction, removal of most favored nation, applied to this particular country, China, unilaterally by the United States, work? Would it induce or force funda-

mental change in the Chinese Government or speed its departure from the scene?

Now this is a judgment and reasonable people can differ. But in my written statement I have submitted the evidence on which I base my judgment that it would not work. Indeed, that it would make the situation worse. But if we reach a different conclusion, we had better be certain we are right. I think the burden of proof must be on those who reach a different conclusion. Because 2 or 3 years from now after all the pain is obvious and the benefits of the sanctions remain illusory, those who suffered the pain will remember who inflicted it on them. And we will, therefore, pay as a nation a very high price politically, economically, and diplomatically for a misjudgment.

Finally, I make two comments. Much of the argument in favor of withdrawal of most favored nation from China is based on the false premise that trade and investment strengthen the hard line regime in China and withdrawal would weaken it. It is far more likely the other way around. Withdrawal enables the regime to rally people around an anti-foreign campaign exploiting the myth of China's 100 years of humiliation at the hands of the United States and Europe. It would enable the regime to blame the foreigner for their economic problems.

Now it is very clear to everyone in China that it is the Chinese regime itself which has caused their economic problems. So allowing and, indeed, encouraging business and other private contacts on the other hand will promote reform as they have done over the past 10 years. That is the totalitarian leadership's dilemma, that the business community goes into China, expands in China, as long as the Chinese Government is sticking to reform; as it backs away from reform business backs away. New approvals for investment in China over the past year are down 75 percent. These are not just American investors, these are Europeans and Japanese. Everyone is reacting the same way.

Senator MOYNIHAN. Did you say approval, sir, or applications?

Mr. SULLIVAN. Applications for approvals. I'm sorry.

So the business community by reacting to the environment in China influences that environment. The leadership recognizes that. The Chairman of the Communist Party in China, Zhiang Zemin, in his National Day speech last October said, "We want foreign capital and we want foreign technology, but we must be very careful because the foreigners are using trade and investment to subvert us." And, indeed, that is the effect of it.

So finally let me just say that the issue would be much more difficult if the current Chinese leadership appeared capable of retaining power far into the future. I think most analysts agree this is unlikely. This regime is out of touch with the world and with its own people. So we are really in a situation that I think Tip O'Neal would say it is time to stand back and not spoil the view. We should be looking beyond this regime, keeping up the pressure for change—politically and diplomatically—but positioning ourselves to work effectively with a new, more flexible government when that becomes possible. And this means preserving the structures that have been built up over the past 10 years and maintaining and even encouraging the most extensive private contacts—cultur-

al, educational, and commercial—which this Chinese regime will permit.

This I think is the best basis for us to conduct our policy. Thank you very much, Mr. Chairman.

Senator MOYNIHAN. Thank you, Mr. Sullivan, for a very lucid and able testimony. I am glad you did not lose your voice.

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

Senator MOYNIHAN. Mr. Lyons, we welcome you on behalf of the North American Export Grain Association.

**STATEMENT OF DAVID LYONS, DIRECTOR, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC., WASHINGTON, DC**

Mr. LYONS. Yes, I am here speaking for NAEGA, North American Export Grain Association—the national trade association that represents the U.S. grain exports, and oilseed exporters.

We are here to very strongly recommend continuation of most favored nation for China. We think this is one of those issues that is very, very important to agriculture. It is probably the most important issue that could have immediate, direct impact on agriculture that is before the Congress right now.

It has been stated very well by Mr. Baucus and Senator Dole how important the market in China is to U.S. agriculture. In 1988 to 1989 a billion dollars of wheat, 8 million tons of the 38 million tons of wheat exports that year, 20 percent of our total wheat exports went to China along with many other agricultural products—including cotton, corn, forestry products. Total agricultural trade was \$1.5 billion.

And when you throw in fertilizer on top of it you are approaching \$2 billion in exports. Approximately one-third of all the U.S. exports to China are agricultural, or agriculturally related. So agriculture has a huge stake in this market and it is a long-term stake. It is a huge and growing market with rising incomes, and a huge and growing population, with over a billion Chinese. It is hard to imagine a prosperous dynamic agriculture if the United States did not have ready access to these markets.

And I think that is what we are talking about; we are talking about the risk of losing the China market for U.S. agriculture. Because surely the Chinese would retaliate if most favored nation were taken away from them. I think there is little question about that. And these agricultural exports could certainly be sourced in other countries. There are plenty of places where you can buy wheat, corn, cotton. For the grains particularly Australia, Argentina, the EC are ready sources of supply. Some of those countries are sure to step in and take these markets.

One thing I think we have to remember is that agriculture has recovered; and Senator Dole knows this probably better than anyone, from the early 1980's. You know, exports are growing again; stock levels are down; the huge surpluses are gone; farm income has recovered. With all of the good things happening in agriculture today, the future looks very bright.

I think the potential for losing the China market could stop all of this dead in its tracks. It truly could. I think we have to say that

unilateral trade sanctions without the cooperation of other countries very seldom have worked—and it is hard to imagine that they really can work because all of these commodities can be sourced in other countries.

I think you only have to look to the Russian grain embargo of 1980 to see how ineffective those kinds of sanctions truly are. I think really now only 10 years later the United States is regaining its reputation really as a reliable supplier.

So I have said a lot about the economic impact in the United States, and really the U.S. economy in terms of the balance of payments that agriculture contributes. But I think clearly there is also a cost in China; and other people are probably better able to speak to that than us. But we think clearly those elements that are most reform minded, those elements that we think could influence future events in China, would be most impacted—those businesses, those individuals, in South China, the Hong Kong businesses—those people would clearly be hurt by withdrawal of most favored nation.

We think that disapproval of most favored nation would not send the proper signal in terms of U.S. involvement in China. I think it would clearly result in business contacts, trade contacts lost. I do not think that is in the U.S. interest in terms of trying to influence future events. Whatever little influence we might have in China is not well served by that.

I will try to conclude very, very briefly.

Senator MOYNIHAN. Take your full time, Mr. Lyons.

Mr. LYONS. Clearly, no one can condone the actions of the Chinese Government. It is clearly a repressive government. But I think the Congress has to very clearly think through what the issues are—weigh the costs, weigh the potential benefits. We have talked about the costs. There are huge costs to U.S. agriculture, the U.S. economy, business interests in this country. There are huge costs in China, I think, for a very, very many people—citizens, businesses in China. There is probably a huge cost in terms of the lost influence that the United States could exert through the business contacts, trade contacts, that sort of thing.

We have to remember that unilateral trade sanctions very seldom work, really cannot work in the case of agricultural products. You can source those products elsewhere. Let's avoid the mistakes of the past. Let's not shoot ourselves in both feet, as Senator Dole responded. I think we have to resist any effort to withhold most favored nation from China. I think the Congress should do that.

Thank you.

Senator MOYNIHAN. Thank you, Mr. Lyons.

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

Senator MOYNIHAN. Our next witness is Mr. John Kamm who is president of the American Chamber of Commerce in Hong Kong. We welcome you, sir.

**STATEMENT OF JOHN KAMM, PRESIDENT, AMERICAN CHAMBER  
OF COMMERCE IN HONG KONG, HONG KONG**

Mr. KAMM. Thank you, Mr. Chairman, and members of the committee. Hong Kong is one of our country's best friends in Asia, and America's involvement in the territory reflects the strong bonds between us. Despite its size, Hong Kong is now our country's 14th largest export market. Its people consume an astonishing \$1,000 a year of American products per head. American firms have invested more than \$6 billion in the territory and we are poised to win billions of dollars of contracts for infrastructure projects. Eighteen thousand of our citizens live there making us the largest foreign community.

Sharing our country's commitment to open markets and democratic values, Hong Kong's people, 98 percent of whom are Chinese, are unashamably capitalistic and pro-American. And as 1997 approaches they look to us for sympathy and support.

Hong Kong's businessmen, like America's, have been agents for change in China, living proof that a system of free enterprise and respect for human rights works. They have invested huge sums in thousands of Chinese enterprises. They employ 2 million people in China as opposed to 800,000 in manufacturing in Hong Kong. Because of Hong Kong's close economic ties to the United States, most of these Hong Kong owned enterprises manufacture for the U.S. market.

No territory in the world, Mr. Chairman, knows China better than Hong Kong. None has done more to promote economic reform and democracy in the country. During the pro-democracy movement of last May and June Hong Kong's people donated millions of dollars in cash, medical supplies, and tents to the demonstrators in Tiananmen Square. Hong Kong's free press and electronic media helped cover the movement for the world. In the territory itself, more than 1 million people marched in support of the students. After the brutal crackdown, Hong Kong people helped scores of dissidents escape and, for these brave acts, several still languish in jail.

On June 3 of this year, as many as 250,000 people marched through Hong Kong streets in memory of the Tiananmen martyrs. Elsewhere around the world, demonstrations were a small fraction of this number. Hong Kong people's activities have earned them the wrath of Beijing's hardliners. They call the territory a base of subversion and issue blunt threats against it. When it comes to discussing ways and means to promote democracy and human rights in China, the people in Hong Kong have earned the right to be heard.

What do they and their leaders say about the current debate on most-favored-nation status going on in the Congress? In near unanimity, they are pleading with Congress to renew. They know that revoking most-favored-nation status will severely damage Hong Kong's economy at a time when confidence is badly shaken. They know that revoking China's preferential tariff treatment will wreck the economies of the coastal regions and undermine the pro-reform leaders there. And they do not believe that stripping most

avored nation from China will contribute to more human rights and democracy.

It should be remembered that on three occasions since 1949 China's leadership has withstood external sanctions. Let me review quickly why stripping Chinese products of Column One duty rates in America is unlikely to force the Beijing regime to improve human rights conditions and introduce domestic changes.

First of all, as has been pointed out, it would be a unilateral act unsupported by any other country. Secondly, losses suffered by Hong Kong, Coastal China, and overseas Chinese communities in Southeast Asia would engender resentment towards the United States and divide the opposition to the Beijing regime.

Three, the damage done to China's economy will not be evenly distributed, but will fall most heavily on those provinces and municipalities most committed to reform. The hardest hit of all will be Guangdong Province whose economy will be plunged into depression with as many as 1 million people thrown out of work.

By contrast, strongholds of the hardliners—the inland provinces and the central ministries—will be far less affected.

Senator MOYNIHAN. Mr. Kamm, for those of us who are not scholars, Guangdong is what we think of as the Cantonese area; is that right?

Mr. KAMM. That is right, sir. Yes, Guangdong is the capital of the province of Canton. Thank you for asking.

Finally, the Communist Party and the authoritarian State have extraordinary means at their disposal to blunt and divert the effects of economic sanctions. The propaganda apparatus enables them to portray the United States as the source of all economic problems while administrative measures to curb imports permit the rapid build up of foreign exchange reserves.

Revoking China's most-favored-nation status is a fearsome, but flawed weapon, not unlike a thermonuclear bomb. The threat of its use may in concert with other pressures yield marginal changes in the target country's policy, but its actual use eliminates all possibility of dialogue and leverage. The damage it does is not restricted to the target but extends to many third parties and to the world as a whole. Its destructive power does not discriminate between innocent and guilty.

Members of Congress, our Chamber of Commerce, which is the largest American Chamber outside the United States, entreats you to discard this weapon. To do so is not a sign of weakness, but rather enlightened self-interest. We can best assist China's people achieve freedom and dignity by keeping Hong Kong strong and by ensuring that America is there when the perpetrators of the Tiananmen killings pass from the scene.

Thank you.

Senator MOYNIHAN. Thank you, Mr. Kamm.

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

Senator MOYNIHAN. We have a vote on and not every Senator will be able to return. If Mr. Hassenfeld would be patient with the Chair, I would like to ask if any Senator—Senator Dole, I know you have to be on the floor—would like to address any questions to or comments to the three witnesses we have already heard. So far they sound good.



Senator Chafee?

Senator CHAFEE. I will be back.

Senator MOYNIHAN. You will be back.

Senator Heinz?

Senator HEINZ. Not at this time.

Senator MOYNIHAN. Senator Rockefeller?

Senator ROCKEFELLER. Mr. Chairman, I do have a question. Will they be back?

Senator MOYNIHAN. They will be here when we return. Should we then go and vote?

Senator ROCKEFELLER. Let's do that.

Senator MOYNIHAN. The committee will stand in recess. We will return in about 10 minutes.

[Whereupon, the hearing recessed and resumed at 11:43 a.m.]

Senator MOYNIHAN. The committee will come to order. We would ask our guests to take their seats.

Now I think our fourth witness on our panel this morning is Mr. Hassenfeld, who I have already introduced, identified as the President of Hasbro, and he testifies on behalf of the Toy Manufacturers of America.

Mr. Hassenfeld, we welcome you, sir.

**STATEMENT OF ALAN G. HASSENFELD, PRESIDENT, HASBRO, INC., TESTIFYING ON BEHALF OF THE TOY MANUFACTURERS OF AMERICA, PAWTUCKET, RI**

Mr. HASSENFELD. Mr. Chairman, thank you. The toy industry is used to delays in production. The only thing we cannot be late for is Christmas.

Senator MOYNIHAN. I see.

Mr. HASSENFELD. My name is Alan Hassenfeld. I am the chairman of Hasbro, the world's largest toy company, with revenues which exceeded in 1989 \$1.4 billion. We employ 8,200 people worldwide outside of China. We employ about another 10,000 in China.

I am here today to speak both from my company and for the Toy Manufacturers of America, a trade association representing more than 230 manufacturers and importers of toys. I have served as chairman of TMA and been a member of its board for 8 years. TMA accounts for an estimated 90 percent of the annual toy sales in the United States. The toy industry is a \$13 billion industry at retail; \$9 billion at wholesale. And of the \$6.1 billion worth of toys imported into the United States, \$1.7 billion in toys is imported from China. Approximately \$1 million of that \$1.7 billion passes through Hong Kong.

I would like to tell you a little bit about how the loss of most favored nation would affect Hasbro. Approximately 25 percent of our worldwide production comes from China. We employ 10,000 people there. I cannot say how many U.S. jobs might be lost should most favored nation be taken from China because Hasbro has a long history of finding ways, even in a poor business environment, of taking care of our family.

However, I do know it would have an impact upon us in all States in which we do have manufacturing facilities, which are Massachusetts, New Jersey, New York, Rhode Island, and Wash-

ington. Based upon discussions with other industry leaders and the staff of TMA which has surveyed all of the 230 members, I can tell you that the toy industry will be devastated if most-favored-nation status for China is revoked.

Before most-favored-nation status was accorded to the PRC 10 years ago, there was a duty rate of 70 percent on toys. Today, the duty rate is anywhere from free to 12 percent. If duty was to be assessed at 70 percent, we would be in more than serious trouble. Alternate sources of supply in other developing countries cannot be found overnight and we will not be able to obtain sufficient quantities of our product elsewhere until well into 1992. Our close business ties in Hong Kong lead us to the conclusion that the loss of most favored nation for China will be even more devastating to the long-term viability of Hong Kong than any other act of the United States. Abandonment of Hong Kong is not justifiable.

The effect of increasing duty rates to 70 percent will have significant effect on the price of toys in the United States. The real losers will be children, especially those who are least able to afford to spend money on such items.

Finally, and most significant to us in the toy industry, is that a number of TMA members will be put out of business before the end of 1990 if most favored nation was revoked immediately. So far 10 toy companies have indicated that because 100 percent of their product is produced in China they will be forced out of business. I cannot say how many more members are in this category at the present time, but I do know that those 10 members employ more than 1,000 people.

Moreover, the toy industry is not alone in its loss of U.S. jobs. We respectfully ask whether the trauma of job losses to thousands of American families is fair when measured against the conjectural benefits of loss of most favored nation to China. Please do not mistake my remarks as a disregard for the issue of human rights in the PRC. There is no question that the PRC's actions deserve the strongest condemnation. But taking jobs away from 3 million Chinese which surely will be the effect of removing most favored nation is not going to reform a repressive government. Sending them back to farms is not human rights. Condemning Hong Kong is not dealing with human rights. And what of the Americans who will go jobless?

In summary, we strongly believe that revocation of most-favored-nation duty status is the wrong response to the acts of the Chinese leadership. Such actions will hurt all companies who have acted in reliance upon a U.S. policy, encouraging increased globalization. It will result in substantial layoffs of American workers. It will escalate costs for American consumers. It will take Christmas away from millions of American children and totally devastate the \$13 billion American toy, doll and game industry.

I thank you and I would only add one thing that is not in my comments. I think that the threat of most-favored-nation removal has already taken its toll on American industry. I cannot think of any American business leader looking to the future who will not weigh his further investment in a country where our government will possibly remove most favored nation or possibly—not remove it, but put it with sanctions.

Thank you.

Senator MOYNIHAN. We thank you, sir. We do appreciate your good nature about being interrupted.

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

Senator MOYNIHAN. For the record, it probably ought to be recorded in all these conversations, in all these hearings, that the absence of most-favored-nation treatment, which is an arrangement that began under Cordell Hull in the Reciprocal Trade Agreements Act, the tariff schedule in effect is that of the Smoot-Hawley tariff of 1930. That was the last tariff bill that ever came to the Senate floor. We have not trusted ourselves since.

I just want to ask one quick question of Mr. Hassenfeld and this excellent panel. The G.I. Joe, I think I recognize G.I. Joe from advertisements, is he, is it, made in the People's Republic of China?

Mr. HASSENFELD. G.I. Joe is partly made in the PRC. It is also made in India. I think it is a wonderful question for me because we take the figures, the very inexpensive figures, those are made in China; but our factories in Rhode Island and Massachusetts basically make all of the vehicles and accessories that go along with G.I. Joe. So in once sense we import a \$1 component and then we make out probably \$3 to \$4 worth of manufacturing costs in the America. That and Ninja Turtles are made in China. [Laughter.]

Senator MOYNIHAN. So the Chinese have ended the Cold War providing the weaponry for the imaginations of American children. That is an interesting thought.

Mr. HASSENFELD. Yes.

Senator MOYNIHAN. Senator Packwood?

Senator PACKWOOD. We have two questions, it seems to me. One: Does it work? Assuming that we were to refuse most-favored-nation status, would it work? Would it bring China around? Would they change their government? The second question: Assuming it works, or assuming it doesn't work, should the consideration be principally the effect on American business?

Mr. Lyons talks about agricultural exports. Mr. Hassenfeld, you talk really about the effect on jobs because of imports and the children that will lose Christmas. We do have trade sanctions around the world. We have had sanctions on Cuba for years. We had sanctions on Nicaragua. We tried sanctions on Russia because of Afghanistan. In your judgment—especially, let me ask Mr. Hassenfeld and Mr. Lyons because they were addressing themselves to economics here—when should we impose sanctions and under what conditions? Even knowing that it may have an adverse effect on some section of American industry or agriculture.

Go ahead, Mr. Hassenfeld.

Mr. HASSENFELD. I don't know if I can truly answer when is the proper time to put in sanctions. I think I do not believe—I have been going to China since 1974. I have seen a country since 1974 that has obviously changed a great deal, especially after 1978 and 1980. It became a much more open country. We were able to have a say in many, many things.

One of the problems, you know, when we talk about sanctions, what sanction do I put on our 10,000 employees; what is my moral obligation if we have to pull out of China, which we would. What is

my moral obligation to my people? But the question of what are the sanctions and how they should be, I don't know. I think that even with the Chinese students that I listened to this morning, I do not think that they necessarily are against renewal of most favored nation, but it is most favored nation with what restrictions.

Senator PACKWOOD. Mr. Lyons?

Mr. LYONS. I think that Congress needs to weigh that question like they do other questions. I mean they have to weigh the cost of doing it versus the benefits of the likelihood that the sanction would get the kind of response that is the objective of U.S. policy.

Senator PACKWOOD. But I want you to answer it on the basis of American business, not will it get the response we want. I think you would be opposed to it, opposed to not granting it, even if it would get the response we wanted, if we didn't give them most-favored-nation status.

Mr. LYONS. No, I am not saying that under absolutely every circumstance that the U.S. Government should not impose sanctions assuming that the goal is just and all of that.

Senator PACKWOOD. Let me give you an example and then continue your answer. We impose sanctions on South Africa. Every time we have this vote the argument is raised, the people you are going to hurt are the poor, black miners. You are not going to hurt the white, ruling elite in South Africa. And yet we go ahead and impose the sanctions because we say we abhor their conduct. The government's conduct is so reprehensible that we are going to impose the sanctions anyway. Is that right or wrong?

Mr. LYONS. Well I hate to address specific issues. But I think in that situation you had a number of countries that agreed that sanctions might be effective. We could argue whether they were or they were not. I think maybe marginally they were probably effective in getting some of the change we have seen in South Africa.

But I think that is a different situation than what you are faced with in this issue. Because no other country of the world is thinking about taking trade sanctions against China right now. So I think there may be situations where sanctions could possibly be effective.

Senator PACKWOOD. What I want to find out is when you think they can. Now all of you have made the argument that they are not going to work in China anyway; so don't even worry about getting to the second part about how does it affect the United States. Although with you, in terms of agricultural exports, and Mr. Hasenfeld in terms of imported toys, and Christmas, and children and cost, we are making an argument American qua American, in addition to whether it works in China or not.

In your judgment under what circumstances should we impose sanctions where there will be some economic hardship in this country? We did it with the grain embargo in Afghanistan. That hurt any number of our grain exporters, but we did it for a moral reason.

Mr. LYONS. But I think it was not effective in getting the kind of policy response in the Soviet Union that we wanted to get. I guess it is——

Senator PACKWOOD. But you are coming back to the effective argument again.

Mr. LYON. I am not really answering the question for you, I guess, in that way. I am sure there are situations in our national interest where sanctions are justified even when they provide economic hardship here at home. And I am sure that there may be situations where most of us could agree that we should impose sanctions.

I guess the thing that bothers exporters, bothers businessmen, is when sanctions are imposed and it seems clear to us that really it will be ineffective in getting the policy response that the policy-makers are desiring and we pay a huge cost, and really receive no benefit from it, as a country, I mean.

Senator PACKWOOD. What would be your position if general educated opinion was that the sanctions would work?

Mr. HASSENFELD. Mr. Packwood, could I answer that?

Senator PACKWOOD. Yes.

Mr. HASSENFELD. If the general opinion was that sanctions would work, again, I would come back to the people, the populous will be the ones that will be hurt. I think that more than in South Africa many of us who have dealt in China for years and years can come with concrete stories of literally millions of people that will be sent back to the farm.

I think that if we can put sanctions on government rather than the people, only as a last resort. When our President, and the Senate and the Congress, if they can agree, can basically realize that there is no further way of dialogue with China, if China continues to be recalcitrant in everything that she does, then maybe sanctions must be applied. But there still is a window that is open. There still is a hope; there still is a way for us to have an effect as businessmen on trying to ease, I think, the problems that we are faced with in China today.

But if you close it out completely, there is no going back. I think that is one thing that no one has really said. Once investment moves from an area, do not try and get us to go back in because we will have lost billions of dollars and we will set up, whether it be in Africa, whether it be in Eastern Europe, whether it be in Malaysia or wherever, over time. But to go back is very difficult.

Thank you.

Senator PACKWOOD. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, sir.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

I would just like to ask each of the panelists if they would answer this question. You have touched on it already. And I think all of you have the capability, I believe, of answering this.

In your judgment, is there any other country that you know of that is considering imposing actions similar to withdrawal of most favored nation? Mr. Kamm?

Mr. KAMM. I have compiled a list of 99 countries which have granted China most-favored-nation treatment and I am unaware of a single one that is considering revoking it.

Senator CHAFEE. And particularly the big ones—Britain, West Germany, Japan?

Mr. KAMM. Britain, West Germany, Japan. There is not a single one that is even considering it.

Senator CHAFEE. Mr. Lyons, the same?

Mr. LYONS. I don't know of any country.

Senator CHAFEE. Mr. Sullivan?

Mr. SULLIVAN. There are none. And, in fact, they do not understand why we think this way.

Senator CHAFEE. Well they must be delighted we think this way. Mr. Hassenfeld?

Mr. HASSENFELD. Senator, no, I don't know of any country.

Senator CHAFEE. Now, Mr. Hassenfeld, could you just briefly elaborate on what the effect would be on American toy manufacturers if that source of supply were cut off and other nation's toy manufacturers were not cut off? I presume that gives them some kind of a competitive advantage in selling toys in the United States.

Mr. HASSENFELD. Well I think that all of Southeast Asia would benefit. They would pick up much of the production that the Chinese were losing. I would also think that it would favor Mexico a great deal.

Senator CHAFEE. No, I didn't mean that. I mean the other manufacturers of toys.

Mr. HASSENFELD. In the United States what would end up happening—

Senator CHAFEE. No, this is my specific question. If the other manufacturers, foreign toy manufacturers—West German, Japan, whoever they are—have access to products from China and you don't—you, being the U.S. manufacturers—then what happens?

Mr. HASSENFELD. Well it would not really have any impact on the United States because they would not be able to import, I don't think—I think that our trade law even though it might have been written or our tariff laws written years ago in the 1930's, I do not think it would allow what we would call pass through. If goods were made in China and imported into West Germany and then brought into the United States, I do not think that would be allowable, except at the higher 70 percent duty rate. So that is really not at issue.

What is at issue again would be what many manufacturers do because of the large size of the product or the cube of a product, is they will bring in a product from China or wherever and they will do a lot of the less labor content here in this country, the packing out or the whatever. But no as far as pass through from other countries.

Senator CHAFEE. Okay. One other quick question. One of the arguments that might be made is that, well we shouldn't be having this stuff all made overseas anyway. What we want to do is produce it in the United States. Now you briefly touched on the fact that many of your employees have jobs in the United States because of the fact that you have a large volume as a result of your lower costs in the manufacture of the product in China. The product is then brought in in Pawtucket, RI they make the skirts or the uniform for G.I. Joe or whatever it might be.

Mr. HASSENFELD. I hope not skirts.

Senator CHAFEE. Not skirts for G.I. Joe.

Senator MOYNIHAN. Careful.

Mr. HASSENFELD. I stand corrected.

Senator CHAFEE. Kilts.

Could you just touch a word on that? How much of your employment, say in Rhode Island is dependent upon supplementing the product that comes from abroad?

Mr. HASSENFELD. I would say that overall in the United States I think we employ about 5,000 people. I would say that about 20 to 25 percent of our work force would be affected or is working on product that comes in from China.

Senator CHAFEE. Let me ask another question of you folks. I suppose that not only do you lose—I am talking more of the manufacturers now. This would not apply so much to Mr. Lyons. I suppose that Americans, if we pass this law and thus could no longer import satisfactorily from China, what happens to our investment, the investment you have made over there? Can you sell those plants to the Brits or somebody?

Mr. Hassenfeld?

Mr. HASSENFELD. Oh, I think our investment, it has taken us 10 to 12 years to get where we are. You can never, you know, save the endless hours and the blood, sweat and tears of getting where we are. No, the investment would be written off.

Senator CHAFEE. You mean including the investment in plant and equipment?

Mr. HASSENFELD. The plant and equipment I would say would go about to 20 to 25 percent of the capacity of where it is today. In other words, if we employ about 10,000 people, yes, our European subsidiaries would be still able to utilize maybe 25 percent of that capacity.

But as far as I am concerned, I mean, once you put in—I would like to see us try and get an injection molding machine, let's say, out of China that we put in ourselves if we stop most favored nation. I just do not know how to bring anything out that we put in there. I mean, yes, we have it written in our agreements, but we in theory have a 5-year contract with a number of the local villages with the number of people that we are going to employ in that area. What do we do with those contracts? I don't know.

Senator CHAFEE. What do you say to that, Mr. Kamm?

Mr. KAMM. Well, sir, the investment in China that Hong Kong has of course is the largest, about 70 percent, including American companies based in Hong Kong. And generally speaking, we would have to look at writing off the bulk of that investment if most favored nation were lost.

The reason for this is simple. You are bound into contracts that you would have to fulfill. And in the absence of those contracts you would have to abandon your investment. So again, we are faced with a situation that you really have a very serious blow to the Hong Kong economy, not just in the loss of the exports that are manufactured by Hong Kong plants and that are reexported through Hong Kong, but you would actually have to write off a very large part of the investment that is in there.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator MOYNIHAN. Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Hong Kong, gentlemen, is sort of an interesting place. Because I guess if one refers to it as a colony economically it is more of an

American colony than it is a British colony. I mean we have more invested there. The Japanese have more than we do.

It is controlled in many ways by China. Its water comes from China. China owns the majority of its banks, does it not? Most of its food comes from China. The labor unions are controlled from the mainland for the most part. Is that not correct? I mean it is a very fragile, rather amazing piece of territory.

Mr. KAMM. It really is. Yes.

Senator ROCKEFELLER. Is it not also true that Hong Kong has been losing its trade edge? And by that I do not mean with China, but I mean with Korea, Taiwan, Singapore, et cetera, for some time now and not to China but to Sri Lanka, to Malaysia, places of that sort. In other words where there is more labor intensive, as labor is more expensive in Hong Kong.

That sort of goes along in my thinking with the fact that Hong Kong's problems precede Tiananmen Square. This has been something that has been going on for some time. And the fragility of the Hong Kong economy has been there for some time, has it not? I would be interested in your thoughts on that?

Mr. KAMM. Yes. I would like to address that. We are seeing the birth in South China and in the area around Hong Kong of something totally unique, and I think that scholars will be looking at for some time. I call it the Cantonese economy. It is a newly industrializing economy that does not have political autonomy. It is made up of a number of component parts that are highly interrelated so you have a shortage of land and cheap labor in Hong Kong, but that is abundant over the border.

I will give you another example. You know, we talk about most favored nation being preferential and the best tariff treatment. Of course we know that is not the case. GSP—generalized scheme of preference—is the most preferential tariff treatment.

Senator MOYNIHAN. That is quite correct.

Mr. KAMM. Yes. And in fact in this Cantonese economy there is one component that has GSP and that is Macau. So for certain industries we find Hong Kong investment going over to Macau to take advantage of GSP treatment.

What we have then is this economy that is made up of three different parts—Hong Kong, Macau, and Guangdong Province. And because of this opening up in China and the reform movement, actually Hong Kong's economy has strengthened over the last several years and we have managed excellent growth rates every year for the last 10 years, with the exception of 1982 when we had a recession in the United States.

Senator ROCKEFELLER. Let me pursue that a bit. And just whoever wants to respond to this. That there is the idea that the export element within China has a reformist effect on China that has been alluded to, said by various people, witnesses or Senators. I am interested in how true you think that may or may not be. Is it not the case in fact that about 90 percent of that export element is contained within Guangdong Province and that most of it came in 1978 and 1979 when Deng Xiaoping came back and that in fact those little export very contained geographic areas are in fact merely tolerated by the present Chinese leadership; and if they



were to disappear altogether the Chinese leadership might not be disturbed or do you think I am wrong on that?

Mr. KAMM. Well we have seen that the leadership in these coastal areas that are doing the exporting have managed to withstand a great deal of pressure from the central authorities over the last year. They have stayed in place—the Mayor in Shanghai and the Governor in Guangdong. They do retain a great part of the foreign exchange earnings that they generate.

Now recently we have a phenomenon where the central government is trying to put administrative measures on the way they can spend their money. But having been there since 1972, and recently having done a study with Ezra Vogel at Harvard that has just been published, we can see the cycles in terms of centralization versus decentralization. We are in a centralization phase, but we are starting to come out of it again and we are starting to see local foreign exchange used more and more to purchase goods from the outside.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Mr. SULLIVAN. Can I comment on that as well?

Senator MOYNIHAN. Please do, Mr. Sullivan.

Mr. SULLIVAN. Yes. This export sector is largely centered around a group of so-called village and collective enterprises which started up in China almost as an accident. It started out as almost a make work program. The Chinese Government was trying to find employment for people who are redundant on the farms and they encouraged them to sort of make baskets. As it turned out, it took off and then in 1988 that sector of essentially almost a private enterprise sector produced more in the rural areas of China than the agricultural production, and they accounted for over 27 percent of China's total industrial production in 1988.

I think the hardliners would very much like to see those people brought under control. When I was out there in October they talked about that. One of the students mentioned that we shouldn't be concerned about that sector because the central government is already closing them down. He mentioned that 3 million of them have been closed down. My estimate was between 2 to 4 million. But what he didn't say is that at the end of 1989 or the middle of 1989 there were about 20 million of those. And the regime has managed to shut down between 2 to 4 million of them. The rest of them are struggling and are managing to hang on.

Now what I submit is that yanking most favored nation at this stage is going to take care of several million more of them. And in effect we would be doing Lee Pung's job for him.

Senator MOYNIHAN. That is a very impressive statement. First of all, I want to thank Mr. Kamm for his citation of Professor Vogel—if you would thank Professor Vogel for providing his testimony for us.

In your statement today you have one remark here which after citing Margaret Doxey in "International Sanctions in Contemporary Perspective" you write, "Neither United Nations sanctions imposed during the Korean War," that is on China, "nor Russian sanctions initiated in 1960 had their intended effects." That is a new thought to me, new information. It is not hard to tell me things I do not know about China.

But the Soviet Union imposed sanctions against China in 1960?

Mr. KAMM. Yes.

Senator MOYNIHAN. Could you give us some background there?

Mr. KAMM. Yes, very serious sanctions, sir. At that point in time the Soviet Union was the principal economic supplier and aider of China. And they, because of a dispute with the Soviet Union over the international Communist movement, the Soviet Union withdrew all of its experts from the 1,200 major factories they were constructing in China and took the blueprints with them, causing a tremendous loss of industrial capacity in China.

Senator MOYNIHAN. Well this I think I did know. This was in 1960.

Mr. KAMM. Yes, that was 1960.

Senator MOYNIHAN. And then were there trade sanctions that followed? I guess there probably were.

Mr. KAMM. Oh, yes, there were also trade sanctions. But again, never something like taking most favored nation away. They pulled away all their experts. They clamped down on the supply of sophisticated machinery and technology. They stopped those contracts altogether. China responded by paying through great hardship all the debt it owed the Soviet Union. And, of course, the split between the Soviet Union and China began which even to this day mostly remains.

Senator MOYNIHAN. The split was sort of final and total by about what time, what point?

Mr. KAMM. Well I would say probably the split certainly by the time they were fighting over the Amur River in 1967, was it—1967, 1968.

Senator MOYNIHAN. Would you give us a little account of that sequence and the payment and all? Would you mind, for the committee, giving us a little narrative of the events of 1960 and then the payment of the debt and so forth.

Mr. KAMM. Again, China was in very desperate straits because in addition to the problems with the Soviet Union in 1957 and 1958 they had the Great Leap Forward experiment, which was a dismal failure. And then they also had some bad weather. So they had crop failure; they had industrial failure; and they had the pullout of the Soviets.

Senator MOYNIHAN. Then they had the repression following the Great Leap Forward. And Ms. Gong told us of 42,000 persons executed in the Canton area and the river was filled with people.

Mr. KAMM. That is right. That was really especially during the cultural revolution starting in 1966 where you had the most number of executions.

Senator MOYNIHAN. Right. And people just floating down that river.

Mr. KAMM. Yes, down into Hong Kong. And what happened before that was mass starvation in the countryside in 1961 and 1962 which contributed to a huge outflow of refugees to Hong Kong. That was our first big influx of refugees from China. That was in 1961 to 1962, not counting 1949, of course.

But we had over 1 million people come into Hong Kong starving in 1962. So you had mass starvation that was brought on by crop failure and the Russian pullout.

Senator MOYNIHAN. I do not want to keep the panel or my colleagues. But I would just like to note that in about 1962 here in Washington the decision was made by the national government that the North Vietnamese had commenced an attack on South Vietnam as instruments of a solidly fraternal world Communist organization in which the Soviet Union and China were partners and complete and total allies, and they jointly held the spear of which North Vietnam was the point of the lance and they were driving down the perimeter of Asia up into the Bay of Bengal where Lenin forecast the road to Paris lay—Bombay.

Whereas, in fact, the Chinese were starving. They were practically at war with the Soviet Union. The Soviet Union was doing everything it could to disable them. The world Communist movement was completely split. The Soviets got into hostilities with the Chinese; and the Chinese got into hostilities with the Soviets. And very shortly thereafter they were fighting the North Vietnamese.

It would be hard to describe a more massive intelligence failure than that on which we based the war in Vietnam, wouldn't it?

Mr. KAMM. Absolutely, sir.

Senator MOYNIHAN. I mean just total mistakes about everything.

Mr. KAMM. That is right.

Senator MOYNIHAN. Even those people with their hands tied behind their back and when shot in the back of the head floating down—is it the Yellow River that comes down—

Mr. KAMM. No, the Pearl River, sir.

Senator MOYNIHAN. The Pearl River that comes down from Canton.

Mr. KAMM. Yes.

Senator MOYNIHAN. Even the health authorities in Hong Kong had difficulties with those bodies, did they not?

Mr. KAMM. Absolutely.

Senator MOYNIHAN. They had a health problem, the number of bodies floating in the water down the Pearl River from Canton; and not a bit sunk in.

Mr. KAMM. That is right.

Senator MOYNIHAN. That is called "inside the beltway." But that is nothing to do with this. That just happened to be an interest of mine.

Mr. KAMM. Very true, sir.

Senator CHAFEE. Mr. Chairman, one quick point. I am sorry Senator Packwood has left. It is interesting to note that the United States still grants South Africa most-favored-nation treatment.

Senator MOYNIHAN. It is so recorded.

Gentlemen, thank you very much. You have been very patient as has our final panel.

We will now hear from two very distinguished spokesmen for their representative organizations. Will Mr. Morton Bahr come forward. Morty, it is good to see you here. And Ms. Burkhalter, Holly J. Burkhalter. There you are, Ms. Burkhalter.

Now for our final panel, you have been waiting most patiently and you have all the time you require. Morton Bahr, who is president of the Communications Workers of America, AFL-CIO, is here representing the AFL-CIO. Is that right, Mr. Bahr?

Mr. BAHR. Yes, Mr. Chairman.

Senator MOYNIHAN. Thank you, sir.

And Ms. Burkhalter is the Washington director of Human Rights Watch.

Mr. Bahr, you have an associate with you?

Mr. BAHR. Yes, I have Mr. Charlton from the AFL-CIO legislative department.

Senator MOYNIHAN. We welcome you, sir; and are very happy to have you here.

Mr. Bahr?

**STATEMENT OF MORTON BAHR, PRESIDENT, COMMUNICATIONS WORKERS OF AMERICA, AFL-CIO, WASHINGTON, DC, ACCOMPANIED BY RONALD CHARLTON, AFL-CIO, LEGISLATIVE DEPARTMENT**

Mr. BAHR. Thank you very much, Senator.

Mr. Chairman, as you stated I am the President of the Communications Workers of America; and as co-chairman of the AFL-CIO's task force on China I have been able to monitor events in that country for the past 2 years.

We believe President Bush's decision to continue to grant most-favored-nation trade benefits to China is a grave moral and political error. It shouts to the world and to the Chinese leadership in particular that the United States will continue with business as usual despite the existence of a brutally oppressive regime. Money was deemed more important than standing up for individual rights.

As we know, there are those who would rather wrap themselves in the debate on flag-burning rather than standing up for those values that make our country great. We believe the actions of the Chinese Government demand revocation of most-favored-nation trade status. As representatives of workers in this country we were gratified to see workers in China play a major role in the demonstrations for democracy and to note that high on their agenda was the formation of truly autonomous trade unions.

In those heady days of May and early June 1989 we received reports of independent unions being organized in many parts of that country. We now know that the formation of independent unions in China helped precipitate the brutal repression that the world witnessed. Deng Xiaoping said that these unions were symptoms of what he called the "Polish disease." No wonder then that his first target in Tiananmen Square was the tent headquarters of the Beijing union. Almost all of the union's key leaders are now in jail or have disappeared.

If the events of the last year have taught us anything, it is that the Communist authorities in China initiated economic changes not because they intended to loosen their hold on power, but to strengthen it.

It is very important to understand what "free enterprise" means in the PRC. In the southern province of Guangdong—and we heard a lot of testimony on that just a few minutes ago—which is the PRC's testing ground, foreign investors, mainly from Hong Kong, the United States and Taiwan, rushed to take advantage of an incredibly low-wage, pliant labor force. Here, the Chinese Govern-

ment guaranteed that troublesome workers would not be a problem, and that bureaucratic obstacles would be swept away.

This committee should know that free enterprise in the PRC is also closely tied to China's vast forced labor gulag—a group of labor camps which could hold as many as 10 million people. These camps have been put on a profit basis in order to comply with Deng's new economic policies; and required to earn hard currency. We know that they are part of the subcontracting system that feeds the region's thousands of joint ventures. They are also in the business of offering inmates to foreign companies as employees.

The time has come for Congress to address the myth that trade with China somehow promotes democracy there. On the contrary, trade with China serves to perpetuate an evil and corrupt system run by the Communist Party. Over the last several months the AFL-CIO has heard that the removal of most-favored-nation status would deal a body blow to these enterprises. This would be true and that is why removal of most-favored-nation privileges makes sense.

Another myth that we have heard is that the removal of most-favored-nation status would cause harm to the American consumer. This argument is most often presented by businessmen who may have just left Hong Kong, Korea, Taiwan or the United States to escape paying higher wages to workers, or to get around new environmental regulations in these countries.

Quite frankly, such arguments from the business community about the cost of a break in trade with China sell the American people short. The American people have spent billions of dollars to defend democracies overseas. Business should also be willing to sacrifice a bit for the cause of freedom.

The June 25 edition of *Business Week* reported that even AT&T has joined the rush toward the dollar in China without any regard to social and humanistic implications. Last month AT&T in a \$4 million contract agreed to supply the Chinese military with the latest telephone switching technology; and it was with a great deal of personal dismay and anguish on my part, because of an over 50-year relationship with that employer that we learned again according to *Business Week* that the new telephone system will be for the personal use of President Yang Shi-Kong, the general who ordered last year's massacre of pro-democracy protestors in Tiananmen Square.

Finally, there is the national security argument, that we just cannot afford to anger a nation which has great influence in the world and which would cause trouble for sales——

Senator MOYNIHAN. Mr. Bahr, please continue until you are concluded.

Mr. BAHR [continuing]. Which can cause trouble through sales of missiles and other weapons. Such an argument smacks of appeasement and blackmail. In sum, all the arguments that support the status quo are based on the proposition that leaders of China are honorable men with whom a bargain can be struck.

But can you really say this about men who ordered the cold blooded murder of their fellow citizens and who have systematically terrorized an entire population in Tibet? Can you say that about men who have no compunction about selling missiles—and now we

hear rumors of chemical weapons—to terrorist states in the Mid-east? Can you say this about men who order forced sterilization of women? Can you say this about men who support the Khmer Rouge in Cambodia?

While the case is clear that China is a violation of Jackson-Vanik immigration requirements, the AFL-CIO also believes that Congress should deny most-favored-nation benefits to China because of its repression of human rights.

For too long the administration has treated China's rulers in a special way. In doing so, it has accepted human and labor rights violations which have been condemned in Cuba, Libya, South Africa, the Soviet Union, Nicaragua, and Chile. This double standard should end. The first step in that process should be the withdrawal of most-favored-nation trading status from China.

Thank you, Mr. Chairman.

Senator MOYNIHAN. And I see that you have appended to your statement a statement by the AFL-CIO Executive Council entitled "A New China Policy."

Mr. BAHR. Yes. And we would like that entered in the record, please.

Senator MOYNIHAN. It will be entered in the record.

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

Senator MOYNIHAN. Ms. Burkhalter, as is our pattern, we welcome you and we come with a distinctive organization and a distinctive group of sponsors. Mr. Matthew Nimetz, who is your vice chairman, is well known to this Senator as is Mr. Floyd Abrams.

**STATEMENT OF HOLLY J. BURKHALTER, WASHINGTON  
DIRECTOR, HUMAN RIGHTS WATCH, WASHINGTON, DC**

Ms. BURKHALTER. Yes, indeed. We hail from New York and it is a particular pleasure to be here before the Senator that represents us. Sir, it is a privilege to be here. Thank you for having us. And thank you both for staying. We always think we leave the best witnesses for the end. So Mr. Bahr and I are pleased to—

Senator MOYNIHAN. Well you have the last say.

Ms. BURKHALTER. Indeed. I would take just a moment to respond to something that was said on a previous panel. Though Mr. Bahr has taken most of the wind out of my sails, one would think by listening to Mr. Hassenfeld's testimony that United States businesses had to be begged and pleaded with to invest in China as opposed to, say, the United States.

Let's keep in mind, these people have made a fortune in China; and one of the reasons they have made a fortune is precisely because wages are very low. And one of the reasons that wages are so very low in China is that there is not the slightest possibility of an independent labor organization or anything resembling a union. Those hopes were completely crushed at Tiananmen Square. The leaders of the Beijing Workers Autonomous Federation which was just starting to develop in the Beijing spring, those people are in jail. The union has been complete crushed. There is no possibility that those businesses that are investing in China today will ever have to contend with an independently organized labor force.

Senator MOYNIHAN. Ms. Burkhalter, we know you feel very strongly about this subject and so do we. So if you slowed down a little bit we will get it all for the record.

Ms. BURKHALTER. Thank you, Senator. No one has ever accused me of speaking too slowly when I testify.

As my written testimony goes into at some length, on legal grounds alone, clearly China should lose their most-favored-nation status.

Senator MOYNIHAN. Now what are those legal grounds? Don't go by that.

Ms. BURKHALTER. Well as you know, the section of the Trade Act that is called the Jackson-Vanik amendment puts only one condition on most-favored-nation tariff treatment for beneficiary countries. That is that they must be not impeding free immigration.

If the President cannot make the case that countries are in compliance with the immigration standards articulated under the Jackson-Vanik, then he must make the case that somehow granting most-favored-nation status itself helps to promote free immigration. Well neither case can be made in the case of China. The immigration situation has actually deteriorated quite dramatically in the last year.

While the numbers of Chinese immigrating may be roughly the same as in previous years, there are important qualitative differences that have vastly impeded the opportunity of particularly students and pro-democracy activists to leave China. In our view, the passport system and the new regulations placed on persons attempting to get a passport to leave are being used as a dragnet to try to capture anyone who was active in the democracy movement because they are being required to report on their activities during what the Chinese call the period of turmoil and the period of rebellion—that means Tiananmen Square and the days preceding it.

People are expected to come forward and confess something before they can get their passport. Clearly democracy movement participants are not going to come forward and talk about their activities because they will be swept right into jail along with thousands of their colleagues.

But leaving that aside, even though the Human Rights Watch is always in favor of the United States abiding by its own laws, if we thought that retaining most-favored-nation status for China would help in making human rights better, if we thought it would be used to get all of the political prisoners out, I think we would be in favor of retaining it.

Unfortunately, we are seeing that even though the Chinese have responded to hearings like this one and the attention that the Congress has paid by dribbling out a few prisoners, we think the response has been inadequate, indeed. The Chinese have taken credit for having released something over 800 political prisoners in the last year in three groups. As you remember, a group of an alleged 570-some; and then another group in May of 211; and then just this month another 94.

But of those 800-plus prisoners that are said to have been released, we only know the names of about 10 of them. And some of those who have been claimed to have been released have been rearrested. Until we get the names of all 800 that have been released,

and until human rights organizations such as the Humane Rights Watch or Amnesty International or the International Committee of the Red Cross can go into Chinese prisons and try to see exactly how many remain and what their names are and what their situations are, we are going to give the Chinese Government credit for releasing exactly 10, which does not seem to be an adequate response considering all of the pressure that the Congress has generated on this issue.

Moreover, there has been a whole series of laws put in place since Tiananmen Square that has made freedom of the press that we saw before the June 3 incident a complete thing of the past. There are more arrests of democracy movement participants just in recent weeks. Torture is endemic. We have received appalling reports of prison conditions and torture. It is also a problem in Tibet, as you know, where there is virtually no freedom of the press, no freedom of speech, many hundreds of political prisoners and gross and egregious torture of those that are in jail.

We think things are moving backwards. The execution of a democracy movement participant just last month is a particularly troubling sign. We hope that through your leadership and the U.S. Senate the Congress will say no to the administration's request on most favored nation and try to use the process to bring the Chinese along to do what they ought to do on human rights.

Thank you so much.

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

Senator MOYNIHAN. Thank you, Ms. Burkhalter. Are you finished?

Ms. BURKHALTER. I would be happy to answer your questions, sir.

Senator MOYNIHAN. Two things. I noticed reference in your testimony to the 1979 democracy wall movement. That was mentioned earlier.

Senator, do you have any questions?

Senator ROCKEFELLER. No.

Senator MOYNIHAN. There were a number of arrests at that occasion. It is our understanding that the principals involved, arrested at the time, remain in prison. Is that your understanding?

Ms. BURKHALTER. That is true, Senator Moynihan. And Deng Xiaoping is said to have boasted that he would never suffer any reprisals from the West if the democracy wall movement prisoners in jail. And he is right. He hasn't ever taken a penalty for the fact that at least 10, by our count, democracy wall prisoners are in jail.

I might add that a prominent dissident from that era by the name of Liv Qing who was released in the mid-1980's was just recently rearrested, just about 2 weeks ago. He is now back in jail and he was one of the great figures from the 1979 movement who has dared to put his head above water again in the recent democracy activities; and he is now back in the clink.

Senator MOYNIHAN. Mr. Charlton, you seem to want to—feel free to join in this conversation if you want.

Mr. CHARLTON. Well I would just like to add that it is the irony of the statements when South Africa is brought up, especially to date. Nelson Mandela is here in this country—

Senator MOYNIHAN. Yes.



Mr. CHARLTON [continuing]. Because of the sanctions pressure. There is no question. The loss of revenue to the South African regime because of sanctions pressure, although limited by the 1986 bill, created that situation where a lot of change has taken place. And to say that sanctions of any sort cannot work or that denial of most-favored-nation status will not work, I think the proof is in the pudding. Historically, sanctions have worked. Sanctions worked in the Rodesian situation, contrary to what people say.

So to discount those, I think there is some serious question. The rights of trade unions, I think she pointed out very correctly that trade union rights in China have been denied and depressed. Rule workers were jailed and killed in any group in China. The regime during Tiananmen Square, once they saw the involvement of workers from across China and throughout the capital, sought to crush them which they did. The workers movement in China is not free. You have an official trade union movement which makes such contradictory statements as from the 1989 meeting.

I would just like to quote, "No trade unions opposed to the Communist Party of China are allowed to be established in China. Trade unions must work under the leadership of the party. At the same time we must unfold our work independently, according to nature and characteristics of trade unions, try to change the trend of simply acting as agents of the government, so as to enjoy a high degree of confidence from the masses of members. Otherwise, we will lose the masses. For bridge the opportunity for those who attempt to organize independent trade unions."

The contradictions in saying that you cannot oppose the party—it must be an extension of the party—all at the same time we must provide some semblance of an independent trade union movement.

Senator MOYNIHAN. Well I think the statement of Mr. Bahr said it all when he said Deng Xiaoping had said of these unions that they were symptoms of what he called the "Polish disease."

I see that the statement of the AFL-CIO says in its next to last paragraph that, "If China wants to be a partner in the international community, it must release its political prisoners, allow workers to organize unions independent of the Party-run All-China Federation."

Mr. BAHR. Senator, I find it quite ironic as being one who was in the White House when the President awarded Lech Walesa the Freedom Medal, talked about his great accomplishments, not only resulting in Poland, but opening up Eastern Europe, not only to democracy but to American business. And today we hear deafening silence of the fact that the leader of the Workers Autonomous Federation, a young railroad worker, 26 years old, by the name of Han Dung Fang languishes in jail for more than a year without a trial.

The highest ranking officer of the Workers Autonomous Federation is a young lady named Yu Jing Wau, and she was here in Washington just last month and met with us. And according to her, today, there are 30,000 workers in jail of doing nothing more than wanting to have a union and having demonstrated in Tiananmen Square. And the silence of this administration is quite contrary from the plaudits it is giving Lech Walesa and Solidarnosc.

Senator MOYNIHAN. That is a very graphic distinction. I think someone is offering you a photograph, perhaps of one of those people.

Mr. BAHR. We have it. "Long Live Workers Autonomy—"

Senator MOYNIHAN. I see. Yes, well we saw him earlier, did we not?

May I say that we do hope to have before us before too long the ILO Convention on unforced labor, and I will be handling that in the Foreign Relations Committee. It is about time I think we got all our own commitments there. Well you have presented a very powerful case.

Mr. BAHR. Can I just offer one more source?

Senator MOYNIHAN. Yes, you may.

Mr. BAHR. We heard from one of the speakers on a previous panel about the 250,000 people who demonstrated in Hong Kong on June 3. All press reports showed that the Governor of Hong Kong condemned that rally and saying that we have to look to the future and not the past. And the press did not indicate a single solitary voice from the American business community supporting what took place that day, contrary to what we heard here a few minutes ago.

Senator MOYNIHAN. Well that is what this committee is for, to hear all sides and it assess their views. We want to thank you very much. We went on longer than we had intended to do. That has happened before. But you had the last word and a very ringing set of propositions it was.

Mr. BAHR. It is always good to be with you, Senator.

Senator MOYNIHAN. Thank you very much.

The hearing is adjourned.

[Whereupon, the hearing was adjourned at 12:42 p.m.]

# A P P E N D I X

## ADDITIONAL MATERIAL SUBMITTED

---

### PREPARED STATEMENT OF MORTON BAHR

Mr. Chairman and members of the Senate Finance Committee, my name is Morton Bahr, President of the Communications Workers of America. I am testifying today on behalf of my union, and the AFL-CIO which represents more than 14.5 million workers in the United States. As co-chairman of AFL-CIO's Task Force on China, I have closely monitored events in that country for the last two years.

President Bush's decision to continue to grant MFN trade benefits to China is a grave moral and political error. It shouts to the world, and to the Chinese leadership in particular, that the United States will continue with "business as usual" despite the existence of a brutally oppressive regime. No convoluted interpretation of the oriental concept of "face" can hide the basic choice the President has made. Money was deemed more important than standing up for individual rights. This President would rather wrap himself in a debate on flag burning rather than standing up for those values that make our country great. We believe the actions of the Chinese government demand the revocation of MFN trade status.

Attached is a statement adopted by the AFL-CIO's Executive Council that explains this position. We hope that Congress will provide legislation to accomplish this goal.

As representatives of workers in this country, we were gratified to see workers in China play a major role in the demonstrations for democracy and to note that high on their agenda was the formation of truly autonomous trade unions. In those heady days of May and early June of 1989, we received reports of independent unions being organized in many parts of the country. In Beijing, an autonomous workers union led by Hong Dongfang signed up almost 30,000 members in just a few days and issued a manifesto. The manifesto said that while the union would operate within the bounds of the constitution, it would be independent from the Chinese Communist Party, and therefore, different from the government-run organizations that claimed to represent workers' interests.

We now know that the formation of independent unions in China helped precipitate the brutal repression that the world witnessed. Deng Xiaoping said that these unions were symptoms of what he called the "Polish disease." No wonder then that his first target in Tiananmen Square was the tent headquarters of the Beijing union. Almost all of the union's key leaders are now in jail or have disappeared. And unlike the treatment of students and intellectuals, the regime in Beijing has killed workers with impunity.

If the events of the last year have taught us anything, it is that the Communist authorities in China initiated economic changes, not because they intended to loosen their hold on power, but to strengthen it. They sought to put a Band Aid on a failing economic system. When Deng said that as long as the cat caught the mouse he did not care what color it was, he was not saying that the party should give up its stranglehold on the country. He saw no contradiction in Party cadres running enterprises on a profit/loss basis and enlisting the help of foreign capitalists in that effort.

It is very important to understand what "free enterprise" means in the PRC. In the southern province of Guangdong, the PRC's testing ground, foreign investors, mainly from Hong Kong, but also the United States and even Taiwan, rushed to take advantage of an incredibly low-wage, pliant labor force. Here, the Chinese government guaranteed that troublesome workers would not be a problem, and that bureaucratic obstacles would be swept away.

This Committee should know that "free enterprise" in the PRC is also closely tied to China's vast forced labor gulag. Experts estimate that these labor camps could hold as many as 10,000,000 people. These camps have been put on a profit basis in order to comply with Deng's new economic policies. They are required to earn hard currency by producing for export. Not surprisingly, the number of these prison camps has mushroomed in Guangdong. We know that they are a part of the subcontracting system that feeds the region's thousands of joint ventures. They are also in the business of offering inmates to foreign companies as employees.

The time has come for the Congress to address the myth that trade with China somehow promotes democracy there. On the contrary, trade with China serves to perpetuate an evil and corrupt system run by the Communist Party. Over the last several months the AFL-CIO has heard that the removal of Most Favored Nation status would deal a body blow to these enterprises. I have no doubt that this would be true and that is why the removal of Most Favored Nation privileges makes sense.

Another myth that we have heard is that the removal of MFN status would cause harm to the American consumer. This argument is most often presented by businessmen who may have just left Hong Kong, Korea, Taiwan or the U.S. to escape paying higher wages to workers, or to get around new environmental regulations in these countries. Just a few weeks ago we learned that the head of Taiwan's largest plastic company threatened to move to China for that very reason. This is not an issue of consumer costs, but one of employer greed.

Quite frankly, such arguments from the business community about the cost of a break in trade with China sell the American people short. The American people have spent billions of dollars to defend democracies overseas. Business should also be willing to sacrifice a bit for the cause of freedom.

We also heard that the people of Hong Kong will suffer greatly if China loses Most Favored Nation status. This is another myth. Right now we do know that there has been a mass exodus of manufacturing jobs from the colony to the PRC. That certainly would stop. Some companies which left might even resume operations there. Indeed, a prominent businessman from Hong Kong has stated that political harm to Hong Kong is greatly over estimated. Eliminating MFN has nothing to do with the real reason for the problems of Hong Kong. Rather, it is the uncertainty over what will happen in 1997, when Hong Kong is due to be absorbed by the PRC.

And finally there is the national security argument—that we cannot afford to anger a nation which has great influence in the world and which can cause trouble through sales of missiles and other weapons. Such an argument smacks of appeasement and blackmail.

In sum, all the arguments that support the status quo are based on the proposition that the leaders of China are honorable men with whom a bargain can be struck. But can you really say this about men who ordered the cold blooded murder of their fellow citizens in Beijing and who have systematically terrorized an entire population in Tibet?

Can you say that about men who have no compunction about selling missiles—and now we hear rumors of chemical weapons—to terrorist states in the Mideast?

Can you say this about men who order forced sterilization of women?

Can you say this about men who support the Khmer Rouge in Cambodia?

While the case is clear that China is in violation of Jackson-Vanik immigration requirements, the AFL-CIO also believes that Congress should deny MFN benefits to China because of its repression of human rights.

For too long this Administration has treated China's rulers in a special way. In doing so, it has accepted human and labor rights violations which have been condemned in Cuba, Libya, South Africa, the Soviet Union, Nicaragua and Chile. This double standard should end. The first step in that process should be the withdrawal of Most Favored Nation Trading status from China.

Attachment.

#### STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON A NEW CHINA POLICY

[May 23, 1990, Washington, DC]

U.S. policy toward the People's Republic of China is morally weak and a strategic shambles. It is a policy built on an unsound foundation.

In the wake of the Tiananmen massacre, the Bush Administration continues to ignore the massive human and labor rights abuses that rank China's Communist rulers among the worst in the world.

U.S. officials have argued that China's sins should be overlooked because of its role as a strategic counterweight to the Soviet Union. Yet today China is once again

moving closer to the USSR and its leaders are friendly to the U.S. only when it suits them. Despite guarantees to the U.S., the Chinese government has sold missiles to the enemies of U.S. friends and allies.

As the national security argument has evaporated, the Bush Administration has sought another rationale for dealing gently with China's Stalinist rulers. China's embrace of market reforms, the argument goes, means that communism is on its way out and democracy is on the way. But as the Tiananmen massacre and subsequent repressions have shown, China's dictators remain wedded to totalitarian rule. Their desire to use free market mechanisms reflects the failure of state planning and central economic control, not their aversion to political absolutism.

President Bush must be forthright in condemning the Chinese government's continuing repression of its people. He must speak out in defense of the tens of thousands of Chinese who languish in jail for their role in the democracy movement. He must speak out against China's forced labor system—the largest in the history of the world—which produces goods for domestic and overseas markets. And he must tell the truth about China's campaign to pressure exiles in the U.S. by threatening family members who remain in the PRC.

The silence of the international business community is easily understood. The rush of IBM and Motorola to Beijing, of Taiwan's anti-labor Formosa Plastics, and of the Rev. Sun Myung Moon, who is building an auto plant in the People's Republic, is evidence of a thirst for profits made on the backs of China's exploited workers. But the silence of the U.S. government is incomprehensible.

It is time for the Bush Administration to reverse its thinking and reject the rationale of the profiteers in the business community. It is time for the Administration to recognize that its China policy represents a rejection of American values and is an embarrassment to the American people.

Recently there were small signs of such a rethinking. In response to an AFL-CIO petition, the U.S. Government's Overseas Private Investment Corporation found that China violates basic labor rights standards. We welcome OPIC's action. Its logic should be extended to a U.S. denial of China's Most Favored Nation trade status. The President has the ability and the opportunity to deny Most Favored Nation status to China for its brutal and unrelenting suppression of basic human and worker rights. If reports that the President will renew China's trade benefits prove true, the AFL-CIO will press for Congressional action to deny China MFN privileges.

As a further measure, we call on the Department of Commerce to abandon its promotion of trade and investment in the Peoples' Republic of China. The U.S. also should strictly enforce the U.S. law banning the import of goods made in China's huge forced labor gulag.

If China wants to be a partner in the international community, it must release its political prisoners, allow workers to organize unions independent of the Party-run All-China Federation of Trade Unions, and permit other Chinese to associate freely to pursue their interests.

The AFL-CIO pledges its support to Chinese workers in exile and in prison. We will support and assist the democratic trade union movement on the Chinese mainland as it continues its difficult struggle for worker dignity and democracy.

---

#### PREPARED STATEMENT OF HOLLY BURKHALTER

Thank you for holding this hearing, Chairman Gibbons and for inviting me to testify. My name is Holly Burkhalter, and I am Washington Director of Human Rights Watch. I appear this morning on behalf of Asia Watch.

As we observe the first anniversary of the imposition of martial law and the killings at and around Tiananmen Square, it is appropriate to evaluate the current state of human rights in China, the results of the Bush Administration's policy towards Beijing, and the advisability of further sanctions against China.

Asia Watch has been sharply critical of the Administration's China policy. The Administration's response to the events of June 3 and 4, 1989 (and subsequent repression) was far too tepid to have had the effect on Beijing of promoting respect for human rights and reversing the crackdown. Lu Jinghua, a founding member of the Beijing Workers Autonomous Federation, stated in meetings in Washington last month that she felt that international pressure exerted by trade sanctions was crucial in the long term to produce real change in China. She said that she and her worker colleagues would rather suffer the short-term pain of any economic dislocation caused by sanctions, than endure the current regime for the long-term.

The original sanctions imposed by the Bush Administration, such as opposition to loans to China at the World Bank,<sup>1</sup> the ban on high-level diplomatic contacts,<sup>2</sup> and the suspension of commercial sales of military items<sup>3</sup> have been eroded considerably. In addition to undoing his own sanctions against China, President Bush has invoked his broad waiver authority to limit the impact of sanctions required by the Congress in sanctions legislation. In December, President Bush waived the congressional ban on the export of three communications satellites to China. And in February, a congressional ban on Export-Import Bank financing was waived, and a \$9.75 million loan was made to China National Offshore Oil Corp.

Nor has the Bush Administration neglected symbolic opportunities to reassure the Chinese leadership that they have United States support. The veto of the so-called "Pelosi bill" which would have extended protection to Chinese students in the U.S. and President Bush's frantic arm-twisting to prevent the Senate from overriding his veto signalled all too clearly that this Administration would go to any lengths to avoid embarrassing Beijing.

Before turning to the question of additional sanctions against China, it is worthwhile to examine just what concessions President Bush got from the Chinese leadership for his efforts. The Chinese were concerned about sanctions, and took actions clearly meant to influence the Congress. In the period preceding the first significant debate on China in the U.S. Congress (the debate on the Pelosi bill in early 1989) the Chinese leadership announced its first human rights concession since the crackdown: the lifting of martial law in Beijing and the release of 573 detainees. Unfortunately, the prisoner releases appeared to have been a publicity stunt, as no names were released and no names provided of the tens of thousands still jailed. And the lifting of martial law was offset by a flurry of new laws and regulations which were enacted to enshrine martial law restrictions on speech, press, and assembly, and by the fact that some 40,000 PLA troops simply exchanged their uniforms for police uniforms and continued their duties in the city.

The Chinese leadership's gestures were more than outweighed by a deteriorating human rights situation throughout the year. In addition to the thousands of prisoners jailed in the aftermath of Tiananmen Square, Asia Watch has documented several dozen further arrests and trials of pro-democracy individuals that took place between October 1989 and January 1990, and has received reliable reports that many others (though names are not yet known) were arrested or tried over the same period. In a significant development in November, six students were brought to trial secretly and convicted of "counterrevolution." Previously, the great majority of those brought to trial and sentenced since June 4 for their activities during the movement had been either workers or unemployed. Another ominous development was the arrests during the December 1989–February 1990 period of dozens of priests, bishops and laymen belonging to the underground Roman Catholic church in northern and western China.<sup>4</sup>

In May we saw a repetition of the Chinese government's January efforts to influence Congress as the date approached for the President's waiver request for Most Favored Nation trade status for China. Beijing announced the release of 211 people, and provided the names of six who are intellectuals and dissidents known in the West. (The vast majority of those jailed are ordinary workers, whose names are not known in the West.) The releases were preceded by the lifting of martial law in Lhasa, Tibet on May 1st.

<sup>1</sup> The Administration opposed all World Bank loans to China (and worked to prevent them from being considered) from June 1989 to January 1990. In January, the Administration announced a change in its position, and stated that it would support "basic human needs loans to China. Bank officials have privately suggested that at least one of the three "basic human needs loans" supported by the Administration this year does not fit that criteria.

<sup>2</sup> The Administration violated this aspect of its sanctions policy secretly before the blood was even dry at Tiananmen Square by sending National Security Advisor Brent Scowcroft and Deputy Secretary of State Lawrence Eagleburger to Beijing. The pretense of diplomatically isolating China was dropped altogether in December when the duo went back to Beijing and, in a highly publicized meeting with Chinese leaders, toasted them fulsomely.

<sup>3</sup> The Administration approved licenses for the sales of \$150 million worth of Boeing jetliners in early July, and in October permitted Chinese military officers to resume work on Project Peace Pearl, a \$500 million program to upgrade Chinese fighter aircraft. According to press reports, the only arms deal with China which now remains on hold is the shipment of an \$8.2 million contract for submarine torpedoes and torpedo launchers.

<sup>4</sup> The wave of arrests of churchpeople may be directly related to the suppression of the pro-democracy movement, as those close to the underground movement reported a surge in the numbers of conversions to Catholicism following the June 4 crackdown.

And on June 6, Beijing announced that another 97 prisoners had been released, and provided five names. Asia Watch has compiled a list of prisoners totaling well over 500; of those, we know of approximately 15 who have been released, although the government has only released officially the names of 11. Asia Watch has requested the opportunity to visit China to confirm the releases and visit places of detention to find out how many remain in detention, but has been denied permission. Thus far, Beijing has admitted to the release of 881 "lawbreakers." Absent an independent investigation, however, it is a mistake to credit the Chinese authorities with that many releases.

While Asia Watch welcomes the releases of *any* prisoners, we are concerned that the government has stated that only 431 "lawbreakers involved in the turmoil and rebellion" were still under investigation. To our knowledge, there may be thousands of prisoners from the pro-democracy movement remaining in jail, most of whom are workers detained incommunicado without charge.<sup>5</sup> Moreover, we are concerned that the Chinese Government's statement called those it released "law-breakers, despite the fact that apparently none was charged and tried. Those released, according to the government's statement, made "voluntary confessions." Those who presumably maintained their innocence are considered as having refused to repent, and "will surely be punished strictly."

And as for the lifting of martial law in Lhasa, the measure is not much more than cosmetic unless the right to express views peacefully is afforded Tibetans. As you know, groups of Tibetan monks and nuns have been arrested within the past several months for attempting to demonstrate peaceably in favor of Tibetan independence.<sup>6</sup> Tibetan political prisoners have been tortured terribly.

China's recent gestures aimed at influencing the MFN debate in Congress should be considered in light of a secret document prepared by the government this Spring, which states that the government intends to use the release of political prisoners as a "card" to influence American policy toward China.<sup>7</sup> The document was made available to *The New York Times* by Xu Lin, a Chinese diplomat who defected from the Chinese embassy recently. The question that the Bush Administration and Members of Congress should ask themselves is whether the release of a small number of prisoners out of possibly thousands who waste their lives away behind bars in deplorable circumstances (all other releases should be viewed skeptically until the names and circumstances are known) warrant the trade relations which the leaders who destroyed China's democracy movement so ardently desire. In our view the answer is no.

China's MFN trade status should have been suspended last June. The fact "that it wasn't is no tribute to the Chinese government's human rights or emigration practices."<sup>8</sup> Congress did not revoke MFN last year principally because President Bush imposed more limited sanctions and made clear his opposition to stronger measures. (As you know, however, the sanctions bill enacted by Congress directs the President to consider suspending MFN if repression in China worsens.)

It is not too late to seriously consider a suspension of MFN for China, however. The President has had a year to implement his policy largely without interference from Congress, and it has produced pitifully small results. The Chinese have had a year to respond to Western concerns, and the response has been contemptuous in the extreme: a shrill and virulent campaign of hate against the West, the virtual imprisonment of Professor Fang Lixhi and Li Shuxian within the U.S. Embassy in

<sup>5</sup> In considering the seriousness of China's present human rights situation, it is well to keep in mind that these 10,000 to 30,000 political prisoners are being held in appalling conditions, where prison cells are grossly overcrowded, diet severely inadequate, infectious diseases widespread, and torture, beatings, and abuse frequent. A student jailed at Qincheng Prison described how the majority of those detained at the facility bore wounds and injuries inflicted as a result of severe beatings by prison guards, and how many had given false confessions under duress, and others had become mentally ill. Influenza, lung infections, and other diseases were said to be spreading throughout the prison, and "pitiful wailing sounds" could be heard coming from many of the cells.

<sup>6</sup> Asia Watch takes no position on the issue of Tibetan independence, but believes that Tibetans should have the right to express their views peacefully on the subject without government interference.

<sup>7</sup> *The New York Times*, Friday, May 11, 1990, "Beijing Aims Jail Releases at Influencing U.S."

<sup>8</sup> As you know, Most Favored Nation trade status is limited by only one actual condition: performance on emigration. Nonetheless, the preamble to the law states that its purpose is to "assure the continued dedication of the United States to fundamental human rights . . ." This provision suggests that a broader interpretation of the Act and the withholding of MFN on human rights grounds, generally, is not inappropriate.

Beijing, and a handful of named prisoners released as China plays its "prisoner card."

It is particularly disturbing that in the weeks following their concessions of early May, the Chinese authorities took a number of steps backwards on human rights. For example, Reuters reported on May 31 that a pro-democracy activist was executed in Chengdu, the capital of Sichuan. This is the first publicly announced execution since December. The victim, Yu Yongchuan, was a worker who was convicted of overturning a jeep and setting it afire. (It is our understanding that the jeep incident occurred after police fired upon demonstrators, killing dozens.)

We have also learned of several arrests in the past several days which suggest that China has stopped worrying about what the West thinks, now that the suspense of whether President Bush would recommend MFN renewal is over. In the past several weeks, two people were arrested in Tiananmen Square for attempting to contact foreign reporters and discuss what happened at the square a year ago. One of them was arrested while attempting to give a document to a Canadian television crew. We are also aware of the sentencing of a relative of a student activist. The student activist escaped, but the relative just received an 18-year prison term for giving funds from his company to the democracy movement before the crackdown. And a week after the Chinese boasted of releasing 211 prisoners, Chen Xiaoping, a legal researcher, received a 15-year sentence for democracy movement activities in a secret trial.

One particularly tragic incident which occurred recently was the re-arrest of Liu Qing, a prominent activist in the 1979 Democracy Wall movement. Liu Qing served ten long years in jail for reporting on the trial of Wei Jingsheng, the great Democracy Wall leader who remains in jail. Liu Qing was released several months ago, but rearrested in mid-May. According to Amnesty International, Liu Qing is said to be the first prominent dissident arrested since the announced release of 211 prisoners in early May.

In the strictest legal sense, MFN could be denied immediately on emigration grounds alone. Section 402 of the Trade Act states that the President may not designate as an MFN recipient any communist country which "denies its citizens the right or opportunity to emigrate. If a country is not in compliance with this condition, the President may waive it if such a waiver would "lead substantially to the achievement of the objectives of this section"—presumably, freedom to emigrate and the advancement of human rights.

Emigration has never been free and open in China. Travel is only permitted if one is on government business, study, or visiting relatives overseas. Families are normally not permitted to accompany the traveler, and the opportunity to travel is highly discretionary. In the months since the June 1989 crackdown, the process has become even more restrictive. A look at the procedures one wishing to emigrate must go through is instructive.

On June 19, 1989 all visas issued before that date were invalidated by the authorities. Persons wishing to travel abroad have to reapply to foreign consulates for new papers. To apply for visas at foreign embassies, you must get clearance from your work unit, regardless of whether you have a passport. In order to obtain such clearance, you must go through the security processes at each university or work cite which are controlled by the police. This new procedure was clearly designed to facilitate the police dragnet designed to round up every possible participant in the democracy movement.

Most importantly, passports themselves are issued by the police, not by a special passport section of the Foreign Ministry. Persons wishing to apply for a passport must get them from the police. Persons wishing to get a passport must first write two reports to the party secretary at his or her workplace, or, if the applicant is a student, at his or her university.

According to Chinese who have been through this process, the two reports—*dong-luan biao-xian* (a "report on my performance during the period of turmoil") and *bao-luan biao-xian* (a "report on my performance during the period of rebellion")—are expected to be confessional in nature in order to be credible; the authorities don't believe you unless you have something to confess. The difference between "turmoil" and "rebellion" is instructive. When the occupation of the square began in late April, it was called "turmoil." After June 3, it was characterized as "rebellion." By using both terms, the authorities are clearly attempting to use emigration procedures to round up all those who participated in the democracy movement—before and after Tiananmen Square. The applicant must also write a letter of application to the party secretary of the department or work unit explaining why he or she wants to leave, what their plans are, where they are going, etc. The applicant is subjected to cross examination by party leaders.



These "turmoil" and "rebellion" reports are then submitted to the party secretary of the workplace or university, who meet with the chairman of the factory or president and vice president of the university to examine the document conscientiously. The university or workplace party secretary then writes his own report on how the applicant behaved during the "turmoil" and "rebellion." This report is then given, sealed, to the applicant, who presents the sealed report to the Public Security Bureau.

During the period of martial law, before the Public Security Bureau approved the issuance of a passport the documents were forwarded to martial law command headquarters of the People's Liberation Army, which compared the applicant's photograph against their own video camera footage of the pro-democracy movement and the occupation of Tiananmen Square. Even with the formal lifting of martial law, the martial law command structure is still in place and, so far as we know, the authorities are continuing to check photos of passport applicants against photographs collected during the events of May and June.

Because of the restrictions on the flow of information within and from China, it is difficult to know how many persons are actually refused passports and exit permits because of their involvement in the democracy movement, though Asia Watch has information confirming that the Chinese are refusing emigration papers to persons involved in the movement, and their families, through the procedures described above.

In addition to the political restrictions on emigration, it is widely understood that large bribes must be paid to the authorities in order to accelerate the process. We are aware of one case of someone trying to emigrate from China to the U.S. who paid \$300 in bribes to the Public Security Bureau to accelerate the process. The bribes alone do not assure that the case will be resolved—it only facilitates a process which can otherwise take months.

The Chinese attitude towards emigration might be seen in their treatment of four Hong Kong Chinese (Tse Chun-wing, Luo Haixing, Li Peicheng and Li Longqing) and two Chinese from Macao, Xie Zhenrong and Chen Zewei. The six were arrested by the public security authorities of Guangdong Province for their alleged involvement in the "underground railroad," a Hong Kong-based network which has secretly helped over 100 pro-democracy activists to escape from China since June 4. Luo Haixing's case is being handled not by the Guangzhou Public Security Bureau, but by a special group sent to Guangzhou directly by the Ministry of State Security and charged with looking for "pro-democrats on the run." The two Macao residents have been formally placed under arrest by the Guangzhou Public Security Bureau for their alleged role in trying to assist the Beijing student leader Zheng Xuguang to escape. The fate of the four from Hong Kong remains unknown, but they are still in secret detention.

Asia Watch is aware of a number of cases of activists who were jailed after they were apprehended as they attempted to leave China. We are also aware that hundreds of democracy movement participants were apprehended trying to escape from China in Yunnan, which borders on Burma and Vietnam, before that escape route was sealed off by the security services.

The government has also limited student travel. New regulations were announced in early March of this year which require any student wishing to go abroad to work for a minimum of five years before applying to study overseas.

Even before the crackdown, emigration and travel regulations were highly arbitrary. Persons attempting to leave the country illegally can be sentenced by police—not the courts—to labor reeducation camps for up to three years. And the punishment may be extended for a fourth year, solely on police authority.

Clearly, then, if the letter of the law were followed, Chinese emigration procedures would disqualify it from receiving MFN treatment, unless President Bush can somehow make the case that waiving the conditions will improve those practices. Information submitted to Congress on May 24th along with the waiver states that approximately 17,000 Chinese nationals received U.S. visas to emigrate every year, including last year, most for the purpose of family reunification. The White House noted that "US numerical limitations, and not Chinese restrictions, limit the number of Chinese who emigrate to the United States."

It is not clear from the President's statement whether he believes that extension of MFN in 1989 was responsible for encouraging the emigration of 17,000 Chinese nationals, but in our view, the new restrictions adopted last year more than outweigh the emigration figures, which are apparently the same as in previous years.

We regret that the President's statement when announcing the waiver was not more specific about human rights improvements which will be expected this year. He squandered an important opportunity to call upon the Chinese authorities to re-

lease all remaining political prisoners, and refused to suggest that MFN might be revoked if human rights conditions aren't met.

The purpose of sanctions is threefold. First, there should be tough sanctions to demonstrate revulsion for the terrible crimes of the Chinese leadership against their own people. Second, sanctions should be maintained in order to encourage some relief from repression, i.e., to pry loose human rights concessions from the authorities. Third, sanctions should be imposed to discourage a repetition of the terrible events of early June and the months following. These three purposes will not be achieved if Congress walks away from the MFN issue without seriously considering invoking this most important of sanctions against China.

Some fear that if MFN is revoked this year, the United States will lose all influence with China, the hardliners will be strengthened, and there will be no possible leverage on China. My fear is that unless Congress strictly conditions MFN the leverage which comes with MFN will have been squandered. It is worth remembering that following Deng Xiaoping's crackdown on the 1979 Democracy Wall movement, he is known to have boasted that China would pay no price for the jailing of democracy movement leaders such as Wei Jingsheng. He is right, of course. There was no cost to China for the destruction of the 1979 Beijing Spring and Wei Jingsheng—said to have developed schizophrenia from his long years in solitary confinement—remains in jail, along with at least ten other Democracy Wall prisoners.

It is almost impossible to predict how China's leadership would respond if MFN were suspended, or if MFN were offered conditionally to China. As you know, the leadership in Beijing is divided and fearful of being toppled. The economic impact on China of a suspension of MFN would be severe, and some suggest that conservative hardliners such as Li Peng and Yao Yilin would be bolstered. If MFN were suspended for a period pending a review, or offered conditionally, with a built-in Congressional vote on China's compliance with a number of human rights conditions, China's leadership would certainly denounce the U.S. for meddling in its internal affairs. But many scholars believe that granting MFN without conditions would be a victory for Li Peng and other hardliners, and that some form of conditions on MFN are required to give Chinese reformers some leverage. Chen Yizi, the principal economic adviser to Zhao Ziyang and the most senior Chinese official to have escaped from China, has taken the position that MFN should only be granted with conditions. He names the release of political prisoners including those jailed since the Democracy Wall episode, as the most important condition which should be placed upon the granting of MFN to China.

Some have suggested that it is a mistake to assume that political hardliners do not care to see the economic growth, so dependent upon MFN, continue. Yet in the past, even hardliners appeared to have backed down when growth might have been compromised by political stridency. For example, during the March 1987 campaign against bourgeois liberalization, Chinese students in the U.S. orchestrated a letter-writing protest. This protest was brought to the attention of the politburo and debated. The politburo is said to have feared that the campaign (and the negative response to it from the U.S.) would hurt the process of economic development. The anti-bourgeois liberalization campaign waned shortly thereafter, for a variety of reasons. While it is not quite fair to compare that situation with the situation today—Zhao Ziyang was party secretary general at the time—there were nonetheless hardliners within the politburo responsible for the campaign who were willing to abandon it, and international pressure contributed in part to that result.

Similarly, the xenophobic and doctrinaire "anti spiritual pollution" campaign of 1983 (the so-called 27-day Cultural Revolution) was quickly abandoned when Hu Yaobang returned from Japan with reports that western businessmen were being frightened off by the virulent attack on "western values." Deng Xiaoping acquiesced, and reforms and a certain degree of liberalization continued apace.

This is not to say that hardliners within the Chinese leadership welcome economic reforms. The conservatives in the Chinese leadership strongly oppose western cultural influences and certain forms of individual entrepreneurial activity, which are already being restricted. Yet they are strongly in favor of economic growth, and appear to recognize that such growth would be compromised by the loss of MFN. The internal memorandum describing the "prisoner card" demonstrates the leadership's understanding of the importance of responding so that MFN will not be jeopardized.

Some China experts have raised the question as to whether the complete withdrawal of MFN from China might have a deleterious effect on China's participation in the U.N.-sponsored Cambodia peace negotiations. While I have not heard a consensus among experts on this question, it is a serious concern. If China does not agree to stop aiding the Khmer Rouge militarily and support an acceptable interna-

tional solution to the crisis, the consequences for the future of Cambodia are unspeakably grim. Perhaps the MFN process could be used to help encourage the Chinese to support the negotiations in good faith, and abandon its commitment to Pol Pot.

The Chinese have been persuaded that at least some gestures are required if they are to retain MFN for the coming year. The Congress and the Bush Administration should put China on notice that much more is required for there to be serious consideration of MFN renewal this year. The Administration should abandon private diplomacy at this point, and an aggressive public stance should replace it. The Administration did not hesitate to use very public diplomacy when it sent Brent Scowcroft and Lawrence Eagleburger to China to restore warm relations with Beijing. They should do the same today, but this time with a different message.

Congress for its part, can do much to help by using the MFN process to obtain maximum concessions from China. Congress should strongly consider suspending MFN for a period until the Chinese implement an amnesty for political prisoners. (This is precisely the condition which the U.S. imposed on Poland following the imposition of martial law and the jailing of thousands of political prisoners.) Or Congress should enact a new set of conditions on MFN for China and require the Administration to report on Chinese performance on a number of issues, including release of political prisoners, an end to the widespread use of beatings and torture in Chinese prisons, resolution of the Fang Lizhi case, good faith participation in the U.N. peace negotiations on Cambodia, and an end to military aid to the Khmer Rouge. If by the end of six or twelve month period the Chinese have not made significant, certifiable progress on these issues, MFN should be withdrawn.

In 1978 Deng Xiaoping returned to power, making the argument that those close to Mao had created a catastrophic political and economic situation through their hardline policies. He made the argument that China could only save itself if changes were made. Today, the hardliners have largely prevailed with their unique blend of economic growth with repression—"market Stalinism" and at little cost. If Li Peng and his cohorts are permitted to continue their policies with U.S. support, they will only consolidate their power within China and the 1989 democracy movement prisoners, like their 1979 Democracy Wall colleagues, will face many years in jail.

Yet inevitably another democracy movement will rise up from the ashes of Tiananmen Square. Asia Watch favors tough sanctions against China, including limits and conditions on MFN, in the hopes that the authorities will think twice about destroying the next democracy movement in China.

---

#### PREPARED STATEMENT OF SENATOR JOHN H. CHAFEE

Mr. Chairman, I would like to thank you for holding this hearing and providing us with an opportunity to discuss this important issue.

Certainly the Administration and the Congress share the fundamental goals of achieving progress in human rights and political and economic reform in China. While I support the President's decision to renew MFN status for China, I am also gravely disappointed in the slow pace of reform by the Beijing leadership. Clearly, the Chinese Government has not taken the decisive steps necessary to demonstrate a commitment to internationally accepted human rights.

However, I believe we should be cautious about taking such a unilateral action as denying MFN status to China. It could only undercut the long-term objectives of progress in human rights and fostering democratic institutions. The United States could lose the leverage that has been gained over the last decade in our relations with China.

Most-Favored-Nations status is not a privilege that the United States grants to only a few countries. The fact is we have granted MFN status to more than 150 countries. This is nearly every country in the world, including Iraq, Syria, Yemen, Burma, and South Africa. The only countries that do not have it are 16 Communist countries.

I agree with President Bush, we must keep some contact with China outside of the current political ties with the hardliners within their government. The best way to do that is through our commercial and business ties with the entrepreneurs and reformers in the southern provinces of China.

Removal of MFN status might cause the Chinese government to reciprocate by cutting off contact between the people of China and American businesses. This further isolation would give the hard-liners in the Chinese government additional le-

verage over the reform-minded Chinese leaders of tomorrow who we should be supporting.

I believe our best route to encourage democratic ideals such as freedom of the press, assembly, and speech is through continued economic ties. To isolate China economically would be a great mistake in my view.

Some people will say that our contacts over the past year, since Tiananmen Square, have done nothing to convince the Chinese government to move towards reform and democracy. But, I don't think you can expect a government that turned machine guns on its own people in Tiananmen Square to reverse itself completely in such a short time.

We should stand behind human rights. But how do you achieve human rights? Is it by saying we're dropping all contact? Our greatest opportunity for supporting the ideas of the pro-democracy, pro-reform Chinese is through the very people with which we trade. We are not going to foster the beliefs that we consider so important by isolating the people of China completely.

The point is, what are we trying to achieve? We are trying to bring China back into the family of nations, to respect those ideals we believe in. And certainly, we're not going to achieve that by just cutting off everything, sending them into a corner as a pariah, drawing up the bridges and saying to China: "Retreat into your isolationism as you have in the past, and as you are perfectly prepared to do." I don't think that's the correct thing to do. We want to keep these lines of communication, slim though they may be.

---

#### PREPARED STATEMENT OF FENG CONGDE AND PEI MINXIN

Mr. Chairman, Members of the Subcommittee: Good morning. My name is Feng Congde, and accompanying me this morning is Mr. Pei Minxin. I was one of the leaders during the hunger strike and demonstrations in Tiananmen Square last year, and together with my wife, Chai Ling, was spent ten months evading Chinese authorities before our escape to Hong Kong a two months ago. I presently live in Paris and serve on the Advisory Committee of the Independent Federation of Chinese Students and Scholars (IFCSS). Mr. Pei, who is appearing with me today is a member of IFCSS and is currently pursuing his Ph.D. at Harvard University. He has been interviewed for numerous American news programs, and has testified before Congress on issues of importance to the democracy movement. We appear before you this morning on behalf of The Independent Federation of Chinese Students and Scholars. The Federation is an umbrella organization that represents over 42,000 Chinese students and scholars throughout the United States. Our group is dedicated to promoting freedom and democracy in China, and we work with our friends at home and abroad, including our friends in Congress, to nurture and support democratic reforms in our homeland.

The Independent Federation of Chinese Students and Scholars strongly opposes the extension of most-favored-nation status to China at this time, and we are grateful to you for granting us the opportunity to explain our views to this Committee. We agree with the Presidential determination that China has not met the threshold requirements of the Jackson-Vanik Amendment under U.S. law. However, we believe that so long as China detains tens of thousands of non-violent pro-democracy prisoners, refuses to allow free emigration, maintains a de facto martial law over Beijing and Tibet, persecutes religious groups, harasses the Chinese students in the U.S., employs forced labor, interferes with the Voice of America and imposes severe restrictions upon the mass media, the waiver of the Jackson-Vanik requirements should not be extended. Extending MFN status at this time would not only harm the already deplorable human rights situation in China, but would also represent a serious blow to reformist and progressive elements in China today.

We recognize, as Congress did when it enacted the Jackson-Vanik amendment, that MFN status can—and should—be a powerful tool in the effort to secure the most fundamental human rights for those who live under the communist rule. Congress has wisely decided that certain regimes should not automatically enjoy most favored nation status—rather, they must earn it. China's leadership has already demonstrated the importance it places on retaining MFN status by taking steps such as the release of some political prisoners to keep this trading status. It is no coincidence that the leadership lifted martial law in Tibet and then released political prisoners as the possibility of losing MFN status appeared ever more likely. However, we believe significant human rights progress is warranted to preserve their trade status.

Because of the importance China attaches to MFN status, an unconditional renewal of MFN status, as the President has proposed, would send the same message to Beijing as National Security Adviser Scowcroft's visit last December sent—the Chinese Government need not fear Western reaction to human rights abuses, for the West would surely compromise its principles when they stand in the way of corporate profits. Worse, it would signal the abandonment of those who languish in punitive detention because they dared to stand up for democracy, and would ensure that the present repression of even the most basic human rights will continue.

President Bush's lenient policy towards his friends in Beijing has proven ineffective. The President himself has expressed dismay at the failure of the Chinese Government to relax its repressive rule in response to numerous conciliatory gestures. Upon hearing this, Foreign Minister Qian Qichen said at a news conference in Beijing that he did not believe the President really felt that way and pointed out that President Bush has *publicly* welcomed a number of specific steps taken by China. In fact, there have been no significant steps taken on the part of the Chinese Government to indicate that their actions are anything but cosmetic. To the contrary, the actions that speak most clearly are the continued arrests and executions, tighter public security controls, continued arms sales to the Mideast, new arms shipments to the Khmer Rouge in Cambodia, jamming of foreign broadcasts and stricter controls on study abroad. The New York Times on May 1, 1990, quoted a Bush Administration official as saying the "Chinese appeared to be 'thumbing their nose' at the U.S. on Cambodia, as on other issues like human rights and Fang Lizhi." The messages being sent by Washington provide no meaningful political counterweight that signals U.S. displeasure with continuing brutal repression in China. The economic sanctions placed upon China last year, have been steadily eroded to the point of becoming almost meaningless. It is therefore clear, that the symbolic actions the Chinese leaders have taken are in response to the threat of sanctions, not the policy of the Administration.

I doubt that anyone here—or in the Administration—is willing to tell the American people that an authoritarian regime that denies its citizens the most fundamental human rights, including the right to emigrate freely, holds captive countless political prisoners, and summarily executes political opponents should be rewarded by continuing a privileged trading status. This is borne out by the recent New York Times/CBS News Poll which shows that the American public disagrees with the Bush Administration giving a more favorable trade treatment to China than to the Soviet Union. Only 16% of those polled believed that China should receive a more favorable trading status than the Soviet Union.

This nation has long insisted that those who enjoy benefits such as most favored nation status must conform to certain minimal standards of decency in their internal political behavior. As America demonstrated when it revoked Romania's MFN status, when it imposed sanctions on South Africa and Poland, and when the Senate recently voted to impose sanctions on Burma, countries that refuse to respect the fundamental human rights of their citizens are not permitted to enjoy the full privileges and benefits of the international community. Thus, before extending the waiver which extends MFN status to China, certain minimal conditions must be met. We suggest the following criteria as a minimum set of preconditions before most favored nation status is again extended to China:

1. *Immediate and unconditional release of all political prisoners arrested during and after the 1989 student movement as well as the political prisoners arrested in 1979.* The free world still does not know the actual numbers or identities of prisoners confined after last June, or their conditions of confinement. Other political prisoners have been confined since the Democracy Wall movement in 1979. These people must be released before the U.S. continues "business as usual" with China. The United States should not allow Beijing to retain a secret pool of prisoners from which it can periodically select a few for public release whenever diplomatic favors are sought. In addition, a list of those killed last June should be released.

2. *Codification of Emigration Law.* Continued trade benefits should not be extended to China until the Chinese government passes and implements a law permitting free emigration in accordance with international standards. In the case of the Soviet Union, where substantial gains in the freedom of speech and the press have been achieved, the U.S. is still insisting that emigration legislation be enacted before MFN is granted. An exception should not be made for China.

3. *Lift restrictions on college students in China.* After the Tiananmen massacre, the government imposed numerous restrictions upon students. For example, under one recent set of regulations, students must work for five years before they may pursue graduate studies abroad. Under another program, recent graduates have been forcibly sent to distant rural areas for permanent work assignments. These as-

signments are, in effect, a form of internal exile. The persecution of students must stop before this country extends most favored nation status on China.

4. *Release of Foreign Embassy captives.* It is simply unacceptable to consider extension of MFN status while Fang Lizhi and Li Shuxin remain virtual prisoners in the U.S. Embassy. They should be permitted to leave the U.S. embassy in Beijing and regain their freedom of travel and residence. Their release should not be premised upon an agreement which would effectively muzzle them by denying the right to speak out in opposition to current PRC policies.

5. *Lifting of de facto martial law in Beijing and Tibet.* MFN should not be granted while residents of Tibet and Beijing are subject to de facto martial law and are unable to move freely about their neighborhoods. The military and police presence should be significantly reduced.

6. *Stop harassing and intimidating Chinese students in the U.S.* Recently we obtained a secret document from the Chinese government which contains details of the government's plan to harass and intimidate Chinese students in the U.S. This document confirms the numerous reports we received from students in different parts of this country of harassment by Chinese embassy officials. This practice directly violates the Solarz Amendment in current U.S. law and must be stopped.

7. *Halting religious persecution.* Religion represents a growing force in China, and is perceived by the regime as a threat. The harassment, intimidation and arrest of religious leaders and worshippers—in Tibet and elsewhere—is on the rise. This activity cannot continue.

8. *Stopping the use of forced labor.* In violation of international law, China is one of the few countries that continues to use forced labor. Numerous factories are staffed only by detainees. Privileged trade must be premised upon the absence of forced labor.

9. *End jamming of foreign broadcasts.* In an effort to control the information available to Chinese citizens, the government has been jamming the broadcasts of the Voice of America. These actions do nothing other than inhibit the free flow of information and ideas, and should be halted before MFN status is renewed.

There are a number of Members of Congress recommending that renewal of the MFN waiver for China be coupled with conditions which the President must certify have been met after a specified period of time. While we truly believe that conditional suspension is the best vehicle to pressure the Chinese government to improve its human rights record, if the consensus of the Congress is to conditionally renew, those conditions need to be substantial in order to achieve a meaningful effect. The conditions presented above are the most important and are purposely focused upon actions that will bring about an improvement in people's lives, be they coupled with suspension or renewal. We are not proposing onerous measures or attempting to bring the government to it's knees, as Secretary of State Richard Solomon has depicted our position. But we feel strongly that conditions which enable China to continue current repressive policies by tossing a fig leaf in order to appease the Congress, are not adequate.

Furthermore, a shorter time-frame of three to six months should be set for Presidential certification and Congressional review of China's compliance with the conditions. One year conditional renewal is too long. It will once again reinforce in the minds of the leaders that the U.S. is not serious about the conditions and, further, it turns a blind eye to those who will suffer unnecessarily during that year.

\* \* \* \* \*

To understand why continuation of MFN is morally indefensible, and a serious setback to the reform elements in China, it is necessary to explore the present situation in China.

#### I. CHINA'S MFN STATUS MUST BE SUSPENDED UNTIL THE FREEDOM TO EMIGRATE IS FULLY RESTORED

Under the terms of the Jackson-Vanik Amendment, the President is directed to withhold MFN from any non-market economy that denies its citizens the right to emigrate. The President can either determine that free emigration is permitted or grant a waiver of the requirement if (1) extension will promote the objectives of free emigration, and (2) assurances from the country have been received. It is an extension of the waiver option that the Administration has exercised for China, as China clearly fails to meet the threshold requirements of the Jackson-Vanik Amendment.

A recent analysis of the Law Division of the Library of Congress, "Freedom of Emigration of Chinese Citizens under Chinese Law and New Policy and Provisions

on Overseas Study," May 15, 1990, concludes that there is "no freedom of emigration under the Constitution." Moreover, the study found:

The vagueness of certain important provisions in exit and entry legislation, moreover, further allows the authorities wide leeway in determining who shall be allowed to emigrate. Also, figures for certain areas of the country in the first quarter of this year seem to show a dramatic decline in the rate of approval of applications. Finally, more recent stipulations and related policy documents in regard to study abroad indicate that while there is no emigration fee, generally speaking, students recently graduated from university must pay a heavy sum before they can apply to go abroad.

It should be noted that Jackson-Vanik specifically states that MFN privileges will not be granted to any country that "imposes more than a nominal tax, levy, fine, fee or other charge on any citizen as a consequence of the desire of such citizen to emigrate." Students that emigrate to the U.S. are required to reimburse the Chinese government for their education which in most cases has been paid for by U.S. institutions and programs or from personal family funds. This amount ranges from Yuan\$4000 to Yuan\$6000 per year. The average yearly income of a Chinese citizen is Yuan\$1000.

As a result, no one is suggesting that China has satisfied the requirements of the Jackson-Vanik Amendment. The only question is whether the President should continue to accept Chinese assurances on emigration and extend the waiver. Will further extensions in fact lead to freer emigration? Assistant Secretary of State Richard Solomon in recent testimony before the House Foreign Affairs and Senate Foreign Relations Committees, points to the fulfillment of U.S. immigration quotas for China as evidence the U.S. Government relies upon to justify expectations of freer emigration will be met. U.S. immigration quotas are not a benchmark against which freedom to emigrate can be measured and should not be relied upon to determine China's eligibility for the waiver. Given the reversal of economic and political reforms can one honestly believe that the despotic regime that now rules China will invoke policies aimed at freer emigration? Or is it more likely that if this regime is proven wrong and made to pay economic costs for its repression, that a crack may be created which provides an opportunity for the moderates to argue the need for a resumption of reforms. In turn, a better environment for trade and investment is created and it is under these circumstances that freer emigration will flourish. Kowtowing to the Chinese is not dealing from a position of strength and will not result in freer emigration.

Jackson-Vanik specifically states that the President can waive the requirements of the Amendment only if he believes it will lead to freer emigration. It does not say a waiver should be extended if business interests are threatened. It is time to examine whether the original or implicit conditions under which these privileges were extended to China in the first place still apply. Our conclusion is that they do not.

In the past, the U.S. has relied upon Chinese assurances on emigration in order to confer MFN status. In light of China's transgressions of the most basic of human rights during the past year, the value of those assurances has dissipated. Assurances are no longer enough. At the very least, continued extension of the waiver which provides MFN status to China should include a requirement that China codify its emigration policy—the same as the Administration is asking the Soviet Union to do.

## II. DOUBLE STANDARD

As Congress considers whether China continues to warrant a waiver of the Jackson-Vanik requirements, we ask only that it treats China no differently than it treats other countries. The Administration refusing MFN to the Soviet Union while granting it to China amounts to a massive double standard that is especially glaring if you compare the recent performances of the two countries. In the case of the Soviet Union, where freedom of speech, freedom of the press and free elections are stark realities, not meaningless rhetoric in a Constitution, the U.S. is insisting that the Government enact emigration legislation before moving ahead with the Trade Pact and MFN. If it was the Soviet Union that had massacred its people in Red Square last year, continued to arrest and execute its citizens over the past year, and had two prominent human rights activists—say Andrei Sakharov and Natan Sharansky—virtual prisoners in the American Embassy in Moscow, the U.S. Government would not even be considering extending MFN to them. Why then are these abuses insignificant enough in the cases of China to warrant not even a strong rebuke? There is a disturbing tendency, because of historical legacies, to demean the value of human rights in Asia as opposed to Europe. Consistency, and the law, de-

mands that the President hold China to the same standard—and if the President will not do so, then Congress should.

### III. CHINA'S CURRENT HUMAN RIGHTS RECORD REQUIRES SUSPENSION OF MFN UNTIL MINIMAL PRECONDITIONS ARE MET

Less than one year ago the world watched in horror as participants in the democracy movement in China were brutally massacred and suppressed by the current regime. We were all shocked and appalled to see troops fire indiscriminately upon peaceful protesters and curious onlookers alike. Thousands of unarmed civilians were killed, and many more injured last June. In the aftermath, scores of young activists were summarily executed. Thousands upon thousands of political prisoners were detained, without trial or access to legal counsel. These prisoners underwent brutal interrogations, and many suffered severe beatings with electric batons and rifle butts.

However, we wish to emphasize that the gross violations of human rights did not end with the events in Tiananmen Square. Today, de facto martial law exists in Beijing and Tibet and a repressive atmosphere lies heavily over the rest of the country. The central government will not tolerate the exercise of even the most basic political and civil rights.

Innocuous political gestures provoke grossly disproportionate responses. For example, on December 9, 1989, during General Scowcroft's second visit to Beijing, seven students knelt in front of the Central Broadcasting TV Studios carrying a banner that asked "why are we so poor" to express support for last year's student demonstrations. They were beaten up and then arrested. Of the arrestees, two reportedly were sentenced to death; the other four received 20 year prison terms. On June 4, 1990, a man was arrested in Tiananmen Square. His crime? Trying to display a banner to a Canadian television cameraman on the anniversary of the massacre in the Square.

Those who publicly disagree with the central government risk imprisonment or worse. While China's propaganda machine trumpets the release of political prisoners the fact remains that some of these people are rearrested for continued pro-democracy activities and thousands of political prisoners still languish in Chinese jails. Their conditions are invariably harsh and frequently degrading. Severe psychological pressure is often accompanied by savage beatings. The recent report in Reader's Digest, "Into the Bamboo Gulag," June 1990, profiles the harsh conditions many are forced to endure. We implore you to read it and you will know our concerns do not just center upon the massacre in Tiananmen.

The list of other human right violations is lengthy. The State Department's Human Rights Report and documents issued by the human rights community provide information on the persecution of unofficial religions; the use of arbitrary arrest, detention and exile; the use of slave labor; and the suppression of numerous other internationally recognized human rights. "Virtually all internationally recognized human rights discussed in this report are restricted, many of them severely," the report said.

The Chinese Constitution guarantees freedom of speech and press, however, domestic dissemination of information is severely circumscribed. All media are State owned, rigidly controlled, and used primarily for party and government propaganda. Radio transmissions from abroad are regularly jammed. Arrests and executions continue. The day after President Bush announced his decision to renew China's MFN status, Liu Qing, one of the most prominent dissidents in China and who was released at the end of 1989 after having served 10 years for advocating human rights and democracy, was rearrested. Shortly thereafter, three Chinese dissidents, including the pop singer and outspoken critic of the Chinese Government, Hou Dejian, mysteriously "disappeared."

But this regime is not satisfied with political repression and terror within its borders. Secret government documents reveal that the government is engaged in a large scale program to systematically harass and discredit overseas Chinese like ourselves, who have done no more than exercise the rights to think freely and voice our opinions. The government perceives this to be a "life and death" struggle, and appears ready to utilize whatever means it feels is necessary to win this struggle.

To us it is unthinkable that this country would even consider extending MFN status to China while these gross abuses of human rights continue to exist.

### IV. POLITICAL EFFECT OF TEMPORARILY SUSPENDING MFN

The impending expiration of China's MFN status presents America with an opportunity. Refusal to extend MFN status to China would do more than pressure



China to improve its human rights record. It provides leverage to the reformers in China in that it persuasively supports the argument that political repression carries with it unacceptable economic costs. Conversely, a continuation of MFN privileges would only strengthen and embolden the orthodox Marxist clique that holds power in Beijing today. It would prove that no central government action—no matter how heinous—will trigger an end to business as usual with the U.S.

Since the June massacre, the Chinese Communist Party has been struggling to dispute Party moderates' arguments that (1) the crackdown bears devastating political and socio-economic costs, and (2) failure of the top leaders to admit it was a tragedy will further damage China's image in the international community. At the same time, they have mobilized political propaganda resources such as the government-controlled media and political indoctrination sessions to coerce the people into believing that "the leaders made the right decision, thus saved the country, and history will prove it." It is from within this doctrinaire environment that moderates must fashion their strategies for reform. The Administration's continued tolerant attitude toward egregious human rights violations does not advance the cause of the democratic movement in China. As Winston Lord, former U.S. Ambassador to China has stated, "If you seem too forgiving of what [China's leaders] have been up to, you rob the moderates in China of the argument that suppression entails costs overseas. You hurt them in the internal debates."

Temporarily suspending MFN will:

- Support the moderates' argument and strengthen rather than weaken their position in the internal bargaining process.
- Help moderates argue that the only way out of the current political plight and economic difficulties is to honor the reform program.
- Support the reformers argument that fundamental economic problems cannot be addressed without pushing for political development.
- Send a clear message that the U.S. cares deeply about linkage between MFN status and human rights.

#### V. ECONOMIC EFFECT OF TEMPORARILY SUSPENDING MFN

While everyone condemns China's human rights violations and recognizes the complete deterioration of the reform programs of the 1980s, there are persistent concerns about the economic costs that may be inflicted upon the people of China and Hong Kong should MFN not be renewed. They support the extension of MFN because they think the cost too high. There is no single criteria by which to judge how high a cost is too high. We believe that the projected damage and losses that business will bear is greatly exaggerated. The impact of tariff increases would most likely be reflected in reductions in profits of U.S. importers, sometimes stated to be as high as 400% to 500%, and Chinese suppliers reduction in exports would be quite small.

##### A. Impact on China.

The China Business Council and the American Chamber of Commerce in Hong Kong argue that the loss of Chinese exports would be substantial, and millions of workers would be laid off. Based on a study that found the granting of MFN in 1980 to have resulted in a 25% increase in Chinese exports to the U.S., they argue the loss in exports to be at least 25%. In our view, this number is an exaggeration of the potential loss in Chinese exports for the following reasons:

(1) It fails to take account of the "quota rent" earned by China on its exports of textile and apparel products to the U.S. which did not exist in 1980 when MFN was first granted. As you are aware, the U.S. has quota restrictions on imports of textile and apparel from China. As a result of this restriction, prices paid by U.S. consumers are much higher than the amount required to cover production, transportation, other costs and a normal profit. The difference, called quota rent, is transferred to the exporting countries. China is one of the lowest cost countries in the world and most economists believe the quota rent transferred is quite substantial. China's rent is estimated at between 50 to 80 cents on the dollar.

Therefore, tariff increases would only reduce rent earned, but would not cause China to reduce exports. China exports about US\$3 billion worth of textile and apparel products to the U.S. on which an estimated US\$1.5 to US\$2 billion is earned as rent. As a result, a 50% increase in tariffs would not effect production-related costs. In addition, as 90% of exports originate from the state sector, the great benefactor of the rent is the Central Government, not the private sector in Southern China.

In order to be clear about what is meant by the state versus private sector, and the effects upon each, we provide the following:

(a) *State-Owned*. This group of enterprises accounts for an overwhelming share of total Chinese exports to the U.S., and is the largest contributor to the state budget in the export sector. Reductions in either export volume or profits of this group would reduce this contribution.

(b) *Privately or Collectively Owned*. This group is quite small. A recent regulation has prevented them from doing foreign trade.

(c) *Foreign-owned and Joint Ventures*. Most firms in this group deal in manufactured consumers goods like toys and domestic electronics and have a large profit margin as mentioned above. Tariff increases are more likely to reduce their profits than reduce their quantities of exports. In these firms, Hong Kong capital has the largest stake, followed closely by Japan. The U.S. share is quite small. It should be noted that Japan is also the largest foreign investor in Hong Kong. One of the reasons for Japanese firms to set up shop in China is to get around the issue of its trade surplus with the U.S. The rate of return to these firms is evidenced by their continued presence in China (and the persistent effort of the Japanese firms to resume loans) when the political situation is considered unstable there. Only a substantial premium can induce them to take such a risk.

(2) It fails to take account of possible actions by Chinese government in response to the removal of MFN. To offset any reductions in exports, the government may devalue its currency against the dollar. The currency was devalued at the end of 1989 by some 26.8% and exports during the first 4 months of 1990 increased by 16.2%, an increase more than 3 times as large as compared with the same period in 1989. The Chinese government may also cut export taxes and give subsidies to offset the effect of tariff increases. Furthermore, it could reissue export licenses to the several hundred firms whose licenses were revoked after June 4th.

(3) It fails to consider the trade diversion effect. During the past 10 years of reform, China has set up an export base and gained experience and established trading relationships in the world market. If exports to the U.S. are reduced, it is certain that trade would be diverted to other markets in the world, if necessary.

(4) It fails to consider the fact that even after tariff increases, China remains one of the lowest cost countries for imports in the world. Major competitors of Chinese goods in the U.S. market are Hong Kong, Taiwan, Korea and Singapore, where the average hourly labor cost is US\$2.50. On the other hand, the average hourly labor cost in China is only 18 US cents. It is lower than that of Brazil and Mexico (US\$1.50), and even lower than that of India, Pakistan and Sri Lanka (40 to 50 US cents per hour). Even after tariff increases, China will still be an attractive source of supply.

Therefore we believe that reduction of Chinese exports to the U.S. would not be substantial when MFN is removed. It is estimated at less than 10%. The associated unemployment would be even smaller, as the Chinese government, a socialist government, allows few enterprises to go bankrupt and does not lay off workers for stability purposes.

Even though the reduction of Chinese exports will not be substantial, the impact on the Chinese Government will be considerable. In order to make debt repayment, the peak of which comes in the next few years, the Chinese government will be under pressure to take actions to boost exports when MFN is removed. The pressure comes from the deepening potential for a crisis as a result of the grim domestic economic situation and the poorly structured debt, half of which is from Japan. The government therefore faces a dilemma. If the government chooses to devalue the currency to boost exports, then imports will become more expensive and that may fuel inflation. If it cuts export taxes or gives subsidies to exporters, the budget deficit, which is already a burden, will increase which is already a burden. If it does nothing, repayment of their debt will become a problem. All three outcomes are undesirable to the government, but a choice has to be made. This will strengthen the position of reformers to argue that there is no way out of the dilemma unless reforms are resumed.

The argument that reforms will be hurt if MFN is removed, is not valid. After the crackdown, the reform process in China has been reversed. The Central Government has tightened its control over state-owned enterprises, shut down thousands of privately owned firms, revoked export licenses of hundreds of firms, and restricted foreign exchange allocation. After the June 4 massacre, the Chinese leadership identified the burgeoning private economic sector, rather than its ossified political system, as the breeding ground of political instability. Consequently, it has tightened the

screw on the private sector. Its campaign against the private sector in China is politically, not economically, motivated.

A recent set of regulations prohibits private enterprises from doing business in such sectors as finance, foreign trade, real estate, railways and ocean shipping, which, in effect, has kept the genuine private sector in China from receiving any consequential benefits from the MFN status. At the same time, the Central Government's re-centralization has led to the demise of 3 million private businesses in 1989 alone. It has also imposed high taxes on the surviving private sector. The list of reversals could go on and on. Of course, reformers have not ceased to put forward proposals for reforms, but under a regime whose main purpose is to maintain their political survival, there is no hope for any genuine reform effort. Since there is no reform going on, how can removal of MFN hurt reforms?

### *B. Impact on Hong Kong.*

Given our analysis that Chinese exports will not be severely impacted, the speculative disastrous predictions by U.S. and Hong Kong business interests are greatly reduced. However, some impact will be felt in Hong Kong and it comes from two sources:

(1) Earnings from transshipment, including freight, and insurance.

One Hong Kong analyst has estimated that Hong Kong earns 15 cents per dollar on all transshipments. Using the China Business Council's estimate of a 25% reduction in Chinese exports, which we believe would be closer to 10%, the loss in transshipment earnings would be about \$300 million. This represents about .05% of Hong Kong GDP. This is not a significant amount of money.

(2) Exports by Chinese Firms with Hong Kong Investment.

Exports by joint ventures in China are less than 10% of total Chinese exports. In almost all cases, the joint ventures are 50% owned by the state sector. Therefore, if Hong Kong owned all the foreign joint ventures in China, which is impossible, their exports would only represent 5% of all Chinese exports, which is about \$400 million. The overall effect is less than 1% of Hong Kong GDP.

Most importantly, those who argue that revocation of China's MFN status will harm Hong Kong, by contributing to a "crisis in confidence" have set their sights on the wrong target. The crisis in confidence was triggered by last June's massacre, and is reinforced by Beijing's political repression and orthodox Marxist economic policies. If you want to restore confidence in Hong Kong, you must look for ways to encourage a change in Beijing's policies. Measures that do nothing to challenge the present developments in China but maintain business as usual in the short term most assuredly will *not* restore confidence in Hong Kong.

### *C. Impact on the United States.*

(1) *Consumers.* Prices paid by consumers would not change when tariffs were raised on Chinese imports because China is a price taker in the U.S. market. Any fall in quantity supplied from China would be quickly made up by increases in supplies from competitors.

(2) *Business.* Profits of importers would be reduced by tariff increases but tariff revenue of the Federal Government would be increased. The amount of tariff revenue would increase to over \$2 billion from a few hundred million, according to some estimates, and this would directly reduce the increasing trade deficit.

(3) *Chinese Retaliation and U.S. Competitiveness.* China might retaliate by switching imports away from U.S. suppliers. For the current government, this would be desirable politically but disastrous economically. Some of the U.S. products have few substitutes (like aircraft), and others prove to be stable sources of supply (like grain) that are important to domestic stability. The government has to consider the consequences of such retaliations. Whatever the Chinese decision, it is unlikely that the U.S. would lose ground to Japan, for Japan does not sell to China most of the products the U.S. has a competitive edge in.

As to the argument that U.S. business will lose future investment opportunity, we submit that investment opportunities are more affected by political stability and reform policies than by MFN. If the military crackdown and reversal of reform policies have not eliminated investment opportunities in China, removal of MFN will not do so either.

(4) *Trade Deficit.* By aggressively pushing exports to the U.S. while clamping down on imports, China now runs the 6th largest trade deficit with the U.S.—\$6.2 billion in 1989. And unlike most of the U.S.'s other big deficits, the gap with China is rapidly widening. In February of this year, the trade deficit was double what it was at the same time last year. By 1991, China's trade deficit with the U.S. will be second only to Japan.

The trade deficit is being used to fund the recentralization of the Chinese economy. We know, from current events in Eastern Europe, that it takes large amounts of Western aid to help newly free countries transform their economies from state-controlled to market-oriented. But we do not seem to realize that it also costs the same, if not a greater amount of money and resources, for a government to regressively transform a semi-reformed economy back to the original state-controlled status. The U.S. trade deficit with China is a result of extension of MFN, and unless linked to a significant improvement in human rights, should be considered as an endorsement of China's abusive internal practices.

In conclusion, MFN is a status the Chinese government can't afford to lose. That is why it has launched an intensive behind-the-scenes lobbying campaign for renewal of MFN, and have recently released some political prisoners. As the internal government documents we have provided to members of Congress reveal, China is involved in a covert campaign to set up Chinese groups and individuals to send letters and telegrams to Member of Congress. While we recognize that some of these represent legitimate concerns, a great number have been arranged by the Chinese Embassy. If we now let slip the opportunity to gain real and substantial concessions from the Chinese government when they are clearly in a weakened bargaining position, the leverage power of MFN will be lost.

In the final analysis, in addition to concerns of human rights abuses, emigration, the trade deficit, and arms shipments, you must think about America's responsibilities as leader of the free world. For the past year, U.S. foreign policy towards China has supported the interests of the Chinese government. As the gulf between the leadership and the people deepens, the perception of the people may become that U.S. policy is contrary to the interests of the people or at least indifferent to them. The Chinese government is playing with people's lives to serve its own purposes, and that purpose is increased concessions from the West to keep the current regime in power.

Temporarily suspending MFN is a modest but important step. Our position is not severe or drastic. We are not suggesting a permanent termination of MFN status. We are not suggesting the kind of measures which would make it impossible to have an improved relationship in the very near future with the government. Instead, we are asking for a brief period of six months that MFN be suspended in the belief that this pressure will bring about the release of our friends and countrymen and help to bring about fundamental reforms in our country.

Why continue a failed policy? Why not, instead, tell the hardliners that they must pay a price for their continued violations of human rights? Why not strengthen the hands of those who argue that China will suffer economically unless it conforms to internationally recognized standards of behavior? Why not reduce America's contribution to the funds that finance the policy of economic retrenchment? Why not pursue a policy that serves American interests and values, instead of the interests of the hardliners who control China's central government?

Mr. Chairman, the question before you properly involves issues of human rights and the requirements of the Jackson-Vanik amendment. Thus, the proper perspective is not how to best maximize international trade or profits of U.S. corporations, but how to best bring the vision of America's founders to bear on the condition of a boy who, speaking for millions of Chinese people, yearns to be free:

I hear the call of democracy, it is ringing in my mind;  
I can feel the sparks of freedom, they are burning in my heart.  
Like our thinkers of the past who dared to dream,  
I must follow in their steps.  
I, too, am prepared to bleed,  
and I will give my life, as they did,  
for this, our beloved land.

The past is over. After five thousand years of feudalism, we must break our chains.

The past is finished. After forty years of tyranny, we must abandon our chains.  
For this, I have become a willing seed.

Goodbye forever, my mother, my country;  
I shall go plant democracy in this, our beloved land.  
Thank you for nourishing me, for bringing me up,  
for making me what I am.  
I give to you my love, I leave you my respect

Goodbye forever, my mother, my country,  
I have become a spark

I am a fireseed who shall go to ignite the light of freedom.  
May it glow forever to reflect the virtue of my countrymen.

Goodbye forever,  
my mother,  
my country.

[This "Will" was written by an unnamed 15 year old boy and mailed to his family one month before his death in Tiananmen Square.]

#### A PERSONAL STORY

My name is Heping Shi. I came to the United States in August, 1987 and am a Ph.D student in the Department of Sociology at Virginia Tech. My wife's name is Suxia Gan. She works as a librarian at Foreign Affairs College, Beijing. We have a nine-year-old daughter.

On March 13th of this year, I received a call from my sister, who told me that my wife had gone mad and tried to strangle my daughter before she committed suicide herself, the reason being my involvement in the pro-democracy movement in the United States. My sister could not help crying while begging me to keep away from "politics" and "counterrevolutionary activities." Later on, when my wife regained her mind, she asked me to forgive her for having attempted to kill our daughter and explained that she had been "approached." She dared not tell me the details, because she knew that our phone conversation could be taped and our letters were read. However, from the word "approached" I could well understand how much pressure had been exerted on her.

During the past forty years, hundreds of thousands of people committed suicide simply because they had been "talked to." Here I wish to explain in a few words what it means to have a "counterrevolutionary" in a Chinese family. It means that friends and neighbors will keep away from you for fear; it means that it is difficult for you to find a job; it means that you will be treated differently in salary and housing—if you are lucky enough to be given a job; it means that the children of the family will be denied good education; and above all, it means that you are constantly approached and told that your loved one is an "enemy of the people" and that you should "draw a clear line" between you and your loved one. My father was labelled a "counterrevolutionary" and sent to a labor-reform farm when I was six years old. The family immediately lost most of its income and ran into debt. One year after, my grandfather committed suicide because he could not pay the debt. Shortly after, my younger brother died of illness for lack of care because my mother was overwhelmed with the repeated blows and economic difficulties. I was not allowed to go to middle school because of my father's problem, though I scored the second highest in my county on the aptitude tests. For twenty years, our family bore the stigma of "counterrevolutionary family." My mother was the target of "struggle meetings" in her work unit, constantly criticized and humiliated. My sister and I belonged to the "five black categories" and were denied employment and education and spiritually segregated from the majority of people of our age. Such a situation only ended when twenty years later, the government admitted that my father had been "wronged" and had never done the thing he had been accused of. And that was all. My father did not even get one penny compensation for the twenty years he spent on the labor-reform farm. My mother used to say: "Even a leaf falls from a tree, we are afraid that it will break our heads." Her words reflected the tremendous pressure put on a "counterrevolutionary family."

After I got the call from my sister, I called the Chinese Embassy in Washington D.C. and told them that I decided to stop my pro-democracy activities and asked them to let my wife and daughter out to see me in the United States. Their application had been rejected on the grounds that my wife "failed to give proper reasons to go abroad." The Embassy official in charge of my school said that he had the instruction that if I pledged in written form that I would never be involved in the pro-democracy movement again, they would give me a letter to go home with and I would be able to see my family. As for the possibility of my wife and daughter coming to visit me, let alone emigrate, it was beyond the responsibility of the Embassy. Later on, I met Xu Lin, the third secretary who recently defected from the Chinese Embassy, he told me that Ni Mengxiong, the Education Council, upon hearing the report that I said I would stop my pro-democracy activities in exchange for the visit of my wife and daughter, remarked: "These students are not so hard to deal with. Tighten the screw and they will make no more trouble."

But I did not make the written pledge. Today, my wife and daughter are still held as hostages.

PREPARED STATEMENT OF SENATOR BOB DOLE

Mr. Chairman: This is a *tough* issue—a *tough* call. It was tough for President Bush—and it will be tough for many of us.

But I think the President has made the *right* call. He has taken the course which has the *best* chance of encouraging the Chinese Government to get back on the path of "reason and reform," which will do the most, in a *concrete way*, to encourage the forces of reform in China; which *best* serves American national interests—political and economic.

One point I'd like to stress at the outset: some Senators are going to support the President's decision, and some will oppose it. But the issue which divides us is *not* whether we "want"—whether we "insist on"—real change in China. We *all* agree that we cannot resume "business as usual" with China, in *any* sense—until China ceases the systematic and brutal repression of the rights of its own citizens.

So the issue is *not* whether China "must change." The issue is: how can the United States best encourage change in the right direction.

I also think that most of us—including those of us who will support the President's decision—see this year as kind of a "*last chance*" for the Chinese leadership. Assistant Republican Leader Simpson and I recently met with the Chinese Ambassador, and *delivered* that *strong* message to him.

I ask unanimous consent that the *text* of a letter which Senator Simpson and I gave to the Ambassador be included in the record.

Mr. Chairman: I am convinced the President has made the *right* decision for *four* basic reasons. I would like to share them with the committee.

*First*, we have to keep in mind that the President's action will not—repeat, not—grant to China some "new benefit" it does not already enjoy. We are *not* "rewarding" the P.R.C., nor are we sending a signal that will be misunderstood in Beijing, as a "green light" for *continued* human rights abuses.

We *are* simply extending a "status quo" that has been in place for a *full year* since Tiananmen; and that, until now, has been seen almost universally as serving the *national interest* of the United States.

And remember: the actual sanctions we have levied against the Chinese, in reaction to their crackdown at Tiananmen and since—those sanctions will *remain* in place. Overall, our diplomacy will continue to focus on, and stress the need *for*, a *real* turnaround in current Chinese attitudes *and* actions on human rights.

*Second*, terminating "MFN" now would hurt the reform movement we are all determined to support—*more* than it would hurt the repressive elements inside the Beijing regime. It would hurt the *Chinese people*—*more* than it would hurt the *Chinese Government*.

The American business presence in China—in terms of investment and trade—has grown rapidly since the "opening" of China to the West. It is not just a coincidence that—until Tiananmen—the Chinese political and social system also became increasingly open *and* democratic during that same period.

The total impact of our presence and involvement in China—including our private sector presence—has been very positive. I doubt that even those who oppose the President's decision will dispute that.

The fact is, *reducing* our involvement in China—including our business presence—will only further isolate and make more vulnerable the very forces we are most interested in *helping*.

More broadly, it will *hurt* the Chinese people—who have found in our presence inspiration; opportunity for economic advancement; and access to ideas and technology which had never been available in their country.

Let me give you *one* example.

I was recently visited by representative of the "Pay Less" shoe chain—which I believe is the largest shoe retailing chain in the United States. "Pay Less" estimates the termination of "MFN" would force it to raise its prices by about \$1 per pair of shoes—a huge price rise in the low price markets in which it sells.

The resulting loss of business would severely jeopardize the jobs of 300,000—let me repeat that figure: *300,000*—workers in Southern China now making shoes for "Pay Less." It's hard to make the case that those Chinese would be "better off" if we cut off "MFN."

I have also had the opportunity to speak with a number of young Chinese studying or working in this country. They have told me in moving terms of how much

America meant to them when they were in China—of listening to V.O.A.; of meeting American businessmen or tourists, and learning firsthand of the wonders of our political and economic system; of finding in our presence in China—jobs, and training, and hope for their future.

Would *they* be better off if we severely *cut* our economic ties to China—and thereby set in motion a process which might lead to cutting other ties, as well?

Cutting our ties, including our business ties, with China might make us “feel good” in the short run. But it is not the way to “*do good*” in the long run in China.

*Third*, cutting off “MFN” *now* would also do grievous harm to Hong Kong—which we all hope will, after 1997, become a highly “contagious” enclave of democracy and free enterprise in China.

These are critical times for Hong Kong. Already facing a precarious transition to a fundamentally different future, Hong Kong has been *shaken* by the Tiananmen crackdown. Economic confidence is waning, and capital flight—long a problem—has accelerated.

Now is precisely *not* the time for us to deliver a “body blow” to Hong Kong’s economy. I believe that one of this morning’s panels will include a representative of American business in Hong Kong. I will not attempt to “steal his thunder” by detailing the economic cost to Hong Kong of a decision to end “MFN” for China.

But the damage to the Hong Kong economy would be *severe*—measured in billions of dollars. And the damage to our hopes that Hong Kong can survive as a kind of prosperous, free market enclave inside China would be equally severe.

*Fourth and finally*, cutting off “MFN” *now* would do serious damage to *this* country—to important economic interests. An *we* would absorb that damage, as I said, *without* helping to foster democratization inside China.

It amounts to “shooting ourselves in *both* feet” at the *same* time.

Our economic stake in China is impressive in its own right, and before Tiananmen, was rapidly growing. Our investment now totals about \$4 billion. American exports last year exceeded \$6 billion.

In some industries, the dependence on Chinese markets is extremely important. The Chinese consume about 20% of American *wheat* exports—a commodity in which I and many other Senators have a special interest. Fertilizer, cotton, timber, and paper—they add up to another \$1 billion-plus in exports. Computers and related equipment—over a third of a billion dollars. Aircraft and components—potentially, a multi-billion dollar market.

I have already spoken about the case of “Pay Less” shoes—an American company that will be severely affected by an end to “MFN” for China. I would ask consent to include in the record of the hearing two letters I have received from American companies—one from a major producer of high tech products, Hewlett-Packard; the other from a small company which sells toys, called “Educational Insights.”

These letters are only *samples* of many letters and representations I and other Senators have received—laying out the real “dollars-and-cents” cost to American business of a cut-off of “MFN” for China.

And let’s not kid ourselves: If we unilaterally “pull the plug” on the Chinese market, the only ones to go “down the drain” are American companies like these. The Chinese are going to find other suppliers for what they need—our friends in Japan and Western Europe and elsewhere are ready to jump into any “gap” we create.

In the long run, the Chinese are also going to find other markets for at least a good deal of what they sell—in fact, many of their commodities are highly marketable, because they are cheaper than those available elsewhere.

So again, the basic point is: Why deny ourselves *this* market, when it won’t help change China’s behavior for the better—and very likely will only *further isolate* the Chinese Government and people from influences which overall have been very positive?

Mr. Chairman: As I said earlier—I see it as a case of “*feel good*” versus “*do good*.”

We’re *more* than politicians here. We’re also Senators—with great responsibility for our Nation’s well-being. We have an obligation to *think carefully* about what we’re doing, and to make a sound decision about what’s really *right* for the cause of human rights, and for the national interest of the United States.

By those standards, I think the President has made the *right* decision. I hope this committee will carefully and objectively evaluate all the evidence, including those points I’ve made this morning, and will decide to *support* the President and *retain* “MFN” for China.

Attachments.

**Hewlett-Packard Company**  
3000 Hanover Street  
Palo Alto, California 94304



Reply to Post Office Box 10301  
Palo Alto, California 94303-0890

June 7, 1990

**John A. Young**  
President and Chief Executive Officer

**The Honorable Bob Dole**  
United States Senate  
Washington, DC 20510

Dear Bob:

I am writing in my capacity as president of Hewlett-Packard to urge you to support renewal of China's most favored nation status (MFN) when the issue comes before Congress this summer.

Although the PRC government action taken last June in Tiananmen Square was abhorrent to all of us who value freedom and democracy, MFN revocation would be a counterproductive vehicle for expressing American displeasure. This is mainly because we would thereby only be hurting the Chinese commercial sector -- the entrepreneurs, the business people, the Chinese in the special economic zones -- who are most committed to reform and democracy, and whom we should be trying instead to help. In addition, it is clear that we would severely damage Hong Kong, location of the principal traders and investors in the businesses of southern and eastern China which trade with the U.S., and the inspiration for many of the economic reforms instituted in the PRC to date. Finally, with reference to U.S. business operations, the U.S. government would be handing the Chinese market to our competitors in Japan and Europe at a time when American international competitiveness is being challenged worldwide.

Hewlett-Packard has been doing business in the PRC since 1982. In addition to annual sales in the PRC of approximately \$50 million, HP also manufactures and imports back into the United States \$10 million of HP products. If MFN is revoked, U.S. duties on HP imports will go up from 4.9% to 40%, making these products no longer competitive in the U.S. market, and in retaliation for US action, we anticipate the PRC will terminate purchases of most HP products.

These are difficult times for HP and other U.S. businesses in China, but we are proud to have played a key role in introducing American values and promoting China's economic reform. Our 400 Chinese employees have developed very favorable impressions of HP and the United States, and their continued contact with us is one of their major sources of hope. Therefore, I would suggest that the U.S. pursue diplomatic and political means -- rather than economic -- to continue U.S. pressure on the PRC.

I fear that removing MFN will not only sever those business ties which are our best ambassadors of America's values, but also isolate our Chinese friends. Thus, I hope that you will refrain from supporting the revocation of China's MFN.

Thank you for your attention to this matter.

Best regards,

JAY/cda

**BEST AVAILABLE COPY**



**educational insights**

19560 S. Rancho Way • Dominguez Hills, CA 90220

213/637-2131 • 213/979-1955 • 800/367-5713 • Telex: 140490 ED IN • Fax: 213/605-5048

May 21, 1990

Honorable Robert Dole  
United States Senate  
Room 141, Hart Bldg.  
Washington, D.C. 20510

Dear Senator Dole:

**Re: Most Favored Nation Status for China**

My company sells educational aids and educational toys throughout the U.S., and we also export to over 20 countries. We have annual sales of 15 million dollars, and employ 105 people in Los Angeles County.

We urge you to vote against legislation which would increase duties on goods manufactured in China from a current rate of 6.8% to 70%. This action, especially if enacted in a step-function, would literally kill my company, resulting in unintended unemployment here as well as in China. Over half of our items are bought from Hong Kong, manufactured in China.

I am at your disposal to discuss this matter with you or your staff.

Sincerely yours,

EDUCATIONAL INSIGHTS, INC.



Burt Cutler  
President

BC/pb

BOB DOLE  
KANSAS

## United States Senate

OFFICE OF THE REPUBLICAN LEADER  
WASHINGTON, DC 20510-7020

May 23, 1990

His Excellency Zhu Qizhen  
Ambassador of the People's Republic of China  
2300 Connecticut Avenue, NW  
Washington, D.C. 20008

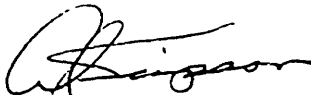
Dear Mr. Ambassador:

As you know, President Bush has decided to seek an extension of Most Favored Nation (MFN) benefits for the People's Republic of China, despite continuing serious concerns about the human rights environment in your country.

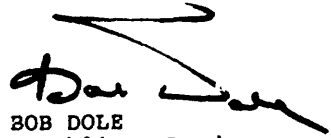
We have promised the President that we would do everything we can to insure that the Congress does not overturn his decision, because we believe the continuation of MFN at this time is in the best interest of the United States. At the same time, we want to make sure that you understand clearly how deeply virtually all members of the Congress -- regardless of their position on the MFN issue -- feel about the continuing suppression of human rights in China.

All of us who are committed to working hard to preserve our bilateral relationship in a mutually beneficial state -- the two of us, the President, and many others in the Congress and the Administration -- are looking to your Government to take some positive steps that will signal your sensitivity and responsiveness to our legitimate concerns. If no such steps are forthcoming in the near future, we must tell you candidly that it will be increasingly difficult to muster the political support in the Congress to maintain our bilateral relationship at its current level.

Sincerely yours,



ADAN K. SIMPSON  
Assistant Republican Leader



BOB DOLE  
Republican Leader

## PREPARED STATEMENT OF XIAOXIA GONG

## KEEPING CHINA'S DOORS OPEN: A CASE FOR RENEWAL OF MFN FOR CHINA

My name is Xiaoxia Gong, a graduate student in the Department of Sociology at Harvard University. I am also the chairperson of the Board of Directors at the China Information Center, an organization dedicated to the freedom of information and the promotion of humanistic values in China. I am here to offer a case for the renewal of the Most Favored Nation status for China.

I realize that when people raise the issue of removing the MFN to China, their major concern is the human rights situation in the country. Doubtlessly, the current situation in China since the brutal massacre last June is dreadful. Thousands of the demonstrators in the pro-democracy movement have been arrested, many of them tortured, some of them even executed. Among those who were arrested, some are my very close friends and schoolmates. Moreover, the Chinese government has set up a series of new regulations which restrict free flow of information and the free immigration. I fully respect the efforts of those Chinese students and Congressmen to promote the cause of human rights in China. The difference is not over the eventual goals but over relative merits of different tactics and costs of different courses of action we want to take.

There is no question that the current Chinese leadership has attempted to reverse the course of gradual political and economic openness that China undertook for ten years since 1978. But in our judgement, their efforts to crack down on dissent and to reverse the reformist course have not been completely successful. One of the most important reasons is that China today, compared with the dark Orwellian world of Mao Zedong, is much more—open to the outside world.

Therefore we should make every effort to keep China's doors open. Keeping China's doors open will provide us with leverage to positively influence future developments and to prevent an already bad human rights situation in China from going worse. The MFN status for China constitutes one of the most important components of keeping China's doors open. We offer the following reasons to support renewal of MFN status for China:

First, keeping China's doors open is the best means of restraining political repressions in China. Here I can offer my personal experiences. In 1974, my friends and I conducted an investigation in Guangdong Province about political persecutions and human rights abuses. We found that in one province between mid-1966 to late 1968, 42,000 innocent people were executed arbitrarily, without the protection of any legal procedures. At that time, our only wish was to find a way to release the information to the outside world. We failed, because then China's doors were tightly closed and we paid a dear price—some of my friends were put behind bars for conducting this investigation.

On April 5, 1976, also on Tiananmen Square, the then Chinese leadership unleashed armed police to suppress a massive popular demonstration. There was no Western camera to capture the ferocity of the crackdown because China's doors were closed. As a result, even to this day nobody knows or has a rough estimate of how many people were killed, executed or jailed for participating in the demonstration.

The Chinese communist regime has a history of political repressions. Tiananmen Square Massacre in June 1989 was only one of the many heinous crimes the Chinese regime committed against its own people. However, the critical difference of this crime with the previous ones is that it was committed in front of the world. As a result we know many of the names of those thrown into jail and we have a rough estimate of number of deaths in the crackdown. Furthermore, new ideas and new values introduced to China through open door policies have made it very difficult for the Chinese government to carry out its campaign of lies and have made a sustained repression very difficult. It is the openness that makes such a great difference. For this reason, the first thing the Chinese government did after the massacre was to close the door of China by expelling the brave foreign reporters. If we do want to punish the murderers, the best way is to force them to keep the door open!

Secondly, we believe that revoking China's MFN may affect leadership dynamics in China in ways detrimental to forces of political moderation and democratic aspirations. We must realize that the current leadership is deeply divided. To apply excessive foreign pressures at this time may unite an otherwise divisive leadership. Worse yet, isolating China may benefit such arch-conservatives as Chen Yun and Li Peng. These are the leaders who have thrived on xenophobia and total rejection of Western ideas. Removing MFN will legitimize conservatives' efforts to recentralize economy and to agitate an anti-foreign sentiment by blaming all the problems on foreigners.

Thirdly, MFN removal will have a very serious detrimental effect on a sector of the Chinese economy that may prove to be an effective agent for future political changes in China. Specifically, we here refer to the private and quasi-private enterprises that have grown very rapidly in China's coastal areas in recent years and which are extremely dependent on export markets.

Demolition of China's private sector will have long-term political implications. Private entrepreneurs are the most ardent supporters of freedom and democracy. Furthermore, from the experiences of East European countries, we learned that successful transition from authoritarianism to democracy will ultimately depend on the success of converting a centrally planned economy to a market economy. That conversion, in turn, depends on the existence of private entrepreneurship and the size of private sector in the economy.

Fourthly, we believe in non-violent political transformation and we believe that one of the best ways of achieving change in a peaceful manner is to keep China's doors open and keep our links with the moderate and the reformist faction in the Chinese leadership.

People may argue that the removal of the MFN would result in a sharp reduction in living standards in China and thus would possibly lead to another people's rebellion. The current regime can be toppled.

I myself hate this regime as much as other Chinese do, if not more. Because being a political dissident in China for sixteen years, I suffered a lot in the political campaigns and even in prison for my ideals and longings for freedom and democracy. However, under the communist rule, the Chinese people have already suffered too much in political coercion, turmoil, famine, shortage, and most recently, corruption and inflation. If the removal of MFN could indeed lead to a violent overthrow of the government, which I doubt very much, I am worried that the Chinese people would pay a terribly high price both in human and in economic terms.

Also achieving change through violent means can create deep wounds that take a long time to heal. Witness the recent chaos and difficulties in Romania and the contrast between Romania and other Eastern European countries. The critical difference is that other Eastern European countries achieved political and economic changes gradually and peacefully. We should exert every effort to ensure that future changes in China will not be violent.

Considering the current political and economic realities in China, we support a moderate policy approach toward China. We do not view the trade relationships of the United States with China strictly in dollar terms; more appropriately, they are windows of opportunities for fostering seeds of future political changes in China and for bringing about these changes in a gradual and peaceful manner.

However, to be moderate does not necessarily mean tolerance of the inhuman suppression by the Chinese government of its own people. We believe that we can take a moderate stance on MFN issue but a strong and effective position in human rights. We suggest the following measures that will enable the United States to take a position on China's human rights situation without disrupting MFN:

First, the American business community should refuse to do business with the municipal leadership of Beijing. Mayor Chen Xitong and Party Secretary Li Ximing played an instrumental role in providing justification for the crackdown and executing the crackdown.

Secondly, if the human rights situation in China fails to improve, there should be efforts to establish ethical guidelines, similar to Sullivan Principles, on doing business in China. For example, these guidelines can encourage business with relatively liberal and progressive coastal provinces while discouraging business with the conservative Beijing government.

Thirdly, World Bank loans, in addition to being subject to the "basic human needs" test, can be used to advance economic reforms in China. For example, some of the loans for infrastructural projects can be converted to policy and institutional support loans, which make disbursement conditional upon such reform measures as enterprise and price reforms.

If conditions must be attached to the renewal of MFN, we should make sure that these conditions will not be so sweeping and unrealistic as to make revocation of MFN inevitable. We suggest the following criteria for coming up with conditions. First, these conditions must be practical, i.e., they must only demand concessions that the Chinese leadership has demonstrated in the past that it is willing to make. Secondly, these conditions must demand concessions about which the Chinese leadership itself is divided. Thirdly, these conditions must be verifiable. Using these criteria, we suggest that a general call for the release of political prisoners and release of information about them be made the only condition we attach to the renewal of MFN.

Finally, I would like to add a last but most important fact. Two students in Peking University a month ago posted an article *against* economic sanctions and they were arrested by the Chinese government. Those students risked their lives to deliver us a message. We mustn't ignore it.

Thank you.

---

PREPARED STATEMENT OF ALAN HASSENFELD

Good morning. My name is Alan Hassenfeld and I am the Chairman of Hasbro, Inc., the world's largest toy company. In 1989 our net revenues exceeded \$1.4 billion worldwide. We have 8,200 employees. Our product portfolio includes such favorites as Milton Bradley games and puzzles, the Playskool family of infant and preschool products, and such Hasbro classics as Cabbage Patch Kids, G.I. Joe, and My Little Pony.

I am here today to speak both for my company and for the Toy Manufacturers of America, a trade association representing more than 230 manufacturers and importers of toys, games and dolls. I have served as Chairman of TMA and been a member of its Board of Directors for eight years.

TMA members account for an estimated 90 percent of annual toys sales in the United States. The toy industry provides American children with the most creative, diverse, and affordable toys in the world. While the United States consumes approximately one-third of all toys, the American toy industry invents, designs, engineers, and creates the marketing and advertising concepts for more than half of world consumption. World consumption of toys is more than five billion units a year.

In my 22 years in the toy industry, I have seen the industry evolve into a highly internationalized global business for companies both large and small. I can tell you from first-hand experience that we are a resourceful industry, one which is aggressive and willing to respond to changing conditions and international trading rules.

Because of the highly competitive nature of our industry and the need to sell toys for children to American parents and care givers at affordable prices, virtually all American toy companies have turned to offshore sources of supply in developing countries located around the world. We have been doing this since the end of the second world war. We were one of the first industries to source product from Japan; and when Japan's economy began to take off, we moved to Hong Kong, Korea and Taiwan for our sources of production. While low-skilled U.S. production employment has declined since the fifties, employment in product development, design, quality control, production engineering, marketing and advertising has increased in the United States. Today the toy industry's U.S. employees are medium and high-wage earners.

The toy industry is a \$13 billion business at retail (\$9 billion at wholesale). Of the \$6.136 billion toys and related articles imported into the United States, \$1.658 billion is imported from China. Approximately \$1 billion of the amount imported from China passes through Hong Kong.

I would like to tell you a little about how the loss of MFN treatment would affect Hasbro, Inc. Approximately 25 percent of our worldwide production comes from China. More than 10,000 people are employed in China producing Hasbro products. I cannot say how many U.S. jobs might be lost should MFN treatment be taken from China because Hasbro has a long history of finding ways to hold employees even in poor business environments. However, it would have an impact upon us.

Based upon discussions with other industry leaders and the staff of TMA, which has surveyed all of its 230 members, I can tell you that the toy industry will be devastated if MFN status for China is revoked. Permit me to elaborate.

Before MFN status was accorded to the PRC ten years ago, toys, games and dolls exported from China were subject to a Column 2 duty equal to 70 percent of the wholesale price. As a result, there were no imports of toys from China. Toys, games and dolls from China, as well as from virtually all noncommunist countries are now dutiable at Column 1 rates ranging from 12 percent (non-stuffed dolls) to 6.8 percent (toys) to free (certain stuffed toys).

Since 1980, and in reliance upon the stated foreign and trade policies of the United States, we have invested heavily both in material and personnel in the PRC to create production facilities there. Today, toy products from the PRC account for 25 percent of all toys imported into the United States. Moreover, imports from China represent 55 percent of all doll imports (9502, HTS) and 40 percent of traditional toys imports (9503, HTS). These facts vividly demonstrate the considerable

stake that the U.S. toy industry has in the continuation of MFN duty treatment for the PRC.

Thus, if duty rates on Chinese toys are increased from current levels (free to 12 percent) to 70 percent, the toy industry will be placed in an impossible position. While historically we have proven ourselves to be resourceful, alternative sources of supply in other developing countries cannot be found overnight, and we will not be able to obtain sufficient quantities of our product elsewhere until well into 1992. Since 60-70 percent of our products are purchased for Christmas, Christmas 1990 would definitely be lost; Christmas 1991 quite possibly would be lost as well.

Some have suggested that we might turn to other seemingly attractive countries in which to locate production facilities. However, few countries have the established infrastructure and sufficiently large work forces necessary to meet our needs. For example, any one of the four largest TMA members alone could tie up all of the existing production facilities in Thailand. We are developing production in other countries, but it takes infinite time, patience and perseverance, particularly because of high U.S. standards for quality and safety.

The loss of our Chinese production facilities also would mean the loss of our Hong Kong plant managers who we have worked to develop first in Hong Kong and then in mainland China for over 25 years. One of the reasons we have succeeded so well in China is our Hong Kong partners and their personnel. Our close business ties in Hong Kong lead us to the conclusion that loss of MFN status for China will be even more devastating to the long-term viability of Hong Kong than any other act of the United States.

The effect of increasing duty rates from their current levels to 70 percent will have a significant effect on the price of toys in the United States. Competitive conditions in the toy industry will not allow us to absorb the increased duty, and when we pass the additional cost on to our customers, they will simply either refrain from purchasing toys at two or three times their current prices or purchase significantly smaller quantities. As is all too often the case, the real losers will be children, especially those whose parents are least able to afford to spend money on these items.

Finally, and more significant to us in the toy industry, is the fact that a number of TMA members will be put out of business before the end of 1990 if MFN status is revoked. I have been in touch with the presidents of ten toys companies who indicate that because 100 percent of their product is produced in China, they would be forced out of business prior to the end of the year. I cannot say at the present time how many more TMA members are in this category, but I do know that those ten members employ more than 1,000 people in the United States. Moreover, the toy industry is not alone in its loss of U.S. jobs. There will be many other industries, both importers and exporters. We respectfully ask whether the trauma of job loss is fair when measured against the conjectural impact denial of MFN treatment might have upon the present government of China.

Please do not mistake my remarks as a disregard for the issue of human rights in the People's Republic of China. There is no question that the Chinese Government's actions deserve the strongest condemnation, but taking jobs away from 3,000,000 Chinese—which surely will be the effect of revoking MFN—is not going to reform a repressive government. Sending them back to the farms is not furthering human rights; condemning Hong Kong is not protecting human rights; and what of the Americans who will go jobless?

It is TMA's strong belief that the presence of U.S. companies in China has been, and will continue to be, a major factor leading to the democratization and reform movement there. Indeed, the economic strength of the South China region has given the leaders in that region greater autonomy and leverage in dealing with Beijing, which they almost certainly would lose if all those production facilities are abandoned.

Our observations about China are not based upon recent and surface experiences in the PRC. We have been in the Orient for more than 40 years, in Hong Kong for over 30, and in the PRC for 12. There are close business and personal ties that have given us unique insight into the events taking place in the PRC, and we are talking about our close friends in many instances.

In summary, we strongly believe that revocation of MFN duty status is the wrong response to the acts of the Chinese leadership. Such an action will hurt all U.S. companies who have acted in reliance upon a U.S. policy encouraging increased globalization, result in substantial layoffs of American workers, escalate costs for U.S. consumers, take Christmas away from millions of American children, and totally devastate the \$13 billion American toy, doll, and game industry. It also is unlikely to serve as an incentive for the PRC Government to revise its policies.

## PREPARED STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, I thank you for holding this hearing and join you in welcoming our guests this morning. The renewal of our trade status with China is a difficult issue for all of us; there is more at stake than economic developments over the coming year. The Committee's deliberations will affect both the course of events in China and our future relationship with the People's Republic.

The issue of MFN renewal for the PRC brings to the fore the dilemmas faced by the United States in our relationships with authoritarian governments in the midst of change. We seek to promote the development of stable democratic practices; yet, we also must make clear our opposition to policies inimical to our interests and ideals.

*Until 1989, the United States had reason to believe that our involvement with the PRC was producing positive results. For a time, it seemed that Beijing had outpaced even the Soviet Union as the leader of reform in the Communist world. We have since learned the painful lesson, however, that reform can be halted and even reversed albeit at an enormous human and economic cost. Today, China's leaders seem to have turned away from the path of political and economic liberalization that had earned them our encouragement and support.*

But if reform is not irreversible, neither, I believe, is repression. It is inevitable that China—like so many other formerly Communist nations—will rejoin the fraternity of civilized and democratic nations. Our concern here today is how best to accelerate that process.

*We must also ensure that our actions do not cause more harm to our own economy than to the Chinese. China may be able to circumvent the loss of some degree of trade with the United States; but our own businessmen have no such recourse. Sanctions against Chinese repression should not rebound into sanctions against the American entrepreneurs—and innocent Chinese workers—who have provided the seeds of the free market in China. Nor should we encourage the Chinese to turn away from participation in the international economy.*

Most important, it is imperative that our actions send the appropriate message to Beijing. We must make it clear that the United States neither condones the barbaric actions taken last year, nor do we abandon our hopes that our relationship can once again be a productive and constructive one. Unconditional renewal or flat denial of China's MFN status are not the answers to this complicated problem; instead, we must couple our encouragement of economic liberalization and human rights with conditions that not only reflect our unequivocal condemnation of the events of the past year, but also make clear what China must do to satisfy the letter and spirit of our law.

In sum, as these hearings begin, I am inclined to support continuing MFN for China, at least for now, conditioned upon the administration maintaining the current sanctions and enunciating their strategy to increase the pressure on China to cease its harassment of the press and its own citizens.

I would like to join the Chair in thanking today's panelists for their time, and I am sure that they will help us to define the fine line that we will need to follow in this admittedly complicated task.

## PREPARED STATEMENT OF JOHN KAMM

Mister Chairman, members of the Subcommittee: China's retention of Most Favored Nation (MFN) status has been hotly debated in Congress since the President made his recommendation to extend preferential tariff treatment on May 24. These hearings offer the best opportunity to weigh the arguments and arrive at a balanced judgment on how Congress should respond to the President's recommendation, and the American Chamber of Commerce in Hong Kong is honored to have been invited to contribute to your Subcommittee's deliberations.

On May 16 our Chamber submitted testimony on China's MFN status to a joint hearing of three subcommittees of the House of Representatives Foreign Affairs Committee. I have brought additional copies of our submission for your Subcommittee's reference. The package of testimony being handed over today contains much new material, and serves to buttress arguments that revoking China's MFN status is contrary to our national interests and counterproductive to the cause of democracy and reform in China.

It is in our national interest to preserve a stable and prosperous Hong Kong. We have significant trade with and investments in Hong Kong. America's government is committed to a bipartisan policy in support of Hong Kong's future. It is most decidedly in the interest of China's reformers to have a strong Hong Kong. Yet nearly

everyone I've spoken with in Washington agrees that taking MFN away from China will badly damage Hong Kong. No one has questioned the evidence that this is the case. No one has questioned the serious implications of this finding for the debate on China's MFN status.

In addition to hurting Hong Kong and Macau, revoking MFN will cause Guangdong Province and other coastal regions massive losses. I will expand on this theme later in this testimony, drawing on expert opinion submitted by Ezra Vogel of Harvard University. It will also hurt American consumers and American exporters whose sales to China and Hong Kong (a market of US\$12 billion) will be badly affected.

Against such clear losses the proponents of stripping China of MFN must demonstrate the likelihood of gain. They need to show that the pain inflicted on China's rulers will somehow result in improvements in human rights, in greater freedom for the Chinese people. We hold that it is unlikely that this unilateral act, unsupported by any other country, will yield significant human rights dividends, and we believe historical evidence and a careful reading of the present situation support our argument.

Against certain loss is set problematic gain. Given the stakes, Congress should vote for renewing China's MFN status, difficult and even unsavory as that might be. Realization that this is the wrong weapon, that it hurts too many innocent people, is not a sign of weakness, but rather a demonstration of the strength of our system of government, wherein policy decisions are reached through the crucible of free debate.

### *(1) Damage to Hong Kong*

Hong Kong's Governor, Sir David Wilson, has asserted that revoking China's MFN will lead to trade losses of \$10 billion and employment losses of at least 20,000 jobs in the territory. Gross Domestic Product (GDP) would suffer a negative impact of 2-3 percent. Given Hong Kong's size and dependence on trade, losses of this magnitude would have serious consequences for the territory's viability.

Several members of Congress have expressed an interest in learning more about the Hong Kong Government's estimates. I have obtained a copy of their report on which the estimates are based, and have obtained permission to release key parts so this internal document to your Subcommittee (Exhibit one).

AmCham's own surveys differ slightly from the Government's. We see a drop of \$8-9 billion in export trade and job losses far in excess of 20,000. Recent interviews with leading executives indicate that both our own and the Government's assumption of a 50 percent loss in China-sources reexports may be conservative (Exhibits Two and Three).

The danger to the territory's survival has produced as united a position on a single issue as I have witnessed in 18 years of living in Hong-Kong. In our last submission we presented petitions from the Legislative Council and virtually every major commercial and industrial association imploring Congress to renew MFN. The opposition of Hong Kong to China's loss of MFN is noteworthy as its people are in the forefront of the struggle for change in China. They recently gained the respect of the world for their march of 250,000 people to commemorate the victims of Tiananmen Square (Demonstration's number). The people who marched held up signs demanding human rights and the release of political prisoners, but I and many others who observed the peaceful demonstration did not see signs or hear calls for economic sanctions. The day after the protest, June 4, one of its leaders, Mr. Martin Lee and I appeared on radio and the question of MFN arose. A transcript of our exchange is appended (Exhibit Four). Mr. Lee's assessment of people's feelings on this matter are those of the man on the street. Hong Kong is calling on Congress to continue MFN treatment for China, and Hong Kong has earned the rights to be heard.

### *(2) Damage to Macau*

The Macau Government has not done an estimate of the damage to this enclave of 500,000 people of China's loss of MFN. Damage will be substantial as Macau is even more integrated into South China than Hong Kong. I am including in my submission a letter from the Macau Government (Exhibit Five).

### *(3) Damage to Guangdong Province*

Guangdong Province has close historic and commercial ties to the United States. A majority of Chinese American trace their roots to this province which borders on Hong Kong and Macau.

Guangdong Province has been in the forefront of economic reform in China since 1979. I have asked America's foremost authority on post-1949 Guangdong Province,



Professor Ezra Vogel of Harvard University, for an opinion on the impact of withdrawing MFN status on the province, and I am including this illuminating document as Exhibit Six in my submission.

I am also including a recent article from the Asian Wall Street Journal on the same subject (See Exhibit Seven).

Since 1988, I have been an Honorary Associate Professor of the Guangzhou Foreign Trade Institute, China's second largest school for the training of foreign trade workers. Like so many institutions around China, the students and faculty risked much to support last year's democracy movement and the great majority still believe in its goals. I have visited the campus on several occasions since last spring and, in private discussions with close friends, the issues of economic sanctions and MFN removal have been raised. I wish to state unequivocally that no one I have spoken to wants Congress to remove MFN.

Scholars from this institute claim that revoking China's MFN status will affect Guangdong in the following ways:

(1) Guangdong will lose roughly \$2 billion in exports, or about 30 percent of total export;

(2) About 12 percent of total industrial capacity will be idled;

(3) New investments from United States companies will cease and existing investments (totalling \$1 billion) will be badly hurt by declines in both sales and purchases. Loss of MFN will also discourage new investments by Hong Kong, Macau and Taiwan firms;

(4) An estimated one million workers will lost their jobs; and

(5) Imports of U.S. products, worth an estimated US\$1 billion in 1989 (figure includes goods reexported by Hong Kong) will be curtailed.

As one teacher put it, "Guangdong's economy and its reform program will be destroyed if China loses MFN. Guangdong as a model for the rest of China will be rejected. America must realize that Guangdong offers the best hope for political reform based on openness and rising living standards. It is inconceivable that America would cripple us by removing MFN."

#### *(4) Damage to China as a whole*

One of the odd features of the present debate is that proponents of revoking China's MFN status have failed to produce estimates which measure the economic damage their act will cause to China, nor do they analyze how the damage will be distributed among industrial sectors and provinces. This seems a critical flaw as the force of their argument is that removal of MFN is so much more damaging than other sanctions that it will succeed where other sanctions have failed.

As we have shown, the damage to Guangdong Province will be significant, and will probably lead to economic depression. It is logical to assume that other regions which enjoy large exports to the United States would be hurt more than those that have small sales to America (or have none at all) Both Fujian (US \$1,0362 million in U.S. sales in 1988) and Shanghai (US\$4,576 million in U.S. sales in 1988) direct about 30 percent of total exports to the American market. By contrast, a province like Heilongjiang, an industrial and raw material base on the Soviet border, sells little to the United States. It's exports to Russia doubled in 1989 and are expected to double again this year. It is conceivable that this province and others locked into special economic relationships could actually benefit from China's loss of preferential tariff status in the United States as central funds invested in export production bases would probably be diverted from the coast to the interior. By and large, provinces in China's interiors would be little hurt if China lost MFN, as few do significant foreign trade (See Exhibit Eight for a breakdown of China's imports and exports by province)

Thus, while China as a whole will suffer from losing MFN the pain will not be evenly distributed. Moreover damage to organs of the central government—including several which have been instrumental in the crackdown—will be diminished by a number of factors. These include:

(1) *Product mix*: the central government handles exports of critical raw materials whose Column II rates are not significantly greater than Column I rates. Consumer goods like toys and garments are exported mostly by localities, and these are precisely the products which will be hit hardest by imposition of the Smoot-Hawley tariff;

(2) *Subsidies*: the central government is better able to absorb export losses than local governments; and

(3) *Foreign Exchange Retention*: under the contract responsibility system governing China's foreign trade since 1988, local governments guarantee the central gov-

ernment a fixed sum of foreign exchange. Above this amount, provinces and other administrative units are permitted to retain 80 percent of the foreign currency proceeds of their exports. These sums, known as "local foreign exchange" have become very substantial in recent years, and they are employed by local governments to fund imports (See Exhibit Nine). Because of the fixed amount guarantee, loss of MFN would deplete local foreign exchange reserves while leaving central reserves relatively untouched.

In short, stripping China of MFN will disproportionately hurt coastal provinces and will promote the recentralization of China's economy; both these developments would be serious blows to China's reformers.

##### (5) *The Efficacy of Sanctions*

The economist Margaret Doxey, an expert in the field of international economic sanctions, has concluded that "(one cannot) claim that sanctions are without political, economic and psychological effects, although it is difficult to measure them. Other factors and forces will also be at work and no one knows what the situation would have been in the absence of sanctions. Successful defiance of economic sanctions by the target may actually produce durable, beneficial changes in the structure of its economy. Moreover it is impossible to contain the damage, and sanctions which were intended to have specific negative effects on the target, leaving the rest of the world relatively unscathed, may produce unintended and diffused effects. Changes induced by sanctions in patterns of international commercial and financial interaction may cost the sanctioning group far more than was anticipated, and even trigger an unforeseen and unwelcome chain of events which is difficult to control.)" (Margaret Doxey, *International Sanctions in Contemporary Perspective*).

An examination of the likely consequences of revoking China's MFN status confirms the truth of Dr. Doxey's observations. Loss of MFN will encourage such structural changes as recentralization and greater reliance on trade with countries other than the United States. An unintended consequence would be serious economic and psychological damage to Hong Kong, an American friend and ally.

But what of the intended effect? Will revoking China's MFN lead to improvements in human rights? Will it promote democracy and a return to the policy of economic reform? If the answer to these questions is yes, than a strong argument can be made that the damage which Hong Kong, Guangdong and America, among others, will suffer is worth the price.

Unfortunately, there is little to suggest that stripping China of MFN will have the desired effects. Indeed, a case can be made that taking MFN away from China will actually worsen the human rights situation in China by removing any leverage we might have to influence the government, and by cutting off Chinese people, including those in positions of importance, from contact with Americans.

Evidence from history suggests that external pressure in the form of economic sanctions has not succeeded in forcing domestic policy changes in China. Neither United Nations sanctions imposed during the Korean War nor Russian sanctions initiated in 1960 had their intended effects, despite considerable pain inflicted on China's economy.

One year ago the President, in concert with our allies, imposed a range of economic sanctions in China, and these sanctions were made law by Congress in January. Although I understand that many in Congress feel these sanctions have been too weak and too easily waived, I know from experience that they have inflicted considerable pain, as detailed in the President's report received by Congress last month. China has effectively lost US\$2 billion in World Bank loans and several hundred million in Asian Development Bank loans. Its ability to buy military hardware has been constrained and its access to high technology restricted.

Yet, at last month's hearings before the House of Representatives' Foreign Affairs Committee, the morning session's panelists were unanimous in their assessment that China's human rights situation has deteriorated over the entire time the sanctions were in effect. Where is the convincing argument that using a bigger stick—wielded by America alone—will produce the desired effects?

The ability of China's rulers to defy economic sanctions, especially unilateral acts by individual states, derives from the country's size and the coercive measures available to the state to blunt and divert external threats. As a Chinese student in North Carolina wrote to Senator Jesse Helms, "Practically, economic sanctions are useless when you deal with the Chinese government, because none of the countries in the world can be rich enough to control the entire economy of China. The effect of economic sanctions is always to bring back Chinese nationalism instead of change to the system."

The central government's power to enforce administrative measures over the economy means that it is able to build up foreign exchange reserves quickly. This is precisely what is going on today. The threat of sanctions is reinforcing an austerity program that has seen imports plummet, and China's holdings of foreign currency and gold have soared (See Exhibit Ten).

In addition to vast powers over the economy, the party and state control a propaganda machine capable of portraying foreign sanctions as being the root cause of all economic difficulties. This too is going on today, and while it is true that not all Chinese people believe the party line, there are still huge numbers, certainly a majority in rural areas, who are taken in.

The threat of MFN removal—as opposed to actual removal may, in concert with other factors like efforts to attract back foreign investors and tourists and generally improve China's reputation, yield marginal human rights gains. It is likely that the possibility of MFN loss has been one of the factors behind recent releases of some political prisoners. It also appears that China has eased up pressure on Hong Kong in part because of Hong Kong's efforts on the MFN issue. We know far too little about the internal decision-making process in Beijing to judge the impact of the threat of MFN loss, but on the whole we can safely predict that it alone cannot effect significant human rights improvements.

Just because stripping China of MFN is not a recommendable course of action does not imply that nothing can be done to alleviate human rights abuses or otherwise encourage change in China. Many in the private sector will continue to shun major investments, tourists will not return and Hong Kong will not regain its confidence until fundamental conditions improve in China. Government sanctions which target specific transactions involving specific units of the central government can be effective. Refusal to host visiting delegations and pay visits to Beijing wound the egos of Chinese leaders. While lacking the dramatic and devastating punch represented by MFN removal, these private-sector and public-sector sanctions, when consistently and evenly carried out by as many countries as possible, provide backup to the Chinese people in their brave efforts to gain human rights and democracy. For it is they, not us, who are the critical force for change in China. And it is they who will win the fight for which so many brave people have given their lives.

Attachments.

## Exhibit One

## Impact Assessment by Hong Kong Government

Background

Since 1980, exports from China have enjoyed the Most Favoured Nation (MFN) status in the United States, which confers the lowest available tariffs to the goods as they are imported into the United States. China's MFN status must be renewed each year by a Presidential waiver. Unless this is granted before 3 June 1990, China's MFN status in the United States will be lost.

Importance of the MFN status to China's exports to the United States

2. If China's MFN status is removed, the tariff rates for most of China's exports to the United States will be increased by around 6 to 15 times. Currently the MFN tariff rates for Chinese goods are generally well below 10%. Their corresponding Non-MFN tariff rates are in the range of 40% to exceeding 100%. A table comparing the MFN and Non-MFN rates for selected products is at

----- Annex I.

Relative importance of re-exports of China origin to the United States to the Hong Kong economy

3. Removal of China's MFN status by the United States will have a direct adverse impact on Hong Kong's re-exports of China origin to the United States. It is therefore useful as a starting point to assess the relative importance of this trade to the Hong Kong economy. In 1989, re-exports of China origin to the United States amounted to HK\$66 billion (US\$8.5 billion), representing 19% of Hong Kong's total re-exports. 92% of Hong Kong's re-exports to the United States were of China

**RESTRICTED 内部文件**

**RESTRICTED 内部文件**

- 3 -

----- origin. A statistical table showing the principal product breakdowns is at Annex II. The main product categories are electrical appliances and electronics (representing 22.6% of these re-exports in 1989), toys, games and sporting goods (20.7%), garments and clothing accessories (19.3%), footwear (7.5%), and travel goods and handbags (6.8%).

4. It is estimated that around 34 000 jobs in Hong Kong's import/export trade and HK\$7.6 billion (US\$1 billion) of value-added contribution to Hong Kong's GDP in 1989 were in connection with this stream of re-exports involving China as the origin and the United States as the destination. The latter contribution amounted to 1.6% of the overall GDP in 1989. Derivation of the above ----- estimates is shown in Annex III. Moreover, there are additional employment and income contributions from Hong Kong's manufacturing sector in respect of those re-exports from China that are the result of outward processing activities, but in the absence of data the amount involved is not directly known.

Effect of removal of China's MFN status on Hong Kong's trade

5. A rough assessment has been made of the proportion of Hong Kong's re-exports of China origin to the United States that is likely to be lost if China's MFN status is removed. Although the relevant exporters in China as well as trading companies in Hong Kong would probably be prepared to accept a cut in their profit margins in order to dilute the effect of the higher tariff, it is not unreasonable, if only for the purpose of assessing relative competitiveness, to assume that the

**RESTRICTED 内部文件**

RESTRICTED 内部文件

- 4 -

whole of the tariff increase would be reflected in the US import prices of the Chinese goods. The adjusted import prices of the Chinese goods are then compared with the import prices of corresponding products from China's major competitors in the US market. Based on price differential and market share considerations, an educated guess can be made on the possible impact of the MFN removal on re-exports in each of the main product categories. A note describing this assessment in greater detail is at

-----  
Annex IV.

6. Summing up, Hong Kong's re-exports of China origin to the United States would probably be reduced by 35% to 50% or HK\$23 - 32 billion (US\$2.9 - 4.1 billion) as a direct consequence of the MFN removal. On the basis of the data available, the greatest impact is likely to fall on garments, followed by footwear, and electrical appliances and electronics. Toys, and travel goods and handbags are expected to face relatively less, but still not insignificant, impact.

7. In terms of the effect on Hong Kong's overall trade flows, there are two other components which are likely to be affected as a result of the reduction in Hong Kong's re-exports of China origin to the United States. First, these re-exports will have to be preceded by import of the goods from China into Hong Kong. Taking into account the re-export margin, the reduction in value of these imports is expected to be marginally smaller, at around HK\$20 - 29 billion (US\$2.6 - 3.7 billion). Secondly, given that a substantial and growing proportion of Hong Kong's re-exports of China origin to the United States is not so much in the nature of pure entrepôt trade but is actually the result of outward processing activities commissioned by Hong Kong manufacturers, the export of those products will require certain raw

**RESTRICTED 内部文件**

**RESTRICTED 内部文件**

- 5 -

materials and semi-manufactures to be supplied to the outward processing units in China in the first place. As a crude estimate, the trade flows relating to such supplies would probably be reduced by HK\$12 - 17 billion (US\$1.5 - 2.2 billion). For the three trade components taken together, in gross value terms Hong Kong's overall trade would probably be reduced by HK\$55 - 78 billion (US\$7 - 10 billion).

Economic damage likely to be incurred by Hong Kong as a result of China losing its MFN status in the United States

(A) Direct impacts

8. Using 1989 as the reference year and based on the estimated reduction of 35% to 50% in Hong Kong's re-exports of China origin to the United States, the following table shows, as a bare minimum, the estimated loss of jobs in the import/export trade and of value-added contribution to the GDP :

Proportion of re-exports from China to USA likely to be reduced	Estimated loss of jobs in the import/export trade sub-sector (Number)	Estimated loss of value-added contribution to GDP by the import/export trade sub-sector	
		(HK\$ Mn)	(US\$ Mn)
35%	11 900	2,673	343
50%	17 000	3,819	490

Hong Kong's GDP is estimated at HK\$491.6 billion at current prices in 1989. Thus, as a bare minimum, the loss would amount to 0.54% to 0.78% of the overall GDP.

9. However, in view of the fact that (a) additional activities in the transport, storage, communications, finance and business services sectors are generated in

**RESTRICTED 内部文件**

**RESTRICTED 内部文件**

- 6 -

support of the re-export trade, (b) those re-exports which are the result of outward processing arrangements embraces greater value-added contributions, and (c) some transshipment and other indirect trade of China origin which are not shown in Hong Kong's trade figures will also be affected, the loss in GDP could be considerably higher. Applying a probably conservative multiplier of, say, 1.3\* to the minimum loss to account for these related impacts, the combined loss would amount to HK\$5-7 billion or 1% to 1.4% of the overall GDP. The loss in employment would probably exceed 20 000.

10. While the loss in GDP may appear small in percentage terms it has to be seen against the trend growth rate of the economy, which is projected to be 5.5% per annum over the medium term. Hence the direct impact would be to curtail this growth rate by as much as one-fifth to one-quarter in the initial year. In the subsequent years, the adverse impact on the GDP growth rate is expected to lessen as the shock filters through. But as the growth rate of re-exports from China to the United States is unlikely to be as fast as previously in the absence of the MFN status for China, some negative effect would still persist.

**(B) Indirect impacts**

11. As the MFN status is granted on a reciprocal basis, it is most likely that China would retaliate by withdrawing the MFN status of exports from the United

---

(\* ) Of the additional impact represented by the factor of 0.8, 0.3 is assumed to be attributed to (a) and (c), and 0.5 to (b). These assumed figures are broadly in line with anecdotal information derived from the relevant economic surveys.

**RESTRICTED 内部文件**



**RESTRICTED 内部文件**

- 7 -

States to China. Hong Kong's re-exports of US origin to China amounted to HK\$10.3 billion (US\$1.3 billion) in 1989. This is about one-sixth of Hong Kong's re-exports of China origin to the United States.

12. Furthermore, as China needs to finance most of its imports by the foreign exchange earned from its exports, removal of its MFN status in the United States is bound to reduce its export earnings and hence its ability to absorb imports. Since China sources about one-fifth of its imports from Hong Kong, and this proportion could be even higher if re-exports through Hong Kong into China are fully taken into account, Hong Kong's exports to China would likewise be reduced in the event that China's ability to import is hampered.

13. The effects on Hong Kong's exports to China due to China's possible retaliation and its possible reduction in foreign exchange earnings are not entirely separate from each other. The latter factor is, however, likely to be more important than the former, since retaliation per se may lead to diversion to other sources of overseas supply and not necessarily a cut-back in trade. In these circumstances, the impact on Hong Kong would probably be a further loss in GDP by a small fraction of a percentage point.

(C) Longer-term impact on investment and business confidence

14. China's MFN status in the United States is a crucial factor which has been taken for granted by Hong Kong companies when they involve themselves in manufacturing investment ventures and outward processing arrangements in China, with a view to exporting to the United States. The same applies to foreign manufacturers who come to invest in China through Hong Kong. Removal of

**RESTRICTED 内部文件**

**RESTRICTED 内部文件**

- 8 -

China's MFN status would deal a heavy blow to these investments and collaborative manufacturing activities. Hong Kong and foreign companies alike would seek to relocate their production facilities out of China to other places in South East Asia, with the result that the operations would become more costly and less efficient. This diversion of investment would reduce further the longer-term growth potential of the Hong Kong economy.

15. With the prospect of a substantial setback in two-way trade between China and the United States through Hong Kong, Hong Kong's position as a gateway for business in and with China would be seriously undermined. In the worst scenario, confidence in Hong Kong's economic future might be called into doubt.

Conclusion

16. In summary, if China loses its MFN status in the United States, there is likely to be :

(a) a reduction by 35% to 50% or HK\$23-32 billion (US\$3.0-4.1 billion) worth of Hong Kong's re-exports of China origin to the United States. Taking into account other related trade flows that would likewise be affected, in gross value terms Hong Kong's overall trade would probably be reduced by 5% to 7% or HK\$55 - 78 billion (US\$7 - 10 billion);

(b) a loss in Hong Kong of around HK\$5-7 billion (US\$0.6-0.9 billion) in income and probably over 20 000 jobs as a direct impact. This would reduce the overall GDP by 1% to 1.4%. Putting this impact in the proper context, the GDP growth rate would be curtailed from its trend value by one-fifth to one-quarter in the year of incidence; and

**RESTRICTED 内部文件**

**RESTRICTED 内部文件**

- 9 -

- (c) a further loss in income and jobs if China cuts back on its imports either from the United States or generally.

In the longer term, if manufacturing investment is diverted elsewhere, Hong Kong's potential for economic growth and its role as a gateway to China would be undermined. In the worst scenario, business confidence in Hong Kong might be called into doubt.

Economic Analysis Division  
Economic Services Branch  
Government Secretariat,  
Hong Kong  
1 May 1990 (slightly expanded on 7 May 1990)

- 0151A

**RESTRICTED 内部文件**

Comparison of MFN and Non-MFN Rates  
for Selected Products

Item	MFN rate	Non-MFN rate	Difference <u>Non-MFN</u> MFN
<u>Toys</u>			
Dolls (stuffed)	12%	7%	5.8 times
Electric trains	6.8%	7%	10.3 times
Puzzles and parts and accessories	6.8%	7%	10.3 times
<u>Articles of apparel &amp; clothing</u>			
Women's or girls' dresses, containing 36% or more by weight of flax fibres	5.9%	9%	15 times
Women's or girls' blouses, skirts and shirt, blouses of silk or silk waste	7.5%	6%	8.7 times
Men's or boys' anoraks (including ski-jackets), windbreakers and similar articles, of cotton	4.7%	6%	12.3 times
Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton	4.7%	6%	12.8 times
<u>Radio</u>			
Radio	6%	3%	5.3 times
Radio cassette recorder	4.9%	3%	7.1 times
<u>Jewelry</u>			
Imitation jewelry of base metal, whether or not plated with precious metal	11%	110%	10 times
<u>Watches &amp; Clocks</u>			
Wrist watches, battery powered, other than those with case of precious metal or of metal clad with precious metal (with opto-electronic display only)	3.9% on the movement and case + 5.3% on battery	3%	Variable
Alarm clocks, battery or AC powered (with opto-electronic display only)	3.9% on the movement and case + 5.3% on battery	3%	Variable
<u>Domestic Electrical Appliances</u>			
Hair dryers	3.9%	3%	9 times
Toasters	5.3%	4%	7.6 times
Coffee makers	5.3%	4%	7.6 times

Principal commodity	Value of re-exports				Growth rate of 1989 over 1988	Average annual growth rate in last 5 years (1984-1989)
	1988		1989			
	HK\$Mn.	\$	HK\$Mn.	\$		
<u>Toys, games, sporting goods and baby carriages</u>	2,390	(21.7)	1,666	(20.7)	+ 45.5	+ 64.9
<u>Toys (excluding dolls), plastic, not containing electric motor</u>	1,190	(9.7)	6,348	(9.6)	+ 31.6	+ 38.5
Toys (excluding dolls), stuffed	1,397	(3.2)	1,416	(2.1)	+ 1.0	+ 74.6
Carnival articles; christmas tree decorations and similar articles (excluding christmas tree lighting sets)	894	(2.0)	1,710	(2.6)	+ 30.7	+ 88.6
Toys (excluding dolls), plastic, containing electric motor, not radio controlled	806	(1.9)	1,343	(2.0)	+ 66.7	+107.4
Dolls, plastic	568	(1.3)	763	(1.2)	+ 34.2	+ 67.7
Dolls, stuffed	345	(0.8)	431	(0.7)	+ 24.7	+ 30.6
Toys (excluding dolls), metal, not containing electric motor	304	(0.7)	422	(0.6)	+ 38.5	+ 80.7
<u>Miscellaneous manufactured articles</u>	2,497	(5.8)	2,434	(5.2)	+ 37.5	+ 28.1
Artificial flowers of textile materials	1,238	(2.9)	1,528	(2.3)	+ 23.3	+ 47.6
Basketwork, wickerwork and other articles of plaiting materials (not furniture)	310	(0.7)	386	(0.6)	+ 24.4	+ 9.6
Bamboo articles	238	(0.5)	338	(0.5)	+ 42.3	+ 8.8
<u>Miscellaneous articles of plastic materials</u>	611	(1.4)	1,552	(2.4)	+154.0	+139.2
Table and household (including hotel and restaurant) or decorative articles of artificial plastic materials	260	(0.6)	379	(0.6)	+ 45.4	+105.6
<u>Outer garments, women's, girls' and babies', of textile fabrics (not knitted or crocheted)</u>	2,978	(6.9)	2,199	(6.4)	+ 41.0	+ 33.0
Blouses, not knitted or crocheted, of silk, not embroidered	592	(1.4)	682	(1.0)	+ 15.2	+ 57.8
Blouses, not knitted or crocheted, of man-made fibres, not embroidered	429	(1.0)	555	(0.8)	+ 29.5	+ 42.6
Slacks, shorts, jeans and trousers, women's, not knitted or crocheted, of cotton	259	(0.6)	418	(0.6)	+ 61.1	+ 27.2
Outer garments and other articles, knitted or crocheted, not elastic nor rubberized	1,788	(4.1)	2,339	(5.2)	+ 92.8	+ 48.6
Jackets, tunics, sweaters, cardigans and pullovers, women's, knitted or crocheted, of textile materials other than wool, cotton, man-made fibres and silk	448	(1.0)	1,408	(2.1)	+214.5	+ 60.4
Jackets, tunics, sweaters, cardigans and pullovers, women's, knitted or crocheted, of wool	270	(0.6)	327	(0.5)	+ 21.1	+ 57.9
<u>Articles of apparel and clothing accessories of materials other than textile fabrics</u>	1,234	(3.3)	1,082	(2.2)	+ 3.3	+ 33.0
Gloves and mittens, partly of leather and partly of textile materials	323	(0.7)	400	(0.6)	+ 23.7	+ 19.2
Gloves, of unhardened vulcanized rubber	321	(0.7)	41	(0.1)	- 87.3	+524.1

Value of re-exports

Principal commodity	1988		1989		Growth rate of 1989 over 1988		Average annual growth rate in last 5 years (1984-1989)	
	HK\$Mn.	\$	HK\$Mn.	\$	\$	\$		
<u>Outer garments, men's and boys', of textile fabrics (other than knitted or crocheted goods)</u>	951	(2.2)	1,000	(2.2)	+ 51.6	+ 22.8		
Slacks, shorts, jeans and trousers, men's, not knitted or crocheted, of cotton	285	(0.7)	460	(0.7)	+ 61.2	+ 34.2		
<u>Radio-broadcast receivers (with or without sound recorders or reproducers)</u>	2,252	(5.2)	2,796	(5.8)	+ 68.6	+ 70.9		
Radio-broadcast receivers, portable, incorporating sound recorders or reproducers, complete	1,232	(2.8)	2,228	(3.4)	+ 80.9	+ 66.5		
Radio-broadcast receivers, portable (excluding receivers incorporating sound recorders or reproducers), complete	567	(1.3)	675	(1.0)	+ 18.9	+101.4		
<u>Telecommunications equipments, their parts and accessories</u>	855	(2.0)	2,073	(3.1)	+142.4	+184.9		
Electrical line telephonic apparatus	560	(1.3)	1,288	(2.0)	+130.0	+458.9		
<u>Hi-Fi equipment and other sound and TV recorders</u>	641	(1.5)	1,431	(2.2)	+122.6	+190.2		
Sound recorders, cassette tape type, for office use	319	(0.7)	911	(1.4)	+188.2	+332.3		
Sound recorders, cassette tape type	318	(0.7)	502	(0.8)	+ 57.8	+135.4		
<u>Travel goods, handbags, brief-cases and similar containers, of leather, plastic or other materials</u>	2,625	(8.4)	4,498	(6.8)	+ 24.1	+ 42.4		
Handbags of plastic materials	815	(1.9)	1,071	(1.6)	+ 31.4	+ 55.9		
Handbags of leather	704	(1.6)	913	(1.4)	+ 29.7	+ 41.0		
Handbags and similar articles of textile materials	480	(1.1)	463	(0.7)	- 7.7	+ 17.6		
Shopping-bags, haversacks, rucksacks and toilet cases of textile materials	254	(0.6)	250	(0.4)	- 1.8	+ 30.6		
<u>Household type, electrical and non electrical equipment</u>	3,072	(7.1)	4,185	(6.3)	+ 36.2	+100.8		
Electric hair dressing apparatus (e.g., hair driers, hair curlers, curling tong heaters)	1,501	(3.5)	1,638	(2.8)	+ 22.2	+130.7		
Ceiling fans, electro-mechanical	528	(1.2)	834	(1.3)	+ 57.9	+ 53.1		
Electric shavers	283	(0.7)	81	(0.1)	- 71.4	+356.9*		
<u>Footwear</u>	2,486	(5.7)	4,926	(7.5)	+ 98.2	+ 79.6		
Footwear (except slippers and house footwear) with textile uppers and outer soles of rubber	682	(1.6)	1,096	(1.7)	+ 60.9	+ 61.6		
Footwear (except slippers and house footwear) with leather uppers and outer soles of rubber	397	(0.9)	1,214	(1.8)	+205.3	+155.2		
Footwear (except slippers and house footwear), wholly or mainly of plastic materials	397	(0.9)	1,052	(1.6)	+165.2	+161.0		
Footwear (except slippers and house footwear) with leather uppers and outer soles of leather or plastic materials	325	(0.8)	458	(0.7)	+ 40.8	+ 70.9		
<u>Crustaceans and molluscs, whether in shell or not, fresh, chilled, frozen, dried or preserved</u>	1,251	(2.9)	844	(1.3)	- 32.7	+ 76.8		
Prawns and shrimps, fresh (live or dead), chilled or frozen	1 203	(2.8)	800	(1.2)	- 33.5	+ 84.6		
<u>Watches and clocks</u>	552	(1.3)	959	(1.5)	+ 73.8	+ 83.2		
Electronic watches, digital (including LCD and LED)	298	(0.7)	444	(0.7)	+ 49.1	+137.1		

Principal commodity	Value of re-exports				Growth rate of 1989 over 1988	Average annual growth rate in last 5 years (1984-1988)
	1988		1989			
	HK\$Mn.	\$	HK\$Mn.	\$		
<b>Pottery</b>						
Tableware and other articles of a kind commonly used for domestic purposes, of porcelain or china (including biscuit porcelain and parian)	643 331	(1.5) (0.8)	794 339	(1.2) (0.5)	+23.5 + 2.2	+ 32.3 + 16.9
<b>Furniture and parts</b>						
Furniture, a.o.o. of rattan (excluding plastic coated rattan)	533 226	(1.2) (0.5)	691 252	(1.0) (0.4)	+29.7 +11.5	+ 27.6 + 24.8
<b>Vegetables, roots and tubers, preserved or prepared</b>						
Mushrooms, preserved or prepared, in airtight containers	432 234	(1.0) (0.5)	473 279	(0.7) (0.4)	+ 9.4 +18.8	+ 24.8 + 29.4
<b>All commodities</b>	<b>43,242</b>	<b>(100.0)</b>	<b>65,993</b>	<b>(100.0)</b>	<b>+52.6</b>	<b>+ 49.7</b>

Notes : (1) Figures in brackets denote percentage share in HK's total re-exports of China origin to the US.

(2) To facilitate matching of the commodity classification used in this table with the US import tariff categories, the SITC Rev. 2 Codes included under each commodity group in the table are listed in an Annex.

\* As there is no trade in the commodity from 1984 to 1985, the average annual growth rate in last 5 years is presented.

**BEST AVAILABLE COPY**

Estimation of relative importance to the  
Hong Kong economy of re-exports of  
China origin to the United States

- Step 1 : Hong Kong's re-exports of China origin to the United States in 1989 : HK\$65,993 million
- Step 2 : Since these goods have to be imported from China prior to re-exportation, total trade transaction involved is equal to  

$$\text{HK\$65,993 million} \times \left( 1 + \frac{1}{1.15} \right)$$

$$= \text{HK\$123,378 million}$$
- \* The re-export margin is assumed to be 15%. Thus the value of re-exports has to be deflated by 1.15 in order to arrive at the value of the original imported goods.
- Step 3 : Express the value of total trade transaction derived in Step 2 as a proportion of Hong Kong's total trade (total exports plus total imports) in 1989:
- $$\frac{\text{HK\$123,378 million}}{\text{HK\$1,133,291 million}} = 10.9\%$$
- Step 4 : Number of persons employed in import/export trade in 1989 : 311 045
- Step 5 : Total value-added contribution to GDP by the import/export trade in 1987 : HK\$46,709 million (latest figure available).
- Step 6 : Since the value of total trade in 1989 was 50% higher than in 1987, the value-added contribution to GDP by the import/export trade in 1987 has to be blown up by 50% to arrive at an estimated value of HK\$70,064 million for 1989.
- Step 7 : Applying the proportion obtained in Step 3 to the results in Step 4 and Step 6, it is estimated that 33 904 jobs and HK\$7,637 million of value-added contribution to GDP in 1989 were in connection with this stream of re-export trade involving China as the origin and the United States as the destination.



Assessment of the effect of non-renewal of MFN status  
for China by the US on the re-exports of Hong Kong

Background

In 1989, re-exports at HK\$346,405 million accounted for some 60% of the total exports of Hong Kong. During the same year, 92% of Hong Kong's re-exports to the US were of China origin, and they accounted for 19% of Hong Kong's total re-exports. Based on import statistics of the US for 1988, it is estimated that about 65% of the total imports of the US from China were re-exported through Hong Kong. Thus US economic sanctions on China, in particular the non-renewal of MFN treatment of all China's exports to the US, will have an adverse effect on the re-export trade of Hong Kong. This paper attempts to provide some quantitative assessment on this effect.

Methodology

2. With the loss of MFN treatment, China's exports will be subjected to higher tariff in the US. This has the same effect of increasing the prices of China's products relative to other competitors in the US market. As a result, there will be a decrease in the demand for China's exports. Viewing this as the price effect on demand, its effect on China's exports will depend on, among other things, the extent of the price increase of China's products and the degree of competition of similar products from other exporting countries in the US market.

3. To assess the effect on Hong Kong's re-exports, major commodities of China origin exported to the US market through Hong Kong are identified based on their

trade values recorded in Hong Kong's external trade for 1989. For these commodities, statistics of the US imports from China and other major competitors are identified, including their values and quantities and percentage share in the US market.

4. Within the import statistics of the US, both the customs value (exclusive of tariff and c.i.f.) and the c.i.f. value (including cost, insurance and freight but excluding tariff) of the imports are available. These enable the import prices (as measured by the import unit value) of the commodities from different countries inclusive of tariff to be derived. The new import prices of China's products due to the imposition of the much higher non-MFN tariff rates upon a loss of MFN status can also be estimated.

5. By comparing the new import prices of China's products (under non-MFN tariff rates) with the import prices of other countries' products in the US market, and also the relative market share of these countries, the impact on China's exports to the US and hence the impact on Hong Kong's re-exports to the US of China origin are assessed as follows :

- (a) Low impact - The impact will be low if the new import prices of China's products are still much below and thus very competitive relative to those of other competitors. Moreover, even though the price differential may become narrower, if China accounts for a substantial market share of US imports, other competitors may not be prepared or have the ready capacity to take

up a much larger proportion of the market. In such circumstances, it is estimated that exports of China of these products to the US will decrease by only 20-30%.

(b) Medium impact - The impact will be of medium magnitude if the new import prices of China products are close to those of other competitors. Moreover, if China accounts for a not too small but not dominant share in the US market (i.e. the market is competitive), other suppliers will be able to take up much though probably not all of the market share which China may lose. In such circumstances, it is estimated that exports of China of these products to the US will decrease by 40-60%.

(c) High impact - The impact will be high if the new import prices of China products are much higher than those of its competitors. Moreover, if China's share in the US market is relatively small, other competitors will be able to take up most of the market share lost by China. In such circumstances, it is estimated that exports of China of these products to the US will decrease by 70-80%.

These assessments are by and large judgemental and are subject to many limitations, including in particular that of data availability and comparability.

6. It is not possible to carry out the assessment on every commodity, given that there are numerous commodities involved and some of them do not have unit of

quantity (and thus no unit value of imports can be derived). Thus only those commodities which have significant shares in the US-China trade and which have unit of quantity are selected. Where more than one commodity is selected for a commodity group, the impact on the commodity group as a whole is assessed on the basis of the average impact observed from the selected commodities. The estimated percentages of reduction in China's exports to the US, depending on the intensity of impact assessed for each commodity group, are then applied to the trade values of Hong Kong's re-exports to the US of China origin. These are then aggregated to derive the overall impact. Table 1 shows the estimated impacts by commodities and Table 2 shows the results of aggregation.

#### Findings

7. Based on the above approach, it is estimated that as a result of the non-renewal of MFN status for China by the US, Hong Kong's re-exports to the US of China origin are likely to be reduced by 35% - 50%. The total re-exports of Hong Kong may thus be reduced by 7% - 9%. In terms of trade value, Hong Kong's re-exports will be reduced by HK\$23-billion - HK\$32 billion.

TABLE 1 ANALYSIS OF TARIFF EFFECT ON EXPORTS OF CHINA TO THE US MARKET  
BY MAJOR COMMODITY GROUP BASED ON 1988 US IMPORTS STATISTICS

(USD)

Commodity group	Ref. no.	Commodities selected for study on cv	% share in US market of China & major competitors		Tariff rate (NPF)	Price of goods in US market (incl. NPF tariff)	New price of China's products	Effect of non-NPF status	Remarks
		[indicates % share in the commodity group based on 1988 U.S. Trade Statistics]	Country	% share					
Toys, games, sporting goods, and baby carriages	1.	Toys (excl. dolls), stuffed (NO.) [18.4]	China	26.8	0.068	1.198	1.86 (70% non-NPF rate)	Low	Price at non-NPF rate still much lower than competitors.
			Rep. of Korea	54.2	0.068	2.819			
			Taiwan	13.6	0.068	2.952			
			Thailand	1.4	0.068	2.599			
			All US imports		0.068	2.044			
	2.	Toys, plastic, with electric motor (NO.) [9.8]	China	22.7	0.068	3.345	5.17 (70% non-NPF rate)	Low	Price at non-NPF rate for China's products still lower than competitors.
			Hong Kong	29.8	0.068	5.483			
			Singapore	20.6	0.068	23.718			
			Rep. of Korea	11.4	0.068	9.147			
			All US imports		0.068	5.663			
	3.	Dolls, stuffed (NO.) [3.2]	China	24.5	0.068	1.112	1.72 (70% non-NPF rate)	Low	Price at non-NPF still very competitive. China has a very significant market share.
			Malaysia	10.0	0.068	1.898			
Taiwan			8.4	0.068	2.259				
Hong Kong			1.3	0.068	0.795				
All US imports				0.068	1.216				

BEST AVAILABLE COPY

Miscel. aft. articles	4. Wickerwork and articles of plastic materials (NO.) [11.2]	China	47.1	0.050	0.644	0.82 (40% non-NFH rate)	Low	China accounts for a significant market share. Price at non-NFH rate for China's products still lower than its major competitor of Phil. R.
		Phil. R.	29.5	0.050	1.301			
		Taiwan	5.6	0.050	0.675			
		Mexico	2.0	0.050	0.405			
		All US imports		0.050	0.810			
Outer garments, women's, textile fabrics (not knitted or crocheted)	5. Blouses, silk (DOZ) [16.2]	China	28.3	0.075	128.559	192.74 (65% non-NFH rate)	Medium	Price at non-NFH rate still competitive, though higher than the average. Other competitors have large market shares.
		Hong Kong	45.2	0.075	189.520			
		Rep. of Korea	16.8	0.075	229.701			
		Italy	6.3	0.075	1260.530			
		All US imports		0.075	181.443			
	6. Blouses, man-made fibres (DOZ) [13.2]	China	13.3	0.050	89.028	130.98 (60% non-NFH rate)	High	Price at non-NFH rate much higher than competitors. Competitive market.
		Rep. of Korea	16.3	0.050	102.761			
		Hong Kong	12.9	0.050	109.973			
		Taiwan	10.2	0.050	96.028			
		All US imports		0.050	75.915			
	7. Shirts and trousers, cotton (DOZ) [10.0]	China	6.2	0.050	81.001	120.86 (60% non-NFH rate)	High	Price at non-NFH rate higher though close to major competitors, but much higher than the average. China has small market share.
		Hong Kong	38.8	0.050	106.927			
		Taiwan	6.5	0.050	114.053			
		Brazil	4.4	0.050	77.774			
		All US imports		0.050	91.698			

BEST AVAILABLE COPY

TABLE 1 ANALYSIS OF TARIFF EFFECT ON EXPORTS OF CHINA TO THE US MARKET  
BY MAJOR COMMODITY GROUP BASED ON 1989 US IMPORTS STATISTICS

(USD)

Commodity group	Ref. no.	Commodities selected for study on wv	% share in US market of China & major competitors		Tariff rate (NPN)	Price of goods in US market (incl. NPN tariff)	New price of China's products	Effect of non-NPN status	Remarks
		[indicates % share in the commodity group based on 1989 U.S. Trade Statistics]	Country	% share					
Outer garments, knitted or crocheted	8.	Jackets, sweater, women, textile materials (DOZ) [40.9]	China	4.1	0.050	79.927	121.33 (65% non-NPN rate)	High	Price at non-NPN rate higher than competitors. China has small market share.
			Taiwan	41.7	0.050	97.252			
			Rep. of Korea	29.0	0.050	92.545			
			Hong Kong	12.1	0.050	88.312			
			All US imports		0.050	85.546			
Clothing accessories, materials other than textile fabrics	9.	Gloves (DPR) [27.0]	China	79.0	0.050	8.691	13.01 (60% non-NPN rate)	Low	Price at non-NPN rate higher than competitors but still competitive. China has a very large market share.
			Rep. of Korea	7.8	0.050	11.684			
			Hong Kong	7.0	0.050	9.791			
			Phil. P.	2.6	0.050	11.999			
			All US imports		0.050	9.832			
Outer garments, men's, other than knitted or crocheted	10.	Men's slacks and trousers, cotton (DOZ) [31.9]	China	7.3	0.050	82.092	122.33 (60% non-NPN rate)	High	Price at non-NPN rate much higher than competitors. China has small market share.
			Hong Kong	21.0	0.050	95.239			
			Dominican Rep.	10.9	0.050	69.309			
			Mexico	8.5	0.050	63.464			
			All US imports		0.050	76.506			

Radio-broadcast receivers	11. Radio-broadcast receivers (NO.) [58.7]	China	17.6	0.060	26.871	26.40 (35% non-NPN rate)	Low	Price at non-NPN rate still much lower than competitors.
		Japan	23.8	0.060	85.946			
		Malaysia	14.5	0.060	27.356			
		Singapore	13.5	0.060	47.724			
		All US imports		0.060	34.587			
Sound and TV recorders	12. Sound recorders, office use (NO.) [63.8]	China	3.7	0.050	12.848	16.35 (35% non-NPN rate)	Medium	Price at non-NPN rate still much lower than competitors. China has very small market share.
		Japan	59.8	0.050	81.452			
		Rep. of Korea	13.8	0.050	28.874			
		Taiwan	7.5	0.050	37.364			
		All US imports		0.050	44.487			
Travel goods and handbags	13. Handbags, plastic (NO.) [23.8]	China	44.6	0.050	2.055	2.69 (40% non-NPN rate)	Low	Price at non-NPN rate still lower than competitors. China has a large market share.
		Taiwan	34.9	0.050	2.810			
		Rep. of Korea	14.7	0.050	3.600			
		Italy	9.9	0.050	35.828			
		All US imports		0.050	2.423			
	14. Handbags, leather (NO.) [28.3]	China	18.5	0.050	7.560	9.96 (40% non-NPN rate)	Low	Price at non-NPN rate still much lower than competitors.
		Rep. of Korea	34.9	0.050	12.303			
		Italy	23.4	0.050	43.768			
		Hong Kong	3.8	0.050	11.616			
		All US imports		0.050	13.255			



TABLE 1 ANALYSIS OF TARIFF EFFECT ON EXPORTS OF CHINA TO THE US MARKET  
BY MAJOR COMMODITY GROUP BASED ON 1988 US IMPORTS STATISTICS

(USD)

Commodity group	Ref. no.	Commodities selected for study on uv	% share in US market of China & major competitors		Tariff rate (MPH)	Price of goods in US market (incl. MPH tariff)	New price of China's products	Effect of non-MPH status	Remarks
		[indicates % share in the commodity group based on 1988 U.S. Trade Statistics]	Country	% share					
Household electrical equipment	15.	Electric hair dressing apparatus (NO.) (43.8)	China	69.5	0.039	6.313	8.12 (35% non-MPH rate)	Medium	Price at non-MPH rate higher than most competitors. China has a large market share.
			Hong Kong	15.8	0.039	6.142			
			Taiwan	11.8	0.039	6.321			
			Italy	1.6	0.039	10.232			
			All US imports		0.039	6.397			
Footwear	16.	Footwear, textile uppers (PH) (22.2)	China	18.8	0.050	1.465	1.90 (40% non-MPH rate)	Medium	Price still competitive, though higher than the average. Other competitors have large market share.
			Rep. of Korea	48.8	0.050	5.286			
			Taiwan	14.7	0.050	4.345			
			Mexico	8.7	0.050	1.474			
			All US imports		0.050	2.870			
	17.	Footwear, leather uppers (PH) (24.6)	China	2.8	0.050	6.832	8.98 (40% non-MPH rate)	Medium	Price still competitive and lower than the average. China has small market share.
			Brazil	31.8	0.050	8.542			
			Italy	27.9	0.050	20.311			
			Spain	13.1	0.050	19.769			
			All US imports		0.050	12.188			



**TABLE 2 ASSESSMENT OF THE EFFECT OF NON-RENEWAL OF MFN STATUS FOR  
CHINA BY US ON THE RE-EXPORTS OF HONG KONG**

Commodity group	1989 RX of China origin to US market		Effect of non-MFN status on China's imports	% reduction to RX		Reduced RX value	
	HKD Mn	% share		Pessim. scenario	Optim. scenario	Pessim. scenario	Optim. scenario
				%	%	HKD Mn	HKD Mn
Toys, games, sporting goods, baby carriages	13 666	20.7	Low	30	20	4 099.8	2 733.2
Miscel. light goods	3 434	5.2	Low	30	20	1 030.2	686.8
Miscel. articles of plastic materials	1 552	2.4	Medium	60	40	931.2	620.8
Outer garments, textile, women's	4 199	6.4	High	80	70	3 359.2	2 939.5
Outer garments, knitted or crocheted	3 439	5.2	High	80	70	2 751.2	2 407.3
Clothing accessories, not textile fabrics	1 482	2.2	Low	30	20	444.6	296.4
Outer garments, men's	1 444	2.2	High	80	70	1 155.2	1 010.8
Radio-broadcast receivers	3 796	5.8	Low	30	20	1 138.8	759.2
Telecom. equipments	2 073	3.1	Medium	60	40	1 243.8	829.2
Sound and TV recorders	1 431	2.2	Medium	60	40	858.6	572.4
Travel goods, handbags	4 498	6.8	Low	30	20	1 349.4	899.6
Household electrical equipments	4 185	6.3	Medium	60	40	2 511.0	1 674.0

Footwear	4 926	7.5	Medium	60	40	2 955.6	1 970.4
Crustaceans & molluscs	844	1.3	Medium	60	40	506.4	337.6
Watches and clocks	959	1.5	Medium	60	40	575.4	383.6
Pottery	794	1.2	Medium	60	40	476.4	317.6
Furniture & parts	691	1.0	Medium	60	40	414.6	276.4
Vegetables	473	0.7	Medium	60	40	283.8	189.2
Total of the above	53 886	81.7				26 085.2	18 903.8
Estimate of percentage reduction in RX of China origin to US						48.4%	35.1%
Total RX of China origin to US	65 993						
Estimate of total reduction in RX of China origin to US						31 946.0	23 151.1
Total Re-exports of Hong Kong	346 405						
Estimate of percentage reduction in total Re-exports of Hong Kong						9.2%	6.7%

Note : The effect of non-MFN Status on China's imports into the USA is based on the analysis of the trade pattern of China's exports to U.S. (see Table 1)

**BEST AVAILABLE COPY**

## Exhibit Two

## AmCham Damage Assessments

- a. Trade
- b. Employment

## \* Estimate of Damage to Hong Kong

AmCham derives its estimate of potential loss of business suffered by Hong Kong firms (including those owned by Americans and non-Americans) over a twelve-month period as follows:

(1) Value of Chinese products reexported by H.K. (1989):	USD 8.5 billion
(2) Value of imported raw materials and components associated with (1)	USD 4.9 billion
(3) Middlemen contracts	
a. U.S. exports to China of goods other than (2) handled by U.S. and other firms in H.K.	USD 1.65 billion
b. Chinese exports to U.S. handled by H.K. middlemen	USD 1.0 billion
	-----
<b>Total</b>	<b>USD16.05 billion</b>

of which at least 50 percent will be lost, or, USD8-9 billion in business (assuming moderate growth in 1990).



THE AMERICAN  
CHAMBER OF COMMERCE  
IN HONG KONG

美  
國  
商  
會

#### AMCHAM SURVEYS ON MFN LOSS

AmCham has done two surveys in an attempt to gauge the impact of China's MFN loss on our members. It should be stressed from the outset that our chamber is not a professional survey research organization, and we do not claim methodological perfection. The surveys are indicative of trends, however, and do reinforce perceptions of executives interviewed on the subject by AmCham officers.

For both surveys, AmCham sent out questionnaires to all of its corporate members (1,121). From previous work, we estimate the total employment of Hong Kong staff by these members to be 250,000.

The first survey, conducted in May, attracted 100 responses (8.9% of the sample). Approximately 60 percent of those responding indicated that their businesses would be negatively affected by China's loss of MFN; 44 percent indicated that they would consider staff reductions.

The second survey, conducted in June, attracted 158 responses (14.1% of the sample). Approximately 43 percent of those responding stated that they would reduce staff if MFN were taken away from China. Of those 43 percent of respondents who would reduce staff, the staff reduction would equal on average about 28 percent of their total workforce.

Roughly extrapolating from these numbers, of the 250,000 total staff members employed by AmCham member companies in Hong Kong, 107,500 would work for employers who would reduce staff if MFN were taken away from China. If these employers reduced staff levels by the average 28 percent indicated by the survey, 30,100 jobs would be lost. AmCham recognizes that this estimate lacks scientific precision, but believes that it indicates the magnitude of the problem.

It is important to bear in mind that the AmCham surveys focused on corporate members of the American Chamber only. They do not take into account the impact on Hong Kong's total workforce of 2.5 million. The Hong Kong government has estimated that at least 20,000 jobs would be lost if MFN were removed from China. Based on the indicative results of our surveys, AmCham believes the Hong Kong government's figure on job losses is probably too low and that the employment loss would be much greater.

## Exhibit Three

## Testimonial(s)

**ODYSSEY  
INTERNATIONAL  
LIMITED**

Odyssey Centre.  
13-15 Yuen Shun Circuit, Sha Tin,  
New Territories, Hong Kong.  
Tel: 6377838  
Fax: (852) 6365622 (G3)  
Telex: 30783 ODSSY HX  
Cable: ODYSSEY HONG KONG

June 14, 1990

Mr. John Kamm  
President  
The American Chamber of Commerce in Hong Kong  
1030 Swire House, Central  
Hong Kong

Dear Mr. Kamm,

RE: MFN STATUS FOR CHINA

Please convey the following to members of Congress during your June visit to Washington.

The deleterious effect of withdrawing MFN status from China might be more serious than you have suggested. It is our educated opinion that the reduction of Chinese exports to the U.S. would be closer to 70% than the 50% figure you have mentioned. The accompanying loss of revenues in both American and non-American companies in Hong Kong and China would be catastrophic. Talks with senior government officials in Beijing lead us to believe that China might retaliate by cutting off nearly all imports of U.S. products. While the economic impact would be damaging to all parties, the most detrimental result of withdrawing MFN status would be the alienation and abandonment of the average urban Chinese citizen, who, after a long period of suspicion and distrust, has warmly embraced the U.S. as a "Friend" during the last ten years.

Odyssey International Limited (Odyssey) is an American owned manufacturing company headquartered in Hong Kong. The company specializes in the design and production of high quality, labor-intensive apparel and soft goods for the sports and outdoor industry. Its products include skiwear, rugged outdoor clothing, tennis and golf apparel, expedition clothing and mountaineering equipment, including tents and sleeping bags. Odyssey's customers include L.L. Bean, Eddie Bauer and Land's End. Total sales of manufactured goods exceed US\$200 million.

In addition to the manufacturing company, Odyssey, through a related company, Odyssey International (Trading) Ltd., sells US\$160 million worth of U.S. and Canadian chemicals and fertilizers to China.

Founded in 1978, Odyssey has based its Asian manufacturing strategy around China, operating in nine provinces. By concentrating on quality, Odyssey has grown to be one of the world's largest manufacturers in the sports and outdoor industry. Many of its raw materials are sourced in the U.S. Among its important suppliers are Burlington, DuPont, 3M and W.L. Gore. Odyssey is Gore's largest customer for its Gore-Tex fabrics.

**ODYSSEY  
INTERNATIONAL  
LIMITED**

Page.....2.....

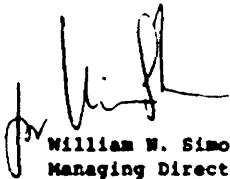
Mr. John Kasm  
June 14, 1990

In 1988, Odyssey's success in China enabled it to acquire two U.S. outdoor companies, the North Face and Sierra Designs. In addition, Odyssey has established U.S. sales, service and retail operations. Total U.S. employees now exceed 800 persons. Plans to establish more American manufacturing facilities are underway and 2,000 to 2,500 employees are expected to be hired in the U.S. during the next three years.

Hong Kong and China are the backbone of Odyssey's business. Over 700 employees work directly for Odyssey in Hong Kong, while over 20,000 are employed indirectly in China, largely through contractors located in south and coastal provinces. It is clear that the withdrawal of MFN status from China would endanger the existence of Odyssey as a going concern. The company estimates that the effect of significantly higher duty rates would cause 75% of its production in China to disappear. It is difficult to see how Odyssey could continue operating. Jobs on both sides of the Pacific would be lost. The effect would be compounded by the thousands of American, Hong Kong and Chinese companies which would suffer the same fate.

While it is not easy to measure the total economic impact to the nations involved of withdrawing MFN from China, it is a fact that very significant losses would occur. What is not easy to measure is the loss of trust, faith and friendship that have developed between the American and Chinese people. If the travel, educational, cultural, political and, most importantly, trade contacts between the two countries diminish, as they surely would after the withdrawal of MFN, and if the Chinese media blames the U.S. for the loss of jobs and revenue, as it surely would after the withdrawal of MFN, then America would lose much of the precious ground it has gained in recent years with the world's most populous country.

Sincerely yours,



William W. Simon  
Managing Director

WWS/vs




**KADER INDUSTRIAL COMPANY LIMITED**

22, KAI CHEUNG ROAD, KOWLOON BAY, KOWLOON.  
 TELEX: 82375 KADER HK FAX: 3-7961126  
 TEL: 3-7961688

13 June 1990

Mr John Kamm  
 American Chamber of Commerce  
 Room 1030 Swire House  
 Chater Road  
 Hong Kong

Dear John

I understand the American Chamber of Commerce has launched a lobbying campaign against the removal of MFN status from China and am writing to vow my strong support.

I am concerned about the sentiments in the U.S.A. to remove the 'most favoured nation' status of China since it will have serious damaging effects on Hong Kong's future. The U.S. Government has been given genuine support to Hong Kong for maintenance of status quo beyond 1997. Since normalization of diplomatic relations with China in 1970s, the direction of U.S.A. enterprises and corporations investment in China from 1980 onwards have also prompted the Hong Kong manufacturers to establish factories in China to re-export goods manufactured in China to U.S.A. The end result of this investment direction is that the U.S. consumers have the benefits of enjoying stable and relative inexpensive consumer merchandises in the past 10 years such as the toys manufactured by our company. Removal of the MFN status from China will paralyze immediately Hong Kong's economic growth since Hong Kong has been very much economically linked to China and U.S.A. in terms of re-exports and exports respectively.

We people in Hong Kong do not believe the U.S.A. should take the move as effective sanctions can be in other forms. U.S.A. has been advocating free international trade without restrictions. This action is unquestionable a move against the free trade spirit. Hong Kong is a classic example of free port and it should not be the intention of U.S. government to penalize Hong Kong for practicing free trade policy.

During the past 10 years, Hong Kong has been bringing into China the ethics and systems of incentive so much valued in the western world. Such free enterprise spirit is now beginning to influence the ideology of communism in the mind of the Chinese People. They have been very receptive

開遠實業有限公司  
 九龍九龍灣登祥道22號  
 電話：3-7961688

**BEST AVAILABLE COPY**


**KADER INDUSTRIAL COMPANY LIMITED**

 22, KAI CHEUNG ROAD, KOWLOON BAY, KOWLOON.  
 TEL: 3-7961688 FAX: 3-7961126  
 TE: 3-7961688

to these western values and the proposed economic sanction will push China to the corner and turn against the world trend of economic co-operation. Slow and steady political pressure internationally against China will force China to modify its policies gradually to gear up to the international standards of handling issues of international importance.

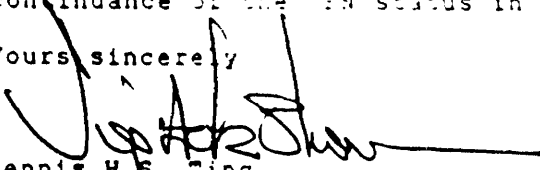
As an illustration of direct impacts to us, a toy manufacturer principally for American markets. We estimate about 60% (US\$70 million) of our turnover will be reduced if MFN is removed from China. Most American toy companies will be buying from elsewhere where the duties are still in the range of 3.5% to 23% with MFN status. Without the MFN status, the product manufactured by us in China will be subject to duties of over 70% which American consumers cannot accept and henceforth American companies will go elsewhere for purchase of merchandise. US\$70 million ex-factory prices is equivalent to 16 million pieces of toys exported from China assuming an average cost of US\$4 per piece of toys FOB price.

At present, it is estimated that 500,000 workers in China are directly and indirectly related to toy manufacturing activities and close down of toy factories in China due to loss of MFN status will undoubtedly create the problem of placement of these workers into other jobs. Social unrest will definitely be generated by widespread unemployment in China which totally defeat the purpose of gradual process of democratisation in China that the world is hoping China to head towards it.

These figures are only based on information available to our company and I am sure that the Toy Council will be able to supply you the industry wide statistics supporting my argument.

In any event, I am very thankful to you to take up this important task to defend the interest of Hong Kong for the continuance of the MFN status in China.

Yours sincerely

  
 Dennis H.S. Ting  
 Chairman

開遠實業有限公司  
 九龍九龍灣登輝道22號  
 電話：3-7961688

**BEST AVAILABLE COPY**

## Exhibit Four

Hong Kong Radio Interview, June 4, 1990

Transcript of the Exchange between  
Mr. Martin Lee and Mr. John Kamm  
Regarding June 4 and MFN  
(Radio-Television Hong Kong, June 4, 1990)

- Host: Continuing with our coverage of the anniversary of the Peking Massacre we have in our central studio Mr. Martin Lee, Legislative Councillor and Chairman of the United Democrats of Hong Kong, and Mr. John Kamm, President of the American Chamber of Commerce. Good morning, gentlemen.
- Lee: Good morning.
- Kamm: Good morning.
- Host: Mr. Lee, the date June 4th certainly gave rise to an immense amount of emotion in Hong Kong. Looking back on it, it will never be forgotten by yourself and many other hundreds of thousands of people here but would you like to tell us what you think the lasting significance of June 4th will be?
- Lee: A lot of people now in China and in Hong Kong, I mean those in the government, would like the people of Hong Kong to forget what happened on the 4th of June last year and indeed what preceded it in 1989. The massive turn out yesterday quite clearly shows that the people of Hong Kong will not forget and they cannot forget. I think in the long term there is great significance to the great numbers turning up yesterday and that is that the people of Hong Kong will not accept the policy of appeasement chosen by the British government. I think the Chinese leaders must realise that if they want to have a smooth transfer of sovereignty in 1997 then they must change the present policy adopted towards Hong Kong which is the policy of intimidation - - intimidating the people of Hong Kong into submission. What happened yesterday clearly shows that that is not the correct policy to be adopted. The Chinese leaders should try every way possible to win back our hearts and that is not to be done and cannot be achieved by intimidation. If you look back over the last year, what has the Chinese government really done in that direction? Have they ever tried to say or do anything which can be said to be calculated to win back confidence?

Host: On the other hand could you argue that the Chinese government's attitude as being worse since June 4th towards Hong Kong than it was beforehand that in fact that by Hong Kong's reaction to what happened on June 4th Hong Kong did bring down a nest of troubles upon its head?

Lee: Well, the emotions expressed in Hong Kong are not unique because these emotions are expressed by all Chinese people all over the world and the only difference is that we are nearer to China than the rest of the Chinese overseas and we do not have a government which has a backbone.

Host: Mr. Kamm, Mr. Lee a moment ago referred to people in the government and elsewhere who would like to forget the events of June 4th, in a way could we use that to describe the attitude of the business community or parts of it perhaps reflected in your own attitude as expressed in Washington during the hearings of the MFN talks that the main point is to keep food in people's bellies and it's no good continuing with policies against China if this is going to break rice bowls. Do you feel in any way that you were the object of what Mr. Lee was saying then, that you need to defend your attitude?

Kamm: First of all, I'd like to express on behalf of the American community here and the American Chamber of Commerce our sympathy and profound feelings with the people of Hong Kong and the Chinese people around the world as they mourn this day of national tragedy. I hope that I wasn't included in the ranks of those who seek to forget what happened on June 4th and I don't think that the debate that is going on in Congress serves to make people forget. Quite to the contrary. The debate that is going on is precisely about how we move forward and how we try to undo some of the terrible things that have happened. All we are arguing is the taking MFN treatment away from China, with the terrible consequences that that act would have for Hong Kong, is not the correct path forward. That's all we are saying. We are not in any way condoning what has happened. If you read my testimony before Congress you will see that I used very strong language in condemning what happened on June 4th.

Host: Yes, but the argument against that is that it's all very well to use strong language, people have used strong language before. The Chinese just cock a snook at that. Language, you know, words...sticks and stones may break their bones, but words will never hurt them. Don't you really feel that the Chinese government ought to be reminded very strongly of the way people feel by something more concrete than just words?

Kamm: Well, that's precisely the problem. What is that something? How far do you go? What's enough punishment? That's just what the debate is all about. Do you break diplomatic relations? Where do you stop? What we are saying is that in considering what acts governments and people around the world take in reaction to this tragedy that they take into account at the same time the collateral damage that it does to the friends and allies of the democracy and reform movement in China.

Host: Alright, let's see if Mr. Lee has an answer to that. At the time or shortly afterwards, I think you were calling for economic sanctions against China but then you withdrew that recommended course. What do you think that the so-called spineless British government and the American government -- I think perhaps you might tar them with the same brush -- what should they do without breaking all our rice bowls?

Lee: You can say that a year is a very long time in politics. That government has withstood all pressures during that year. I think the pity was perhaps that not too much pressure was exerted on China at the time. Now, one year later, we are looking at Hong Kong more than anything else and that is my position today. I cannot see how the removal of the MFN status in China would not hurt Hong Kong and hurt Hong Kong badly, and that is the only difficulty that I see because I put Hong Kong first and foremost in my mind. Perhaps that is a selfish way of looking at it but I just cannot do otherwise. I have not heard many people in Hong Kong at all who have said, in spite of what they feel about the past year, that the U.S. government should remove that status from China.

## Exhibit Five

Letter from Macau Government

Direcção dos Serviços de Economia

經濟司

MR. JOHN KAMM  
 PRESIDENT  
 THE AMERICAN CHAMBER OF COMMERCE  
 1030 SWIRE HOUSE  
 HONG KONG

Macau, June 12, 1990

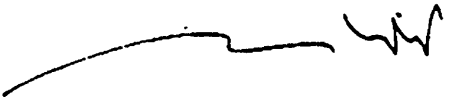
In reply to your fax dated June 9, we regret to inform you that the Macau Economic Services has not done any estimate of the damage Macau would suffer if MFN were taken away from China.

The fact is that such an estimate would be very difficult to assess, as removal of MFN status from China would mostly affect Macau's economy in an indirect way. This is because a significant number of Macau's manufacturers have, over the last decade, invested in the People's Republic of China, either directly or as joint-ventures. A considerable amount of their output is estimated to be exported to the United States.

Nevertheless, the Governor of Macau delivered a memorandum to the Portuguese Foreign Affairs Ministry in which he draws attention to the fact that «the United States withdrawal of most-favoured-nation status from China (...) may not only hurt the People's Republic but other economies as well, namely that of Macau». After all, as your organization in Hong Kong pointedly stressed, removal of MFN would prompt a serious economic recession in the whole of the Pearl River delta region.

Wishing you the best in your endeavors to press forward this point before the House of Representatives, I remain

Sincerely yours,



António Leça da Veiga Paz  
 Acting Director,  
 Macau Economic Services

## Exhibit Six

Opinion by Prof Ezra Vogel

Opinion on the Impact of Removal of China's  
Most Favored Nation (MFN) Status on Guangdong Province

by Ezra F Vogel

The most hopeful signs for China's making a smooth transition to a more open market economy and a freer political climate in the last decade have come from Guangdong. This province of 60 million has led the country, not only in foreign trade and investment, but in innovations in the market and in openness to the outside world. Its success in bringing life to a moribund economy and raising the standard of living made it a model for the rest of China, not only in official circles, but in the minds of people in all parts of China.

Since the Tiananmen Square killings, it and the rest of coastal China have faced threats from two directions. One is from Beijing, the other from the U.S.. Beijing's effort to tighten controls since the Tiananmen incident threatens the freedom of local people to carry on economic activities and keep up contacts with the outside world. Beijing tried to remove popular local officials. For months rumors were circulating in Guangdong and Hong Kong that Beijing had been trying to "promote" Guangdong's reform-minded governor Ye Xuan-ping to a higher position in Beijing and to replace him and his associates with tough-minded leaders who would clamp down on some of the free-wheeling activities. Some central leaders have been warning Guangdong in their pronouncements that they must take a harder line in restricting their economy and their press.

Yet, by and large, Guangdong has weathered the threat from Beijing well. Nearly all the top reformers remain in power, and Beijing recently affirmed that critical components of "the special policy" towards Guangdong -- foreign exchange retention and relatively high spending approval limits -- remain in force. The border with Hong Kong is still very open. Ordinary Guangdong residents still regularly watch Hong Kong's TV and listen to Hong Kong's radio. Political discussion is widespread, and focuses on the need to maintain local prosperity.

Guangdong also faces the threat of being isolated by the United States. If the Congress of the United States succeeds in overturning President Bush's recommendation to extend the "most favored nation" (MFN) status for China, Guangdong Province will suffer deeply. The most recently available statistics reveal that of Guangdong's total value of agricultural and industrial output, roughly 12 percent is devoted to production for the U.S. market. Loss of MFN would result in hundreds of thousands of lost jobs in China's most open and capitalistic province.

In the 1950s, during the Korean War, when the United States began a blockade of China trade, no part of China suffered more than Guangdong and the other coastal areas that were part of the international community. Their economy stagnated and even retrogressed, and people who formerly took part in foreign trade were without means of livelihood. Even worse, people there were cut off from outside ideas. Many were killed and many more were with foreign ideas and foreign friends were subjected to continuing purges. In severity and sheer numbers, they, far more than the targets of Senator Joseph McCarthy, were the true victims of the closing of China.

It is impossible now to close completely the borders between China and the outside world, but if Hong Kong and the United States weaken their ties, it sets back the efforts of reformers who want to adapt to the outside world and improve their own livelihood and their own freedoms. The coastal areas of China need Hong Kong just as Eastern Europe needs Western Europe. Hong Kong in turn needs to have access to America's markets.

Guangdong has suffered in the last year. Tourism is down, foreign remittances are down, investments are down, economic growth is down. But the economy continued to grow in 1989 and is struggling for a respectable gain in 1990, in good part because of the expansion of exports to Hong Kong and, thence, to the United States.

The hard fact is that the future of Hong Kong depends less on measures for the development of democracy in the territory than on the overall business and political climate in China, particularly in the closest part of China, Guangdong. The best way to ensure the future vitality of Hong Kong is to do everything we can to keep Guangdong and the rest of coastal China open to the outside.

The brutality of the crackdown in China must be condemned. We should use sanctions that help discourage those who abuse human rights. But in choosing our means to oppose human rights abuses, it is vital that the United States not undertake acts which hurt our friends and allies in China and Hong Kong. To use sanctions that blindly hurt both friends and enemies, indeed that hurt our friends more than our enemies, is counterproductive to the cause of reform in China. Stripping China of MFN is one such sanction. Congress should support the President's recommendation.

-----

Ezra F Vogel is Clarence Dillon Professor of International Affairs at Harvard University.



Asian Wall Street Journal Article, May 28, 1990

## Guangdong Shows Need for MFN Status

### Province Is Huge Source of Labor, Revenue for China and Hong Kong

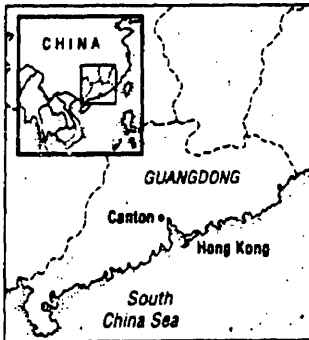
By ADI IGNATIUS  
SIA/J Reporter

NANHAI COUNTY, China — Kevin Chen, a foul-mouthed Cantonese shoemaker in south China's bustling export belt, is an apt symbol of why President George Bush wants the U.S. Congress to agree to extend trade benefits to China.

Mr. Chen is a true child of China's decade of economic reform. The 33-year-old former farmhand is the director of the Nanhai Pingxi Shoe Factory, which makes a million pairs of Adidas running shoes a year. Most of his 1,600 workers are fresh off the farm, as well — some of the millions flocking to new business opportunities that abound in the export-driven economy of Guangdong province.

"You Americans are always talking about protecting the human rights of the Chinese people," says Mr. Chen, peppering his observations with colorful, but unprintable, Cantonese slang. "Well, Congress better think about this issue good and hard. If China loses most-favored-nation trade status, I'll have 1,600 people out of work, back on the farms looking for something to do. Is that protecting Chinese human rights?"

Mr. Bush, who seems to share Mr. Chen's concerns, last Thursday extended for one year China's MFN status, which guarantees the lowest possible tariffs for



Chinese exports. Depriving Beijing of the benefit would have pushed up tariffs steeply, causing an export-revenue loss that China estimates at \$10 billion a year. Congress can block the move, but barring a major human-rights blunder by Beijing, the U.S. legislature isn't likely to muster the two-thirds vote that would be required.

Nonetheless, as Congress begins pondering the president's recommendation, there is sure to be fierce debate. The China sanctions question is double-edged. On the one

hand, many congressional critics of Beijing feel an impulse to deprive China of preferential trade terms to penalize its leadership for the killing of democracy demonstrators last June 4, as well as for its repressive human-rights policies and partial backtracking on economic reforms.

But taking away the MFN status also would surely hurt such economic pioneers as Mr. Chen, who have been among the major proponents and beneficiaries of China's move away from Stalinism. Moreover, stripping China of trade benefits would hurt the U.S., Hong Kong and other nations with companies that have invested heavily in export and export-processing ventures in China.

Consider the case of Nike Inc. For years, the Oregon-based sports-shoe maker struggled trying to set up a manufacturing operation in China. Despite Nike's huge initial investments, the factories it contracted from couldn't meet production targets. A big percentage of shoes didn't meet Nike's quality standards and had to be scrapped.

"In the early stages, we did a study that showed it was costing us practically \$100,000 per finished pair," says Richard Willing, production director for China.

But Nike's patience has paid off. Its five factories in south China are now making

Please Turn to Page 9, Column 4

## Low U.S. Tariffs Crucial to Guangdong

Continued From First Page

650,000 pairs a month, and Nike hopes to export \$100 million of shoes from China next year. Moreover, the China operation has just started turning a profit. "We're making money, but it's taken 10 years to get there," says Mr. Willing.

The debate over China's trade status shows how fragile Nike's hard-won success is. If Congress surprises everyone and denies China beneficial trade terms, Nike's business here would be severely threatened. Tariffs on some shoes would rise to 33% from the current 13%, making it unprofitable again to continue producing in China.

Like other manufacturers, Nike has a contingency plan that, if the U.S. ultimately denies China favored trade status, would shift much of the company's China operation to Indonesia and Thailand. Many of the 8,000 Chinese employed making Nike shoes would be out of work.

The American appetite for Chinese-made goods has been insatiable in recent years. The U.S. also is a market that wouldn't be easy to replace. Trade experts note, for example, that China's export markets in Europe are virtually saturated. China's exports to the U.S. last year totaled \$11.99 billion, up 43% from a year earlier.

Despite talk of sanctions, exports this year are still booming: in the first two months, they jumped 35%. Most of the goods are transhipped through Hong Kong, whose companies also would stand to lose heavily if the U.S. takes away China's trade benefits.

One man who has learned the value of the Hong Kong link is H.P. Chan, general manager of Fei King Household Electrical Appliances Manufacturing Co., an enterprise making electric fans in Nanhai county, an hour's drive from Canton.

Outside the sprawling factory grounds are stacked thousands of boxes of ceiling fans ready to be loaded into several giant container trucks. The trucks will move the goods to Hong Kong, a three-hour drive away, and then the fans will be re-exported to the U.S. There they will be sold under the brand names of local makers in Florida, Texas and Pennsylvania; customers in the U.S. won't even know they've bought Chinese. Last year, Fei King earned China \$2.7 million in foreign exchange from its exports to the U.S.

"In the last 10 years, we've enjoyed very good relations with the U.S. I even had the boss of K mart (a big U.S. retail chain) here — many times!" says Mr. Chan. "But

if the U.S. ever cuts us off, we'll figure something else out to survive. Maybe we'll sell to the Soviet Union."

In this part of China, 1,000 kilometers from Beijing, the austere capital, politics is a dirty word. Like the Hong Kong businessmen with whom Guangdong's manufacturers have developed close links, the only game in town is making money.

Mr. Chen, whose factory produces Adidas sports shoes, already has been burned once by adverse international reaction to last year's killings in Beijing. Prior to June 4, his sole client was Reebok International Ltd. But the U.S. company decided suddenly to pull out of its contract — "some garbage about human rights," Mr. Chen says.

Reebok's shift saddled the factory with a loss of \$940,000, he says, adding that his company still doesn't know what to do with the material for 170,000 pairs of Reeboks it imported last year. The factory avoided financial catastrophe at the end of last year, when it won an order to become a regular supplier of Adidas.

"If the U.S. changes its trade policy, we'll be hit again," says Mr. Chen, still swearing under his breath. "When that happens, I might just shut the factory down and raise mice."

BEST AVAILABLE COPY

## Exhibit Eight

## Provincial Imports and Exports, 1988

China's Regional Exports and Imports in 1988

(Value: US\$ Million)

<u>Province/Municipality/ Autonomous Region</u>		<u>Exports</u>	<u>(% Change)</u>	<u>Imports</u>	<u>(% Change)</u>
Guangdong	( 广东 )	7,784	+ 38	5,110	+ 41
Shanghai	( 上海 )	4,576	+ 10	2,640	+ 44
Liaoning	( 辽宁 )	3,798	+ 1	580	+ 33
Shandong	( 山东 )	2,982	+ 1	890	+ 40
Jiangsu	( 江苏 )	2,277	+ 11	815	+ 40
Tianjin	( 天津 )	1,703	+ 14	596	+ 20
Zhejiang	( 浙江 )	1,560	+ 18	400	+ 87
Hebei	( 河北 )	1,534	+ 5	232	+ 1
Fujian	( 福建 )	1,362	+ 61	745	+ 70
Hubei	( 湖北 )	1,175	+ 24	292	+ 82
Beijing	( 北京 )	999	+ 15	384	+ 23
Heilongjiang	( 黑龙江 )	937	+ 18	303	+101
Sichuan	( 四川 )	850	+ 19	162	+ 3
Henan	( 河南 )	757	+ 17	99	+ 1
Hunan	( 湖南 )	638	+ 3	195	+ 53
Guangxi	( 广西 )	542	*	264	+ 6
Anhui	( 安徽 )	538	+ 5	150	+ 5
Jilin	( 吉林 )	514	+ 11	176	+ 3
Jiangxi	( 江西 )	489	+ 21	109	+ 33
Yunnan	( 云南 )	467	+ 50	206	+ 43
Shanxi	( 山西 )	345	*	219	- 23
Shaanxi	( 陕西 )	311	+ 19	91	+ 21
Inner Mongolia	( 内蒙古 )	310	+ 39	86	+ 11
Xinjiang	( 新疆 )	294	+ 36	109	+ 18
Hainan	( 海南 )	286	+249	490	+ 7
Gansu	( 甘肃 )	151	+ 20	14	- 50
Guizhou	( 贵州 )	113	+ 23	39	+ 23
Mingxia	( 宁夏 )	79	+ 43	11	- 26
Qinghai	( 青海 )	43	+ 21	8	- 27
Tibet	( 西藏 )	11	+ 42	6	- 4
<u>Regional Total</u>		37,425	+ 17	15,421	+ 35
<u>National Total</u>		40,640	+ 17	39,850	+ 19

\* ± less than 0.5%

Note : Figures for individual regions do not add up to the national total as they do not include the trade, particularly imports, that is handled by the ministries and organizations that do not fall under the jurisdiction of provincial governments.

Source: Ministry of Foreign Economic Relations & Trade (MOFERT)

BEST AVAILABLE COPY

## Exhibit Nine

## Local Foreign Exchange

Imports with Local Foreign Exchange

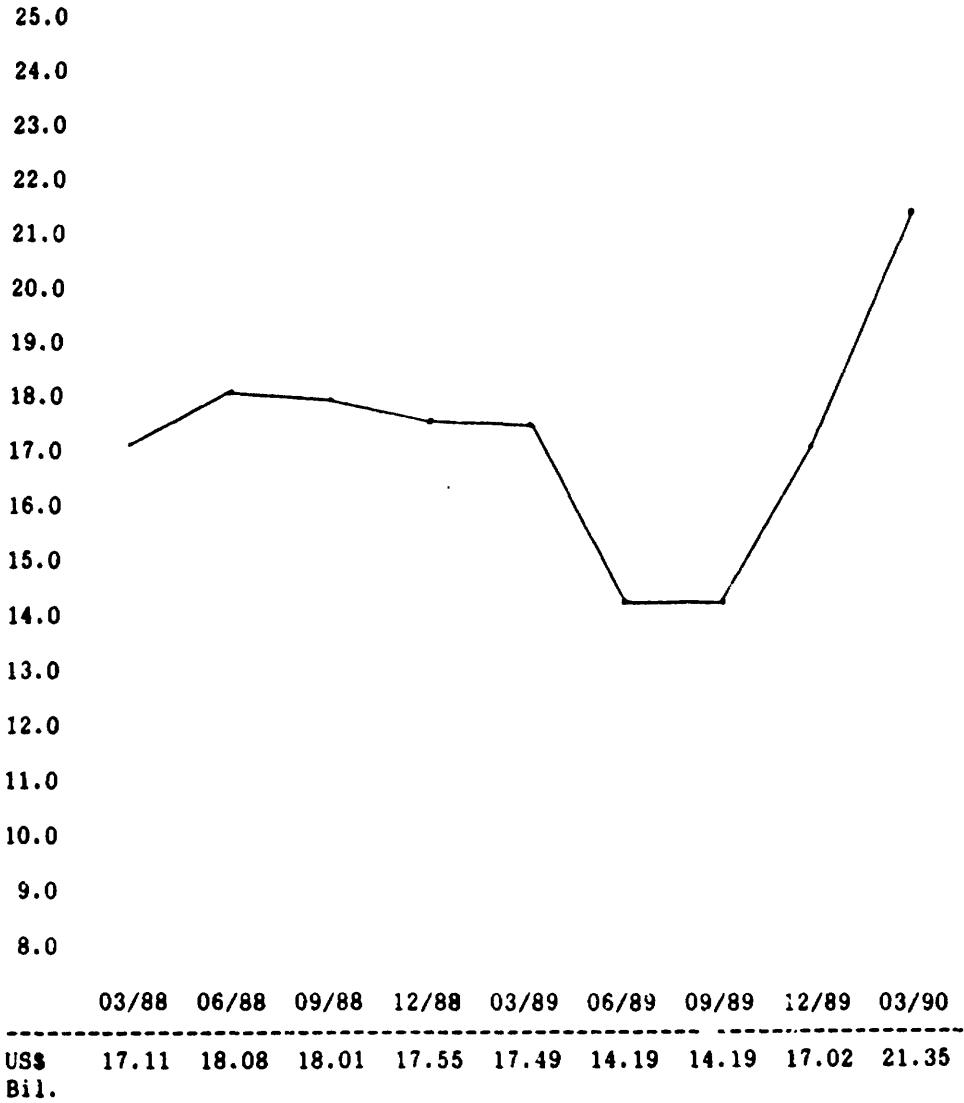
(Value: US\$ Million)

<u>Province/Municipality</u>	<u>1987</u>	<u>1988</u>	<u>(<math>\pm</math> Change)</u>
Guangdong	3,120	4,602	(+48)
Shanghai	1,836	2,640	(+44)
Jiangsu	584	815	(+40)
Shandong	507	591	(+17)
Fujian	339	398	(+17)

Exhibit Ten

China's Foreign Exchange Reserves

CHINA'S FOREIGN EXCHANGE RESERVES  
(US\$ Billions)



## PREPARED STATEMENT OF DAVID LYONS

## 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 renewal of 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 this country's leading current market for wheat, with sales in excess of \$1 billion in 1989, nearly 20% of all U.S. wheat exported last year. Total U.S. agricultural commodity and product sales to the PRC in 1989 exceeded \$1.5 billion, including exports of wheat, cotton, corn and forestry and tobacco products. Agriculture-related exports of fertilizer and paper accounted for an additional \$575 million in sales.

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 MFN status is denied the PRC.

## PRC RETALIATION AGAINST U.S. FARM EXPORTS LIKELY

PRC retaliation in the event of denial of MFN status should not be considered a matter in doubt. Retaliation against U.S. exports will almost certainly and immediately follow denial of MFN status. 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 by denial of PRC MFN status. The result of denial of MFN status 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 of MFN status would be a betrayal of trust with our Nations' farmers and exporters and 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

Advocates of denial of PRC MFN status should be disabused of the notion that this sanction is a risk-free, cost-free action without penalty to the United States. The penalty to U.S. agriculture could be severe and long-lasting. Indeed, denial of MFN may be tantamount 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 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 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 be 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.

---

#### PREPARED STATEMENT OF ROGER W. SULLIVAN

Mr Chairman, Thank you for including me among the witnesses this morning.

The issue of whether to extend China's Most Favored Nation (MFN) status for another year, as we have done every year since 1979, is a difficult one. Americans find the human rights behavior of the current Chinese regime to be abhorrent and support the limited sanctions already adopted by the US Government to express our outrage. Companies find the business climate under such a regime unattractive and hope for a return to the policies of reform and openness. Beijing does not appear to be listening, so it is tempting to consider the withdrawal of MFN as a logical next step. It would certainly be a powerful sanction; indeed I can think of nothing else we might reasonably consider that would cause as much damage to the Chinese economy.

A decision to interfere with free trade in this way and to dismantle the structure of trade built up around the original extension of MFN to China ten years ago would have serious, unintended consequences. Now we may decide those unintended consequences are worth bearing, but we have to know what they are before we can make such an assessment. We need, therefore, to ask the following key questions.

First, who will be hurt? Had we asked ourselves this question in 1980 after the Soviet Union invaded Afghanistan, we would never have imposed the grain embargo, a quixotic gesture which damaged only our own farmers.

Removing MFN is not such an obviously misguided option because China would be hurt. The removal of MFN would increase the rate of duty on the top 25 dutiable imports from China from an average of 8.76 to a prohibitive 50.49%. Considering the types of products now being imported and the comments of business executives closest to the action, we estimate that the removal of MFN would mean at a minimum a 50% reduction (or \$6 billion) in Chinese exports to the United States. Some of these products would find markets elsewhere, but most would not since they are produced in large part for the American market by American or other foreign joint

ventures or local factories under contract to American, Hong Kong or Taiwan firms. If the US market for these low margin goods were effectively closed, many of these operations would simply move to another country or shut down.

It is impossible to quantify the damage to American consumers, importers and retailers. Importers suggest that over time they would be able to shift to alternative sources elsewhere in Asia or possibly in Eastern Europe but the short-term costs and dislocations would be considerable. Retailers, who must place their orders in March or April for delivery in time for Christmas, would sustain significant losses. Prices on toys, games, clothing and other light industrial products would go up, particularly for those American consumers who try to stretch their limited resources by shopping at K-Mart and other discount stores.

If we revoke China's MFN status, we also must assume Chinese retaliation. American exports, which last year totalled about \$6 billion, would be reduced by at least one third. If past behavior is any guide, China would designate the US as a source of last resort. When they did this in 1975-1976 US agricultural exports fell from 5 million tons per year to zero. In 1989 we sold over 7 million tons (\$1.08 billion) of wheat, an amount equal to 20% of our total wheat exports, large quantities of fertilizers, \$500 million worth of commercial aircraft, over 10% of our total forest products exports, up to one-third of our total soda ash exports and considerable quantities of mining and construction equipment. All of these products are readily available to China from other sources.

Retaliation would also deal a severe blow to American companies who have invested 10 years in trying to enter the emerging China market. For all the real difficulties companies have experienced in China, it is not a market that we should lightly cede to Asian and European competition. This is what would happen were the United States to unilaterally remove MFN from China, a drastic step no other industrialized country is even considering. Finally, among the innocent victims of removal of MFN would be the people of Hong Kong who already face a crisis of confidence over their future under Chinese rule in 1997.

The second question is would all this collateral damage be worth it? That depends on what our policy goal is and whether that goal is achievable through removal of MFN. One appropriate use of sanctions is to express outrage. Removal of MFN would certainly send a powerful message. Is that worth the collateral damage? I do not think so, and I hope the Congress will agree. Ask the farmers who are still living with the after effects of the 1980 grain embargo against the Soviet Union how they feel about losing their livelihood so that the country can express its outrage.

If, on the other hand, our policy goal is to bring about change in China's policies, to encourage greater respect for human dignity and a return to the policies of reform and openness to new ideas, then the costs or collateral damage of sanctions might seem more bearable. It is easy to talk about costs when someone else is going to have to bear them, but if there were any reasonable assurance that removal of MFN would lead to substantial policy change in China or the removal of the current regime, then the costs might well be considered worth it, even by the innocent victims of collateral damage: the farmers, consumers, retailers, importers, exporters, and the people of Hong Kong.

And so we come to the most fundamental question of all: would removal of MFN status work? Would it change the policies of the Chinese Government? The burden of proof ought to be on those who advocate inflicting all this pain on innocent victims, but I will suggest at least a few reasons why the removal of MFN will not bring about the kind of change we all seek in China. The first is history. We tried trade sanctions in 1950 and all they did was to isolate China and enable its government to justify even more repressive measures in the name of nationalism. It took thirty years before we could restore a normal relationship. The Soviet Union tried to bring China to its knees in 1959 by withdrawing credits and technicians, a far more powerful sanction than either our embargo of 1950 or the proposed removal of MFN since China was at that time already isolated from the rest of the world. China's response was to tighten its belt and unite its people in an anti-Soviet campaign that continued for over 25 years.

There is no convincing evidence that the MFN sanction would work, indeed it would probably make matters worse. Certainly it would play into the hands of the hard-liners. MFN does not prop up the anti-democratic, anti-reform central planners in Beijing. On the contrary MFN is what enables some vestige of a pro-reform, market-oriented sector in China to survive. Over 50% (or more than \$6 billion) of China's exports to the United States are produced, not by the inefficient State enterprises under the choke-hold grip of the central planning bureaucracy, but by the very people in China who are resisting the Beijing central planners: the entrepreneurial village, private, and foreign joint ventures in South China. There were

twenty million such enterprises in China in May 1989. The current leadership has shut down between two and four million of them since. What is the sense of our adopting a policy which would destroy that entire sector? The impoverishment of South China will not damage Li Peng and his colleagues; on the contrary it will remove the last major obstacle to their campaign to stamp out the reforms of the past ten years and restore what president Vaclav Havel called the totalitarian system which is "the source of nightmares."

So am I advocating "business as usual?" Not at all. "Business" is very much not "as usual." We who live within the Beltway too often tend to assume that nothing happens unless government does it. If there are no government-imposed sanctions, we seem to believe, business must be going ahead as usual. But over the past year we have seen that people and organizations are capable of deciding on their own that they cannot or do not want to do business with a centrally-planned, bureaucratically-controlled, anti-market, repressive transitional regime that has been denied legitimacy by its own people. It was not the State Department's travel advisory that kept tourists from going to China, it was the situation in China. The travel advisory has been lifted, but the foreign tourists are not returning. There are no sanctions on foreign investment in China; and yet according to the World Bank new foreign investment applications (Japanese, Hong Kong, and European as well as American) fell by 15% over the past year is expected to continue to fall this year.

These private decisions are the sanctions that bite because the pain cannot be blamed on a foreign power—it is self-inflicted. Resentment therefore builds, as is happening in China now, not against the foreigners but against the misguided policies of the Chinese government.

A faltering economy puts pressure on the regime to modify its policies to try to make the environment attractive enough so that foreign companies will resume bringing in badly needed capital and knowhow. But the regime faces a dilemma. As the ideologues of the current regime correctly point out, foreign trade and investment are subversive of a centrally-planned, Marxist-Leninist system. And so such a regime loses either way. If it will not reform, business dries up. If it resumes reform, the regime begins to move toward pluralism and reliance on market forces.

The evidence is clear by looking at what happened in China over the past ten years. The need for foreign investment prompted the government to make concessions and accelerate reforms to get the dead hand of the party out of the economy and to allow at least some economic freedom. One effect of this was the explosive growth in the village and collective enterprises at the expense of the ponderous and inefficient State sector. Another was the rapid expansion of foreign investments employing workers directly, instead of hiring them from the State, setting prices, training workers and managers, developing distribution systems, and showing customers that there is an alternative to taking what the State decides you should have. There are now over 1,000 American joint ventures or wholly-owned enterprises with a total committed investment of about \$5 billion scattered throughout China. The vast majority of these enterprises were formed in the last four years in response to improvements in the investment climate brought about by the reforms. They produce, largely for sale on the Chinese domestic market, products ranging from baby food and pharmaceuticals to elevators, automotive vehicles and electronic components and equipment. They are finding the going rough and most of them have put any plans for expansion on hold, but their very existence is a force for change in China.

By the way they respond to their environment, they influence their environment. Depending on which way the Chinese Government moves in the next year or two, these enterprises may either close down, tread water or expand. Their very presence, then, forces the Chinese Government to face the contradictions in its failed policy of seeking economic growth and modernization while at the same time repressing dissent, shutting out new ideas, and re-instituting a Leninist command economy. Contacts with the outside, especially commercial contacts, force the regime to make choices. These contacts helped to bring about the reforms of the past ten years and we should be encouraging them, not debating whether to tolerate their continuance or to cut them off.

Where will the inspiration for reform come from in China if we helped bring about the destruction of the private and semi-private sector in South China and the withdrawal of foreign investment enterprises from China? Again we would play into the hands of the hard-line ideological minority in the Chinese leadership who pay lip service to the slogans of reform and openness to the outside but who appear secretly to favor a return to a more easily managed isolation.

The weight of the evidence suggests clearly, then that revocation of China's most favored nation status would not change the Chinese government or its policies for the better; on the contrary it would cause greater suffering in China and in Hong



Kong and probably delay any prospect for return to reform for many years. On what basis, then can we justify such a radical departure from free trade policy as the withdrawal of MFN?

I am aware that many in Congress, including some on this Committee, favor attaching new human rights conditions to future MFN renewal as a compromise measure which would balance the desire to avoid the collateral damage I have outlined with the need to send a strong signal of disapproval to the Chinese leadership.

Attractive though it may be on its face, conditionality creates insurmountable problems in practice. The fundamental problem is that the Chinese leadership, by its intransigence over the past year, has already made clear that it is unlikely to make fundamental changes in internal policy to accommodate US concerns. While they want economic development and trade with the West, the current leaders are even more concerned with their physical and political survival.

American companies understand this clearly. They would conclude that the Chinese would not meet any meaningful conditions that the US government imposed and would make their business plans accordingly. Their Chinese partners would also likely begin making preparations for the time MFN is taken away by, among other things, dumping massive amounts of product in the US market.

The economic damage to China, to Hong Kong, and to the American economy would thus be almost as great with conditional MFN as with outright withdrawal. The only difference is that American companies would have a year's notice to plan their withdrawal from the China market.

The issue would be much more difficult if the current Chinese leadership appeared capable of retaining power far into the future. Most analysts agree this is unlikely. The leadership is old and out of touch with the world and its own people. We need to look beyond this regime, keeping up the pressure for change but positioning ourselves to work effectively with a new, more flexible and reform-minded government when it emerges. This means preserving the structures which have been built up over the past ten years since the establishment of diplomatic relations and maintaining the most extensive private contacts (cultural, educational and commercial) which a xenophobic Chinese regime will permit. This is the basis on which I conclude that American interests are best served by maintaining MFN status for China without new conditions.

## COMMUNICATIONS

---

### STATEMENT OF AVIA GROUP INTERNATIONAL

#### I. INTRODUCTION—AVIA AND THE AVIA POSITION

AVIA Group International, a Portland, Oregon-based company, was founded ten years ago and is now a market and technological leader in aerobic and other athletic footwear. In 1989, AVIA generated \$196.2 million in total sales and employed over 200 people in its Beaverton and Portland, Oregon facilities.

For the reasons presented forthwith, AVIA strongly urges the Senate Finance Committee and Congress to support maintaining MFN status for the Peoples Republic of China.

#### II. REPEAL OF CHINA'S MFN STATUS—THE COSTS

##### A. *The Chinese People*

Many business interests have explained the economic impact of eliminating China's MFN status. AVIA, however, wants to complement that analysis with our assessment of *the human costs which will be paid by the Chinese people if China's MFN status is eliminated.*

AVIA personnel have been travelling to the People's Republic of China regularly for the past two years. The transformation we have seen in the workers in non-government factories has been remarkable. The factories that we work with are privately owned, capitalized by Hong Kong/Taiwan entrepreneurs, and are relatively free of government regulation. Approximately one year ago, as these factories were opening, the new workers were about what one would have expected—colorless, regimented and dour. Now they are stylish, anxious for promotion, hungry for overtime, and more outgoing. It is gratifying to see the incentives for the free enterprise system at work.

The influx of free-market ideas, and a higher standard of living brought about by the opening of trade a decade ago, may have been the most important impetus to the democratic movement that erupted a year ago in China. Likewise, a cut-off in trade and withdrawal of Western economic influence in China could precipitate further political repression of and economic injury to the most liberal, entrepreneurial sectors of the Chinese economy.

Trade between the U.S. and the P.R.C. exposes many Chinese people to American products and American people, and provides them the opportunity to work in an environment where incentive, expression and entrepreneurship are encouraged and rewarded. It also provides the opportunity for many workers from the interior of China to work in the industrialized coastal areas where they are exposed to Hong Kong and Taiwan media, and therefore, can gain a better understanding of the Western way of life.

In spite of the oppressive regime in Beijing, AVIA believes that in the end, it will be the thinking of the Chinese people, influenced by foreign trade and cultivated by Western ideas, that will provide the spark that eventually allows the Chinese people to free themselves of the chains of the Chinese government. Severing the U.S.'s economic ties with China and sending the P.R.C. into an economic headspin will not force the Chinese government to end its human rights abuses, it will only eliminate the gains that have been made by the West as they increase their interaction with the Chinese people.

Withdrawal of MFN status would close these factories, and many like them, and send these workers back to the rice paddies in Western China with the message that the American people will not buy their products. They will also no longer be exposed to Western concepts. Compared to the current message they take back home

during their annual New Years pilgrimage, this will be profoundly detrimental to the thinking of many Chinese people.

### **B. AVIA**

Presently, AVIA manufactures roughly 15% of its footwear products in the P.R.C. U.S. import duties on AVIA footwear imported from China range from 6-37.5%. If China's MFN status is eliminated, these duties will increase by 25%, an increase which more than negates the 10% cost-of-labor savings AVIA currently realizes by sourcing its shoes in China.

Moreover, if China's MFN status is withdrawn, AVIA, along with hundreds of other U.S. companies facing similar circumstances, will be faced with a lose-lose battle. Specifically, if AVIA continues to manufacture its footwear products in China, it will be forced to pay the 25% higher U.S. import duties on AVIA shoes. If, on the other hand, AVIA chooses to source its shoes in other, higher labor cost countries like Korea and Taiwan, it will incur greater production costs. In each case, AVIA must pay more to get its footwear products onto the shelves of American stores, a cost ultimately borne by the American consumer.

### **C. U.S. Importers and Exporters**

Since opening trade with China a decade ago, total U.S. trade with the P.R.C. has almost tripled, from \$5.6 billion in 1981 to more than \$14 billion in 1988. This success, along with the future benefits afforded to U.S. manufacturers from continued and expanded trade with China, would be severely threatened by eliminating China's MFN status. The adverse effects from MFN elimination would include actual out-of-pocket losses for importers and retailers, lowered returns on the more than \$4 billion in U.S. investment in China, a 40% increase in U.S. duties on imported goods from China, and overall uncertainty as firms attempt to develop new sources of supply. Moreover, removing MFN status from the P.R.C. would also pull the rug out from under the close to \$6 billion in U.S. exports to China, since China would almost certainly seek, and find, new import sources from countries that do not have a de facto prohibition on China's exports.

For the reasons presented above, AVIA strongly urges the Senate Finance Committee and Congress to support maintaining MFN status for the People's Republic of China.

---

## STATEMENT OF THE BRADFORD EXCHANGE, LTD.

### EXECUTIVE SUMMARY

On May 24, 1990, President Bush recommended to the Congress that the Most-Favored-Nation ("MFN") status for the People's Republic of China ("PRC") be extended for one year. In assessing whether to support or oppose such action, Congress must consider the various political, economic and human rights dimensions posed by this issue. It is submitted that the Congress should support the renewal of MFN status for China as a means of continuing United States influence with the Chinese leadership and as a means of furthering the human rights of the citizens of that country. It is further submitted that the revocation of MFN status (and the expected retaliatory measures taken by the Chinese government) would harm numerous unintended parties including the reform oriented sector of Chinese society, the residents of Hong Kong and other developing countries as well as United States importers, retailers and consumers. Accordingly, our clients wish to register their support of the President's decision and urge the Congress to concur.

### MFN AS A FORCE FOR SOCIAL CHANGE AND THE ADVANCEMENT OF HUMAN RIGHTS

The issue of continuing MFN-treatment with China should first be viewed within a brief historical perspective. After the Communist regime had installed itself on the mainland in 1949, for a period of greater than thirty years, trade with mainland China was either entirely prohibited or permitted only under highly protectionist (i.e., non-MFN) tariffs. As a result of several years of intensive efforts, commencing with those made by the Nixon administration, diplomatic relations were fully normalized with China in 1979 and MFN-treatment was reinstated in 1980.

Since that time, the United States business community has strived to develop substantial and meaningful contacts with the people of China. As a direct consequence of these contacts, a myriad of Chinese enterprises in South China and in the coastal regions have come into being to serve the United States import market. Such contacts have provided employment opportunities to the individuals involved with these enterprises, as well as significant exposure to Americans and our democratic politi-

cal traditions. This positive exchange of ideas has led, and continues to lead, to a better understanding and greater tolerance on both sides. Driven by a profit motive, the regions most involved with the manufacture of merchandise for export to the United States started on a course towards a market-oriented economy. These regions were so successful that the central government in Beijing afforded them a measured degree of political and economic autonomy. Thus, it was the original grant of MFN status by the United States which created an environment in which economic reform could take root by providing a Chinese economy capable of withstanding difficult changes.

It is against this backdrop that the entire world watched in horror as the events of June 1989 unfolded in China, including the violent suppression of the pro-democracy demonstrations and the ensuing arrests and executions. Although the situation has apparently improved since then, with the lifting of some restrictions and the release of large numbers of political detainees, press reports indicate that an atmosphere of fear and intimidation prevails.

The Bradford Exchange, Ltd., McCrory Corporation, Sigallo, Ltd. and U.S. Shoe Corporation are outraged over the flagrant human rights abuses in China over the past year, as are virtually all Americans. Therefore, it is vital, at this critical juncture, that the administration and the United States business community maintain its ties *with our friends* in China. Abandoning them now would only serve to consolidate the power base of the hardliners.

It is noted that the mere threat of revoking China's MFN status resulted in the release of hundreds of political detainees (including noted dissident Fang Lizhi who had taken refuge in the United States Embassy), diplomatic access to Tibet, a pledge not to sell medium-range missiles in Middle-East and a pledge to accept the Peace Corps in China.<sup>1</sup> As has been demonstrated historically, the value of MFN is in its use as political leverage. If MFN status is revoked, China will have less of an incentive to restrain its human rights abuses. Accordingly, our captioned clients maintain that a serious commitment to the human rights of the people of China mandates that President Bush's decision to renew China's MFN status be supported.

#### MOST-FAVORED-NATION STATUS IS NOT A REWARD

The term "Most-Favored-Nation" is a misnomer. As a general principle, it does not imply the approval of a particular country's domestic policies. Rather, it is the ordinary trade status accorded virtually all trading partners of the United States with whom we have normal diplomatic relations. MFN status is the bedrock supporting the bilateral commercial relationships between the United States and nearly all other nations. This is particularly the case with China where the granting of MFN status was critical to the normalization of diplomatic relations in 1979.

The withdrawal of MFN status is an extremely harsh measure which has been reserved for only the most exceptional of situations (*e.g.*, the explicit renunciation of such treatment by Romania in 1988). Currently, countries such as Iraq and Syria which appear on the United States "terrorist list" are still considered most-favored-nations, notwithstanding the current restrictions on trade with these countries. Moreover, the Republic of South Africa, which is currently the target of broad sanctions by the United States (and most of the nations of the world), has also retained its MFN status.

Accordingly, we submit that the imposition of sanctions (*e.g.*, suspension of arms exports, restriction of World Bank and Asian Development Bank lending and limitations on senior-level governmental exchanges) against China in the wake of the events of the last year is justified; the withdrawal of MFN status is not as it would be completely out of step with United States trade policy vis-a-vis the rest of its trading partners. As stated by Representative Frank J. Guarini (D-N.J.), "to single out China is hypocrisy."<sup>2</sup>

#### REVOCATION OF THE MFN STATUS OF CHINA WOULD INJURE THE WRONG PARTIES

The oft cited rationale for revoking the MFN status of China is that such action would punish the central government for its violent suppression of the student demonstrations in Tiananmen Square in June 1989 and its ensuing human rights abuses. However, when used as a trade sanction, MFN is a blunt instrument. As demonstrated below, it is a certainty that revocation of MFN would have the unintended effect of harming various other entities including reform-oriented elements of Chinese society, the economic and political future of Hong Kong and of other developing nations as well as the interests of United States importers, retailers and consumers.

### *Reform Oriented Elements in Chinese Society*

Patently, revocation of MFN status for China will directly affect those enterprises which produce merchandise for export to the United States. Accordingly, millions of individuals in China have a stake in the future economic relations between the United States and China. Chinese exports to the United States come mainly from the coastal areas, particularly South China, which enjoy a measured degree of autonomy from the central government in Beijing. Not surprisingly it is these regions which have moved most rapidly towards economic reform. This sector of Chinese society is generally more entrepreneurial and profit-oriented than other parts of China and, accordingly, is particularly interested in market-based reform. The denial of MFN status would most directly hurt this segment of Chinese society as it is so dependent upon exports for its continued vitality.

### *Hong Kong*

The economy of Hong Kong is inextricably tied to that of South China. Hong Kong entities have invested in more than 2,500 enterprises in that region.<sup>3</sup> An additional ten to fifteen thousand enterprises in South China perform processing work for Hong Kong companies.<sup>4</sup> Moreover, most United States bound Chinese exports (approximately 70% by most accounts) pass through Hong Kong on their journey eastward.<sup>5</sup>

It is apparent, therefore, that economic contacts between the United States and China are vital to an economically strong Hong Kong. According to Hong Kong government estimates, approximately 20,000 Hong Kong manufacturing jobs would be lost if MFN status were revoked from China.<sup>6</sup> Moreover, such action would also prove catastrophic for Hong Kong enterprises which produce United States bound exports in conjunction with Chinese enterprises.

Such a blow to the economy of Hong Kong could also bring into question the stability and viability of the territory after it reverts to Chinese control in 1997. Hong Kong is suffering from a "brain drain" resulting from an already steady exodus of its residents. The revocation of MFN status for China may very well accelerate the process and, in the very near future, present the world with an unmanageable refugee problem.

### *Other Developing Nations*

The ramifications of the revocation of China's MFN status would be felt far beyond the borders of China. Many other nations (e.g., Poland, Romania, the Soviet Union and several nations in Latin America) are currently at various stages in their own struggles to free themselves from authoritarian rule as they advance towards democracy and market reform. It is likely that a revocation of China's MFN status would have the effect of reducing investor confidence in such other countries in transition at a time when material support for these countries is most urgently needed.

### *U.S. Importers, Retailers, and Consumers*

Clearly, the dramatic increase in duty rates for Chinese goods occasioned by a revocation of MFN status would substantially increase the costs to United States importers and retailers in purchasing such products. Even if a portion of these costs were passed on to United States consumers (as would necessarily be the case), the remaining portion would cut significantly into (if not eviscerate) the profit margins of the American entities, making the cost of doing business with China prohibitive. This consequence would be further exacerbated by the difficulty in locating new sources of supply on extremely short notice.

It is axiomatic, therefore, that an increase in tariffs upon Chinese products would also result in an increase in the prices of such products for consumers in the United States. Overly burdensome increases in consumer prices would, in all likelihood, lead to a cessation of exports of the products in question making them unavailable to the American consumer (at least in the short term) or available in such limited supply as would result in further price increases to United States consumers to meet existing demand. As many Chinese exports represent "lower end" merchandise it is expected that those least able to afford such price increase (i.e., the poor) would be hardest hit.

### EFFECT OF REVOCATION OF MFN UPON THE CHINESE POLITICAL LANDSCAPE

In considering an appropriate response to the human rights violations in China over the past year, the United States must carefully consider the effect revoking China's MFN status would have upon the make-up of the current leadership in China. It is reported that, despite a cosmetic facade of unity, there exists beneath

the surface deep divisions within the Chinese leadership between conservative and more liberal elements.

A revocation of MFN status would harm those reform-minded elements of the political spectrum which are most closely linked with the outside world. Conversely the authoritarian leaders would benefit most from a reduction of outside contacts and economic exchanges. Revocation of MFN status would undoubtedly have the effect of drawing these various elements together into an anti-American, anti-democracy, and anti-market reform positions, leading to a general retrenchment towards xenophobia. It is particularly important that this result be avoided at this time in light of the succession of leadership battle looming imminently on the horizon as a result of China's aging leadership.

It is in the best interests of the United States to keep its contacts, economic and otherwise, in place in preparation for the day when the political moderates are strong enough to assert control. Until that day, it is vital that good relations be maintained in order to secure Chinese cooperation in the international arena in such areas as arms proliferation, environmental issues and the peaceful resolution of regional conflicts.

#### REVOCATION OF CHINA'S MFN STATUS WOULD INVITE TRADE RETALIATION

It is almost a given that the Chinese government would enact retaliatory measures against imports from the United States should we revoke China's MFN status. This is particularly significant in light of the substantial level of trade between the two countries. In 1989, the United States presented China's largest export market counting for \$12 billion dollars in sales, a 1,900% increase over pre-MFN levels. During the same period, United States exports to China equaled \$5.8 billion.<sup>7</sup>

The most likely retaliatory measure to be employed by China would be to, in effect, revoke the MFN status of the United States, thus subjecting American products to equally prohibitive tariff rates when imported into China. Similarly, quota restrictions on certain products of American origin and absolute prohibitions upon goods competing with Chinese products may be put in place. Alternatively China may refrain from enacting any blatantly retaliatory measures and may simply choose to treat the United States as a "least-favored-nation" seeking to look elsewhere, whenever possible, to fill its import needs.

Revocation of China's MFN status, accompanied by any *de jure* or *de facto* retaliatory measures by China against the United States, will undoubtedly cause the trade levels between the two countries to drop off dramatically, if not come to a screeching halt altogether. American manufactures and exporters would be severely harmed in such a scenario as they would lose a major market for United States products, one which took years to cultivate.

Any American loss of market share in China would only be further exacerbated by widely published reports that none of the other "G-7" nations are planning to revoke China's MFN status. Conceivably, any market share lost or abandoned by the United States would quickly be filled by one of our Western allies, effectively diluting the significance of United States sanctions. Moreover, it has recently been reported that Japan is prepared to restart a \$5 billion dollar loan to China which had been held up since June 1989.<sup>8</sup> By withdrawing from China now, the United States may be unwittingly ceding to Japan center stage position in the international trade arena at the commencement of the third millennium.

#### ALTERNATIVES TO AN OUTRIGHT REVOCATION OF CHINA'S MFN STATUS SHOULD BE CONSIDERED

The magnitude of the foreign policy dilemma presented by the "MFN issue" cannot be underestimated. The administration and Congress are faced with the competing concerns that revoking MFN will set back United States-Chinese relations, hurting many unintended parties (a position advocated by our clients) while not revoking MFN may send an unintended message (*i.e.*, one of approval or acquiescence) to the authoritarian leadership in Beijing.

In response to these competing concerns, several creative solutions have been proposed. Legislation proposed by Representative Donald J. Pease (D-Ohio) adopts a "wait and see" approach by postponing the issue of the renewal of China's MFN status until next year, conditioning such renewal upon "significant" improvements in the human rights arena, an end to martial law in China and Tibet and a suspension of support for the Khmer Rouge.<sup>9</sup> Similarly, a bill introduced by Representative Peter J. Kostmayer (D-Pennsylvania) would grant China a six-month extension of its MFN status also conditioned upon an improvement in its human rights record.<sup>10</sup> Although these proposals seek to address the competing con-

cerns facing the administration and Congress, they each merely postpone the inevitable. Moreover, any proposal based upon a *conditional* renewal of MFN is severely lacking in that it does not provide any degree of certainty for American importers and retailers which must place orders for merchandise months in advance of delivery. Should China's MFN status be renewed,<sup>1</sup> conditionally business decision makers in this country may conclude that doing business with China is simply too risky.

A third proposal put forth by Winston Lord, the United States Ambassador to China from 1985 to 1989,<sup>11</sup> steers a calculated course between the competing political and economic concerns. Under this proposal the renewal of China's MFN status would be only one component of a carefully drafted response to recent events in China. Specifically Ambassador Lord's proposal calls for the following: a tribute to those in China who demonstrated and died for their political views; a one-year extension of MFN status with the avowed purpose of strengthening the progressive forces in China; an explicit reaffirmation of existing measures taken by the United States in reaction to the events of the last year in China; a determination to move forward on other related issues; an increase in funding for Voice of America programming beamed to China; and a meeting between President Bush and Chinese students studying in the United States to exchange views on China and American policy.

This proposal provides the political moderates with the tools needed to reassert their influence and, ultimately, their control. Moreover, as the proposal includes a one-year renewal of MFN status it would not unduly alienate the political hardliners from the United States but would send them a clear message as to United States policy and its future implications. Lastly, as the proposal on its face, does not place any conditions upon the one-year extension of MFN status (presumably subject only to a unilateral revocation by the president), a greater degree of certainty would be provided to American importers and retailers in their placement of orders for Chinese merchandise.

#### CONCLUSION

The decision of whether or not to revoke the MFN status of China is concededly a complex one. While the desire to punish China for its deplorable human rights record of late is justified, the use of MFN towards that end at this time is not. Revoking China's MFN status would likely strengthen the political conservatives in China while weakening the more reform-oriented segments of Chinese society. Moreover, such action would inevitably harm the residents of Hong Kong as well as large segments of the United States business community and United States consumers.

Accordingly, for all of the above reasons, the companies named herein endorse and support President Bush's decision to renew MFN status for China and submit that the Congress should concur.

#### ENDNOTES

1. *Hearing on Most Favored Nation Status for the People's Republic of China Before the Joint Meeting of the Subcomm. on Asian and Pacific Affairs, Subcomm. on Human Rights and International Organizations and Subcomm. on International Economic Policy and Trade* 101st Cong., 2nd Sess. (1990) (Statement of Richard H. Solomon, Assistant Secretary of State for East Asian and Pacific Affairs).

2. *N.Y. Times*, June 20, 1990, at D2, col. 1.

3. *Hearing on Most Favored Nation Status for the People's Republic of China Before the Joint Meeting of the Subcomm. on Asian and Pacific Affairs, Subcomm. on Human Rights and International Organizations and Subcomm. on International Economic Policy and Trade* 101st Cong., 2nd Sess. (1990) (Statement of Richard H. Solomon, Assistant Secretary of State for East Asian and Pacific Affairs).

4. *Id.*

5. *Hearing on Most Favored Nation Status for the People's Republic of China Before the Joint Meeting of the Subcomm. on Asian and Pacific Affairs, Subcomm. on Human Rights and International Organizations and Subcomm. on International Economic Policy and Trade* 101st Cong., 2nd Sess. (1990) (Statements of The Honorable Winston Lord, Former U.S. Ambassador to the PRC and David Michael Lampson, President, National Committee on U.S.-China Relations).

6. *Hearing on Most Favored Nation Status for the People's Republic of China Before the Joint Meeting of the Subcomm. on Asian and Pacific Affairs, Subcomm. on Human Rights and International Organizations and Subcomm. on International Economic Policy and Trade* 101st Cong., 2nd Sess. (1990) (Statement of Richard H. Solomon, Assistant Secretary of State for East Asian and Pacific Affairs).

7. *Id.*
8. *Wall St. Journal*, July 11, 1990, at A6, col. 6.
9. H.R. 4939, 101st Cong., 2nd Sess., 136 Cong. Rec. 3092 (1990).
10. *N.Y. Times*, June 20, 1990, at D2, col. 1.
11. *N.Y. Times*, May 9, 1990, at A31, col. 1.

---

STATEMENT OF MARK A. COHEN, ESQ.

CHINA'S TREATMENT UNDER OUR TRADE LAWS AND AN APPROPRIATE U.S. RESPONSE

On May 24, the President announced his intention to renew Most Favored Nation ("MFN") status to China. Congress has the authority to override this decision. As a trade lawyer, who has studied Chinese affairs for nearly 17 years, I would like to discuss these actions in the context of our revulsion at Chinese human rights practices, as well as the trade remedies otherwise available to the United States.

My belief is, no matter the degree of our disgust with Chinese human rights practices, a decision to forego renewing MFN would sever hard-fought commercial ties and throw trade relations back to the minimal levels of more than ten years ago. The failure to renew MFN would have no positive effect on the Chinese Government's human rights practices or the welfare of the Chinese people.

*China as a "Most Favored" Nation*

MFN is not, in fact, the "most favorable" tariff treatment. Entry of eligible products from countries under the Generalized System of Preferences ("GSP"), Caribbean Basin Initiative, and other programs, when available, is preferable to MFN because it is duty free. China does not receive GSP benefits, although more than 125 other developing countries do.

MFN is also not a modern concept of according tariff preferences to countries of similar political dispositions. MFN status is, in fact, an ancient commercial concept, dating to the 12th Century. More recently, MFN was one of Wilson's fourteen points urging "the establishment of an equality of trade conditions among all nations consenting to Peace," which principle was likewise mentioned in the League of Nations Covenant. John H. Jackson, *World Trade and the Law of GATT* (1969), at 250-251. Historically, MFN has not meant we condone the domestic behavior of other countries.

Only 16 countries and regions do not receive MFN. Because Jackson-Vanik does not apply to noncommunist countries, certain countries known for their violations of human rights, such as South Africa and Libya, are exempt from the Jackson-Vanik process of conditional MFN treatment. Jackson-Vanik is, therefore, the exception to the usual rule of granting MFN without reference to human rights conditions of a trading partner.

Jackson-Vanik creates an unique, severable MFN relationship that, subjects China to human rights reviews under our trade laws. During the 1980s, MFN status had been continually renewed in light of China's open emigration policies and reforming human rights practices. However, apart from current sanctions, other U.S. trade laws made China the "least favored" of our MFN trading partners:

- The United States has refused to recognize China as a developing country under the GSP program. By comparison, exports from certain Eastern European countries receive GSP treatment from the United States, and most developed countries—including the European Community—extend GSP benefits to China. The United States has refused to extend GSP despite China's obvious underdevelopment and our explicit recognition of China as a developing country in the original trade agreement normalizing relations between our nations.

- China is subject to special rules under our antidumping and other import relief laws, which make these laws more severe and unpredictable than for market economy countries. Dumping margins for Chinese products have, as a consequence, been among the highest of imports from any country, and have exceeded 100%. Congress explicitly recognized this problem, and held hearings on this issue, at the time of its consideration of the 1988 Omnibus Trade and Competitiveness Act. Rather than reform the legislation then in effect, Congress directed the Commerce Department to study this issue.

- China's investments in the United States are closely scrutinized for their impact on national defense and, in two separate instances, have resulted in U.S. Government intervention to reform the investment or force divestment.



- U.S. exports to China are restricted *sui generis* under U.S. export control laws, as well as the multilateral regime of the Coordinating Committee for Multilateral Export Controls.

- Although GATT membership is a prerequisite to receiving various U.S. trade benefits, the United States has withheld endorsement of China's readmission to the GATT, and appears to be more actively supporting the admission of Taiwan.

If MFN is extended, Congress can be assured China will remain the "least favored" of our MFN partners, and will continue to receive tariff treatment less preferential than that accorded other developing countries.

#### *Consequences of MFN Removal*

Removing MFN will result in a five- to tenfold increase in U.S. duties on China's principal exports, to absolute duty levels as high as 60 to 70 percent. Chinese Customs schedules also contain MFN treatment, and a loss of MFN will cause commensurate retaliation by China in tariffs. More importantly, in China's state-controlled economy, where imports and major projects are established by central authorities, removing MFN will disadvantage U.S. enterprises' ability to compete or obtain fair treatment in a broad range of commercial activities. Removing MFN will therefore likely force a disinvestment in the \$4 billion of U.S.-invested enterprises in China.

Removing MFN will also severely affect Hong Kong. According to statistics of The US-China Business Council, as much as seventy percent of China's exports to the United States are transshipped through Hong Kong. The degree of processing of these exports in Hong Kong varies considerably. The percentage of Hong Kong re-exports of China's total exports has, however, increased considerably over the past few years. Undoubtedly, there is significant value added in Hong Kong to Chinese goods, and a significant percentage of the exports are from United States and Hong Kong enterprises, rather than state-owned Chinese enterprises based in Hong Kong.

#### *Issues Posed Under Our Laws Regarding Country of Origin*

Heretofore, the U.S. Customs Service has been relatively unconcerned whether a particular product was of Hong Kong or Chinese origin because there was no difference in duty rates. However, if MFN were not extended, Customs will necessarily re-examine the country of origin of both Chinese goods transshipped through Hong Kong, and Hong Kong goods that incorporate substantial Chinese value. The potential increase in tariff revenue will be too great for Customs to ignore.

Further, those imports could face an additional and substantial non-tariff barrier if the country of origin of these goods is brought into question. Unlike our allies and trading partners, which generally use objective criteria for determining the country of origin, Customs generally uses a highly subjective, unpredictable, and sometimes politicized, test on rules of origin involving "substantial transformation." *Anheuser-Busch Brewing Association v. United States*, 207 U.S. 556, 562 (1908). Under this test, a product of Hong Kong, must have acquired a different "name, character or use" from its Chinese components in order to be regarded as a product of Hong Kong and receive MFN treatment. It is not uncommon for Customs to take as long as two years to resolve issues over the country of origin, which, in addition to tariffs. Longer delays may be expected if the Customs Service is required to address these issues on approximately \$8 billion dollars of imports from China that have been transshipped or transformed in varying degrees in Hong Kong, as well as the significant volume of Hong Kong exports that incorporate substantial Chinese value.

#### *Social Impact on Liberal Chinese Elements*

In addition to the effect upon Hong Kong, free marketeers in the Special Economic Zones, open port cities, and other regions that have enthusiastically backed economic reform, will be dramatically affected. Rather than hurting the conservative elements of the Communist party who directed the human rights debacle of the past year, we would be strengthening those repressive elements, thereby further victimizing our allies within China. For example, a cut in China's finances by a reduction in exports will only serve to strengthen the more stable budgets and allocations of China's state-controlled sector; it will not enhance the position of private, collective or other reform-oriented enterprises. Further, Hong Kong industrialists and their Southern Chinese employees, which may number as high as 2.5 million, will suffer considerably.

Revoking MFN for China is also a qualitatively different sanction than trade sanctions imposed on capitalist economies. Capitalist enterprises are by their nature subversive to a state-control led economy, particularly one already embarked on economic reform. Moreover, Chinese people want foreign enterprises; U.S.-invested en-

terprises have been a small, but highly important, progressive force. Foreign-invested enterprises have worked actively to support such issues as reduced party interference on the factory floor and in management, enterprise freedom and independence, and an increased free labor market. They have added to the drive for workplace and economic democracy. Such reforms, as in Poland, can spur nationwide political reforms.

Equally important, foreign-invested enterprises have served a critical role in circulating uncensored information about the West during and after Tiananmen. Even as Western news sources were censored over the past year, corporate fax machines provided a vital link to information about China from the West.

#### *Loss of U.S. Leverage on Chinese Practices*

Non-extension of MFN would also eviscerate all prior U.S. efforts at improving China's trade practices, and thereby further strengthen the position of China's hard-liners. With the reduction in trade volume and status, U.S. trade negotiators would be unable to effectively address inequities in China's trade and economic development, including: intellectual property practices; lack of equal treatment of foreign-invested enterprises with Chinese enterprises; and reducing the role of state monopolies in domestic and international trade. The United States would thereby lose its leverage in encouraging certain economic reform measures crucial to China's economic and political development.

Further, once we have played our "MFN card" what additional leverage do we have to encourage favorable human rights practices? The only additional leverage will be the possibility of MFN reinstatement. However, by undercutting the progressive forces in China, we will have weakened that incentive.

#### *Surgical Responses to the Problem of Economic and Political Backsliding*

There are better responses to China than removing MFN. Congress might consider reforming our trade laws so that there are more clearly defined advantages to political and market reform, and to discourage backsliding by China or any of the new Eastern European democracies. One appropriate area might involve export controls, which are required to take into consideration U.S. foreign policy and national security interests. We might also increase political pressure on China by expanding Voice of America programming, or supporting Hong Kong programming to Southern China, free of jamming. We can also offer unconditional refugee status to Chinese students. Other laws, such as those restricting military assistance, munitions imports from China, and imports of goods assembled with prison labor, are also an appropriate, direct response to U.S. dismay.

Increased Communist Party interference and centralization in the Chinese economy may also be addressed by Section 301, the non-market provisions of our dumping laws, and Section 406 of the 1974 Trade Act, dealing with imports from communist countries. The U.S. Government retains the authority to self-initiate actions under all these laws, and has done so to a limited extent in the past. For example, a Section 301 action might address state control over certain trade sectors, including: quantitative import restrictions that benefit state enterprises; state control over letter of credit financing; and intellectual property protection for software and chemicals. Congress has previously considered legislative responses to some of these actions. These issues have also been previously documented by USTR in its National Trade Estimates Report to Congress. All of these issues would most likely directly affect the state sector of the economy. The United States can also utilize existing law to exert sector specific measures to further reduce the role of China's state sector, such as through selective tightening of textile or steel quotas and further reducing government-to-government technical cooperation.

Congress might also consider limited application of our countervailing duty law to countries which had encouraged market development but re-instituted state controls. The countervailing duty law does not currently apply to non-market economy countries because such countries do not have quantifiable subsidies. If, however, reference can be made to past market practices, subsidies are arguably quantifiable. Because such countries have not yet signed the GATT subsidies code or undertaken equivalent bilateral commitments, the countervailing duty law could then be applied without a test of injury to a U.S. industry.

#### *Easing the Burden of A Loss of MFN*

Although I strongly believe MFN should be maintained, if MFN is revoked, Congress *must* thoroughly consider whatever measures are possible to ease the burden on Hong Kong and Southern China. Congress might provide specific instructions to Customs regarding the country of origin of exports from Hong Kong. Congress might also enact a lower threshold for determining when a Chinese product is

deemed a product of Hong Kong. For example, if Congress provided that exports from Hong Kong incorporating 50% or less Chinese value will be deemed a product of Hong Kong for purposes of continuing MFN treatment, Congress would be providing greater predictability to Hong Kong exports while at the same time "twisting China's arm" by: (1) enhancing Hong Kong's economic and political position for eventual reintegration; (2) protecting Southern Chinese reform enterprises; and (3) reducing the involvement of state-owned or controlled enterprises that do not use the capitalist resources of Hong Kong. Of course, the appropriate country of origin test will require some input from economists familiar with China-Hong Kong-United States trade.

One thing is certain: if MFN were revoked, the failure to protect Hong Kong would severely dishonor our professed principles of protecting the interests of the innocent. These interests should be as important as our revulsion to China's human rights abuses.

#### *Conditional Extension of MFN*

It has been suggested that MFN may be re-extended on concrete assurances of further progress in human rights. I believe conditional MFN will exacerbate the current bilateral trade deficit. It will encourage all enterprises in China to export their products in large volume to the United States, without regard to long term injurious effect on the United States, on the assumption that higher tariffs may shortly make their products much more expensive. U.S. enterprises, however, will be unable to enter into long term contracts with the Chinese, who may not commit to a U.S. partner because of the likelihood of MFN revocation. The approach also assumes the Chinese leadership will react less adversely to statutory conditions towards continuation of MFN, compared to diplomatic means. Because of China's long antipathy to the West and its leadership's interest in "saving face," it is not safe to assume a public demand will be any more effective than quiet diplomacy.

In all likelihood, if MFN were conditionally extended, the question will remain whether we wish our relations with China and the Chinese people to be propelled backward to an era we seem to have forgotten. In addition, Congress and the Administration will likely still not have thoroughly considered, or, in some instances, reconsidered, more surgical measures at our control to effect changes in Chinese politics and reduce injury to the innocent.

Whatever action Congress decides upon, one thing is certain: the broad, coarse brush of unconditionally removing MFN treatment would not best serve U.S. economic and human rights interests at this time. It would also not effectively express our concern for the well-being of the people of China.<sup>1</sup>

---

#### STATEMENT OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

The Emergency Committee for American Trade (ECAT) supports the continuation of MFN trade status for China for another year.

ECAT is an organization of the heads of 65 large U.S. firms with extensive overseas business operations, and is currently chaired by Allen Jacobson who is Chairman of the Board and Chief Executive Officer of 3M.

Worldwide sales for these 65 firms totaled well over one trillion dollars last year and they employed about 5.5 million workers.

The economic well being of these firms 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 global competitors would be substantially diminished, with consequent job losses for their employees.

There is an intensifying scramble for markets throughout the world. While still a very major and formidable player, U.S. business is under severe competitive pressure both here at home and in the global marketplace.

The United States cannot afford to ignore foreign market opportunities. No other government or business community does. Indeed, governments around the world are providing a variety of encouragements to enhance the global competitiveness of their firms.

While strongly recommending the continuation of MFN status for China, we are fully aware of the very sensitive moral and political issues that are involved. We are also fully aware that members of this Committee and your congressional colleagues are under pressure from some constituents to vote against continuation of MFN for

---

<sup>1</sup> *The views expressed are solely those of the author, and do not represent the interest of the law firm of Windels, Marx, Davies & Ives, any of its clients or of any government.*

China as a means of expressing revulsion at China's repressive actions against its own citizens. Just as yourselves, we in business abhor violations of human rights and we certainly understand the moral outrage of those who would want to deny MFN for China.

We are also aware, however, of the benefits to the citizenry of China that flow from a U.S. business presence. In addition to the employment of many thousands of Chinese citizens, China benefits 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.

As just noted, there are large numbers of Chinese employed both directly and indirectly by American firms in China. We who employ them feel a responsibility to them. Were MFN to be denied China, it would be very difficult, and in some cases impossible, for U.S. firms to continue to employ them. Penalizing innocent Chinese citizens in such a manner would be a morally incorrect response to an already difficult situation in that country.

The Chinese now employed directly or indirectly by American firms constitute an embryonic entrepreneurial class 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.

In the case of 3M, for example, on the assumption that early investors would have a great chance to shape U.S.-China commerce, 3M officials began negotiations with Chinese officials in 1974 for the establishment of a wholly owned company in China.

After ten years of negotiations, 3M reached an agreement under which it established the first venture in the People's Republic of China to be wholly owned by a major foreign multinational corporation.

Two years later 3M began the manufacture of electrical tapes and telecommunications connectors in space leased from a major Chinese electrical concern in Shanghai. The company started with nine employees and now employs over one hundred. Business is good under current conditions. 3M has expanded its product lines, and expects to continue to expand and grow into other product lines.

The loss of MFN by China would obviously hurt 3M's operations and others like them. This is because denial of MFN would result in an approximate ten-fold increase in the U.S. tariff as well as similar increases in Chinese tariffs. U.S. firms in China involved in the assembly of components and supplies imported from the United States would be priced out of the market because of the very high Chinese tariffs that would be applied to imports from America. The loss of sales to Chinese customers would result in reduced employment in the United States.

Some U.S. companies have invested in China with the agreement that specified portions of the resultant product would be exported from China, thereby earning valuable foreign exchange. To the extent that exports to the United States might be involved, these investments would be made uncompetitive by reason of application of the Smoot-Hawley U.S. tariff rates that would apply without MFN.

Also, the Chinese government in most cases is the major purchaser of the goods produced by U.S. enterprises. In reaction to the denial of MFN by the United States, the Chinese government could logically be expected to switch its purchases from U.S.-related enterprises to those of other nationalities. Once this is done, it would be very hard to reverse.

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 experience over the past decade, 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 Americans about recent events in China. Several have joined with the United States in imposing sanctions against China in reprisal for suppressions of basic human rights. These sanctions include the suspension of arms exports to China, the limitation of high-level contacts, and a suspension of World Bank loans to China, except for humanitarian purposes.

None of our allies, 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.

Witness, for example, the natural gas pipeline sanctions levied against the Soviet Union several years back. The only consequence was the loss of a very major foreign market for bulldozers and pipe layers by Caterpillar to its major world competitor, Komatsu of Japan. The Soviet Union was denied nothing.

The same can be said about the earlier prohibition of soybean exports from the United States to Japan. Japan continued its soybean imports but from Argentina, Brazil, and others.

In the cases just cited, the losses were both immediate and long term, since both the Soviet Union and Japan continue to make substantial purchases of the products at issue from non-U.S. foreign suppliers. Caterpillar, which had 35% of the Soviet market at the time of the sanctions, now has very little, whereas Komatsu has the dominant share.

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.

We would like to comment on what might be viewed as an attractive compromise for members of the Congress, and that is the concept of making the extension of MFN conditional on China modifying its behavior in certain ways. It should be borne in mind that the extension of MFN each year already is conditional—the condition being the Jackson-Vanik requirement that citizens in the countries covered by the amendment allow their citizens to emigrate. China does.

To the extent that other conditions are added to Jackson-Vanik, additional uncertainties are created. The greater the uncertainty the greater the possibility that U.S. business will be forced to withdraw from China. This is clearly not in the interests of the United States, its workers and its businesses. Nor would it appear to be in the interests of those in China and elsewhere who want freedom and a degree of prosperity.

We in ECAT urge support of the continuation of MFN trade status for China for we believe it to be in the national interests of the United States.

## STATEMENT OF FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

Mr. Chairman and members of the committee, my name is Rod Walty. I am president of the Wal-Mart Quality Shoes division of Wal-Mart Stores, Inc. Our division is responsible for the footwear departments in the more than 1400 Wal-Mart stores currently in operation in 28 states.

I also serve as chairman of the Footwear Distributors and Retailers of America, the trade association that represents the nation's chain shoe stores and footwear marketing firms which include many of the nation's leading footwear brands.

I appear today to express FDRA's strong support for continued Most Favored Nation (MFN) status for China.

Footwear produced in China is vital to our customers. China is the only source available in the world for most low cost, high quality footwear, the kind that cost conscious low and middle income American families depend upon. The non-MFN duties applicable to footwear would render this footwear too expensive for our customers' wants. The footwear sourced in China cannot be produced competitively in the U.S. or in any other foreign locale.

China is today the largest single supplier of imported footwear to the United States, accounting for about one third of all U.S. footwear imports. China's shipments are about equal to those imported from Taiwan and Korea combined. Total footwear trade with China in 1990 should exceed \$1 billion and amount to some 400 million pair of shoes. The sharp appreciation of the currencies in Taiwan and Korea against the U.S. dollar have made it impossible to produce low priced footwear in those countries. The average FOB price of shoes made in China is \$2.76, while the average for Taiwan and Korea are \$6.53 and \$11.73, respectively. China is the only alternative available to us.

Continuation of MFN for China is vital to the continuation of the footwear exporting industry in south China. In the case of plastic footwear, one of China's largest exports, duties would go from 6 to 35 percent, almost 6 times the current MFN duty. The other area of most significant exports to the U.S., rubber fabric footwear, accounts for nearly two thirds of all U.S. imports of these products. Duties here would generally double, going from the current duty of 48% to 84%, and in one category, going from 67 to 118%.

Nearly all of the footwear we import from China is produced in southeast China, especially the provinces of Guangdong -- the area north of Hong Kong and around Guangzhou -- and Fujain, the province just west of Taiwan. Much of the footwear from China is produced in joint venture factories where most of the capital, and business input is provided by entrepreneurs from Taiwan or Hong Kong. These efforts have greatly facilitated the importation of components and other materials from Taiwan and Korea necessary for the production of export quality footwear. These factories often pay higher wages than state owned ones, and offer bonuses for quality and increased output. It is these activities that have made China the leading exporter of footwear to the United States.

Footwear is one of the success stories of the free enterprise experiments in southeastern China. Most shoe factories are new, with up to date machinery and good working conditions and attractive wages. The relative prosperity in these areas is in large part due to the development of businesses like the footwear trade. The elimination of MFN for China would devastate these efforts, throwing hundreds of thousands out of work, dashing all hopes of the expansion of free enterprise in China. Ending MFN would cut off at the roots important free enterprise and democracy growth in the very areas where it is taking hold.

One of the key points I want to leave with the subcommittee this morning is that there is simply no alternative for sourcing footwear outside of China. The low priced footwear we need cannot be produced in the U.S. or in any other country in the Orient. Nowhere else has the combination of relatively low prices, large scale, high quality production and business contacts. If China becomes unavailable because of the end of MFN, the American consumer, particularly the low and middle income families, who depend on China produced shoes, will be the chief victims. There will be a scarcity of many low priced products which simply cannot be sourced elsewhere.

We thank the committee and would be happy to answer questions.

### FOOTWEAR FROM CHINA: MFN TREATMENT

#### FACT SHEET

#### 1. Footwear Duty Rates

<u>Type</u>	<u>MFN</u>	<u>Non-MFN</u>
<u>Rubber/Fabric</u>		
under \$ 3.01 FOB	48%	84%
\$3.01 - \$ 6.50 FOB	67%	118%
\$6.51 - \$12.00 FOB	34%	59%
over \$12.00 FOB	20%	35%
<u>Protective/Rubber</u>	37.5%	66%
<u>Non-Rubber</u>		
Plastic	6%	35%
Leather Men's	8.5%	20%
Leather Women's	10%	35%

- China is the largest single supply country of shoes to the U.S. In the first quarter of 1990 China accounted for 34% of all imported footwear.
- China accounts for nearly two-thirds of all rubber fabric imports; 61% in the first quarter of 1990. Since the MFN duties are already so high on these items, predominately low-priced sneakers, especially for children, China is the only country with low enough wages to produce these shoes at prices low income Americans can afford.
- China accounts for about half of all imports of "low-priced" footwear. In January 1990 China accounted for 43% of all non-rubber footwear imports under \$5.00 FOB. Nearly all U.S. sales of "low-priced" non-rubber shoes are imported.
- The collapse of the U.S. dollar against the hard currencies in Taiwan and Korea, previously the main sources of low-priced shoes, has left China as the only country that can produce low-priced shoes in the huge quantities needed in the U.S.
- American low income consumers will be the direct victim of non-MFN duties on China made shoes.

**BEST AVAILABLE COPY**

FDMA member companies operate, under the following names, some 20,000 retail and departments nationwide, accounting for about half the nation's shoe sales annually:

MORSE SHOE INCORPORATED

Payva Shoe Stores  
 \*Bradlees  
 \*Hills  
 \*Shopko  
 \*Allied  
 \*Biggs  
 \*Twin Value

THE BUTLER GROUP, INC.

Butler	Butler Int'l.
Maling	National
Dolcis	Burton
A S Beck	Florence
Hot Feet	Marilyn
C H Baker	Sole Hole
Tip Toe	Allens
Ansonia	Grandstand
Joffrey	Shoe Secrets

GENESCO, INC.

Johnston & Murphy  
 Jarman  
 Hardy  
 Journeys  
 Factory-To-You  
 Flagg  
 \*Mercantile Stores

SHONAC CORPORATION

Crown Shoes  
 \*Schottensteins Stores  
 \*Value City Dept. Stores  
 \*Harts Discount Stores  
 \*Glosser Bros. Stores  
 \*Levines Stores  
 \*Valley Fair Stores

JC PENNEY CO., INC.WAL-MART QUALITY SHOES

Wal-Mart Stores

\*Leased Departments

MELDISCO

\*K-Mart  
 \*Payless Drugs  
 \*American Fare  
 \*Makro

THE KOBACKER CO.

Picway Shoes  
 The Shoe Works  
 Gussini  
 Patrini  
 Kathe K

C&J CLARK AMERICA

Hanover  
 Bostonian  
 Big Sky

J. BAKER, INC.

\*Ames/Zayre  
 \*Fishers Big Wheel  
 Parade of Shoes  
 \*Jamesway  
 \*Stuarts  
 \*Caldors

SHOE CITY, INC.

Shoe City Stores

THOM McAN SHOE CO.

Thom McAn  
 B.O.Q.  
 Fan Club

SEARS ROEBUCK & COMPANYSTANDRAD SHOE COMPANYKINNEY SHOE CORP.

Kinney Shoes  
 Foot Locker  
 Lady Foot Locker  
 Kids Foot Locker  
 Athletic X-Press  
 Champs  
 Footquarters  
 Fredelle

SHOE-TOWN, INC.

Shoe-Town  
 Jordache Outlet  
 \*NBO

J.S. RAUB SHOE CORPORATION

J.S. Raub Shoes  
 Shoe Spot

EDISON BROTHERS STORES

Chandlers	Bakers
Leeds	Burts
Sacha of London	
Wild Pair	

PIC 'N PAY STORES

Pic 'n Pay  
 Barett's  
 Shoe Factory  
 Shoe World

ENDICOTT JOHNSON

Father & Son  
 Endicott Johnson

VOLUME SHOE CORP.

Payless Shoe Source  
 Volume Shoe Source

FISHER CAMUTO CORP.

9 West

WEINER ENTERPRISES

Shoe-Town



**FEDRA FOOTWEAR MARKETING FIRMS AND THEIR PRINCIPAL BRAND NAMES:**

**SAWSEHOE WORLDWIDE CORP.**

Spalding  
McGregor  
Dr. Scholl's  
Faberge'  
U.S.A. Olympic  
Thermo-Kid

**INT'L. SEAWAY**

Lydio  
Intrigue  
DP, Fit for Life

**B. LEVI & SON**

Pazzo  
Positively Peppers  
D. Evans  
English Walkers  
Hampton Park  
Jaguars  
Soft Ease  
Patrick Ewing Sneakers

**MERCURY INTERNATIONAL**

Jordache Ath. Footwear  
Franklin Sports  
Chic  
Snoopy

**GRAND IMPORTS**

Jordache  
Larado  
Durango

**TOPLINE IMPORTS**

Wildrice  
Pillows  
Global Exchange  
Cause 4 Alarm

**E.S. ORIGINALS, INC.**

Voit  
Sergio Valente  
Flintstones  
Coopertone  
Gloria Vanderbilt  
Safety Lights  
I Love Comfort  
New York Street Action  
Sasson  
Regent  
Europrep  
Easy Going

**MSF CORPORATION**

Excel  
Northern Trail's  
Kickerino's  
Biarritz

**MARQUESA**

Beija - Flor  
Silvana

**PALLMARK/CHEROKEE**

Cherokee  
GI Joe  
My Little Pony  
No Frills

**CELS ENTERPRISES**

Prima  
Chinese Laundry  
Cels  
Barbaro  
Ammano

**PAGODA TRADING**

Jordache  
Brittania  
Barbie

**OLEM SHOE CORP.**

Aldo Rossi  
Mauro Pisani

**C.O. LYNCH**

Panda  
Pax  
Rod & Gun

**BRIGHT STAR PRODUCTS**

**CIRCLE S. BOOT**

Paolo Fellicio  
Raphael Vittorio

**INTER PACIFIC**

Lagina

**ELAN-POLO, INC.**

Hoops  
Finesse  
Sweetheart  
Playground

**MILLFIELD TRADING**

No Excuses  
Chaus  
Marc Albert

**ANGEL-BITS OF CALIFORNIA**

Teenage Mutant Ninja  
Turtles  
Cabbage Patch Kids  
Countess

**LEIF J. OSTBERG, INC.**

Mitre  
Hat Trick  
Vision  
Huffy

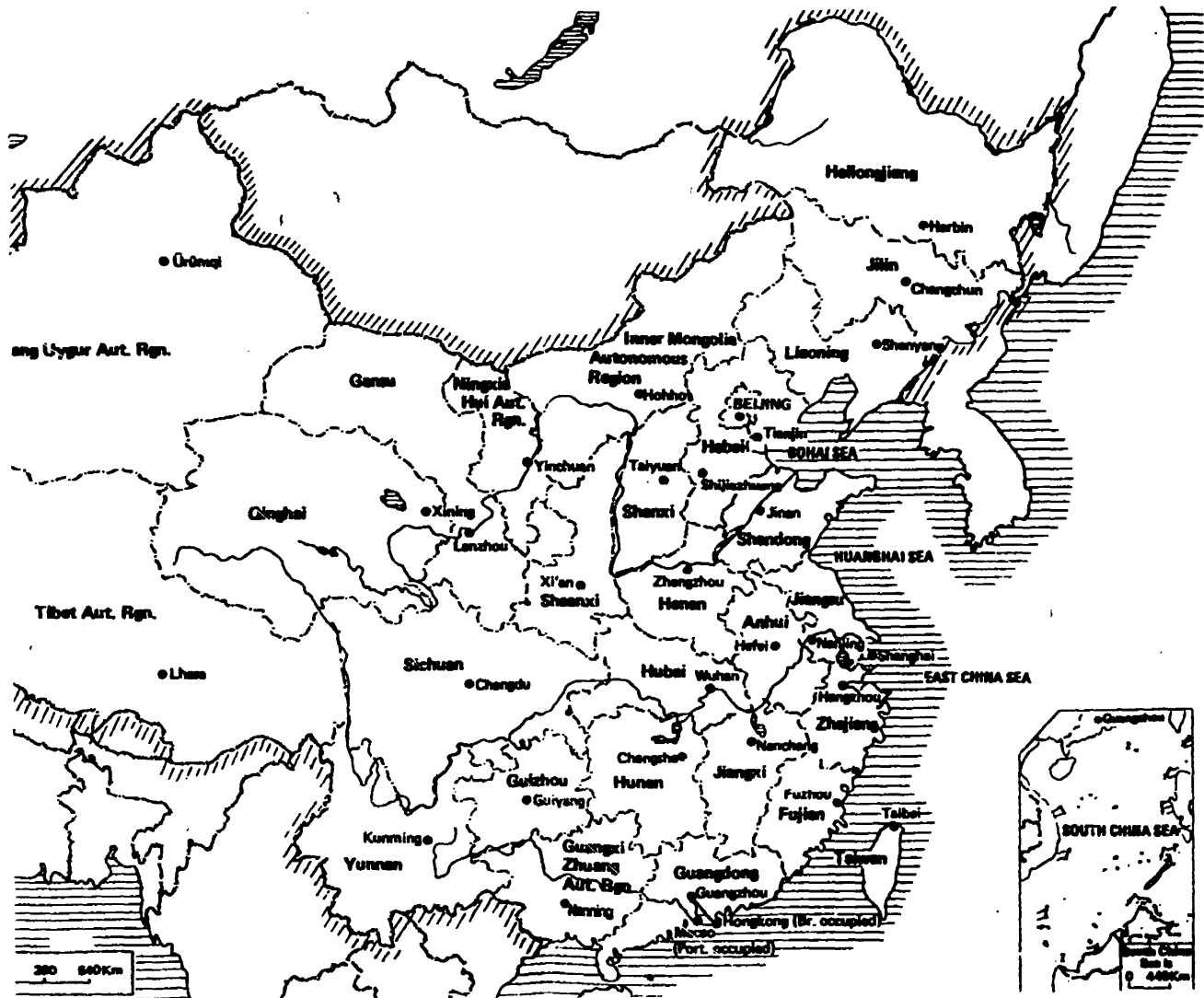
**INTERSHOE, INC.**

Nickels  
Jazz  
Paloma  
Via Spiga  
Glance's

L.A. GEARTRADE WINDS IMPORTING  
NicoleDESA SHOE, INC.K-SWISS, INC.BERNETT IMPORTING, INC.BBC INTERNATIONALREEBOK INTERNATIONALBonjour  
OshKosh  
PlayschoolLAIRD, LTD.CYPRESS ENTERPRISESSEBASTIAN IMPORTSDYNASTY FOOTWEARJIMLAR CORPORATIONDAYTONA, INC.GREEN MARKET SERVICESLEE INTERNATIONALFOOTWEAR EXPRESS

Contact Kate Bormann, FDRA, (202) 737-5660 for any changes.

**BEST AVAILABLE COPY**



## STATEMENT OF GUND, INC.

On behalf of Gund, Inc. ("Gund") we submit the following comments in response to Press Release No. H-36, dated June 8, 1990, soliciting comments on extending most-favored-nation (MFN) trade status to China, in connection with the hearing on this issue before the United States Senate, Committee on Finance on June 20, 1990.

## BACKGROUND

Gund, has manufactured and imported stuffed toys for 92 years. The Gund brand is a nationally recognized brand name sold in quality retail establishments and toy stores located throughout the United States. The company employs 125 people at its warehouse and offices which are located in Edison, New Jersey. Over the years because of the highly competitive nature of the toy industry Gund, like virtually all U.S. toy companies, has turned to offshore sources of supply in developing countries throughout the world. The MFN duty status that China has enjoyed enabled China to become one of Gund's primary sources for stuffed toys.

The introduction of the bill which would give Congress the power to override President Bush's recommendation to extend MFN status to China is of great concern to Gund. We are not unmindful of the recent tragic events in China. We recognize that this is a very delicate area and the U.S. does not want to be viewed as condoning China's actions. However, we wish to impress upon this Committee the importance, both politically and economically, of the continuation of MFN status to both the United States and China. In this connection, Gund wishes to state for the record that the company is a charter member of the Toy Manufacturers of America (TMA) and fully supports the statement made by Mr. Alan Hassenfeld on behalf of the toy industry.

## I. RESCISSION OF TARIFF PRIVILEGES WOULD PUNISH THE PRO-DEMOCRACY SECTOR IN CHINA

Gund is convinced that removal of this duty status at this time is unwise and destructive. The reasons cited by those who wish to deny MFN status to China deal with concerns about human rights. We hasten to point out that the ability to work and earn a living are human rights. These rights will be severely diminished if not destroyed by the cessation of production in China which will obviously occur if this special duty status is denied. The penalty of denying MFN status to China will not result in punishment to the hard liners in the Chinese government. It is clear from their reaction to the Tiananmen Square demonstrations that the denial will have absolutely no effect on these forces. Rather, the punishment will be heaped upon those moderates remaining in the government and the entrepreneurial forces which have worked so closely with the United States government and business enterprises to bring economic growth to China and prosperity to its citizens. The end result of the denial of MFN status, though it may seem politically correct, is counterproductive. We must continue to work within China and not desert those forces which continue to operate for change.

A granting of MFN status for another year will permit the U.S. to monitor the situation in China and perhaps engage in constructive dialogue with the government regarding changes to be made. Such changes may occur unexpectedly as with the decision to permit the dissident, Fang Lizhi and his wife, Li Shuxian, who had remained in the U.S. Embassy for one year to leave China and travel to England. This action by the government at this time demonstrates that China is willing to make concessions in order to maintain its status as an MFN nation. Gund and other companies with substantial experience in China believe that withdrawal of MFN status will put an end to such humanitarian actions by the government and will permit those intransigent forces within the Chinese government to gain more power.

## II. EXPORTS OF U.S. PRODUCTS TO CHINA WILL BE SUSPENDED

Besides the internal strife, which the opponents of MFN for China must recognize will occur, broad areas of the U.S. economy will also be negatively effected. Large scale exports of products such as commercial jets, wheat, oil field equipment, timber and computers are made to China. These exports enable U.S. companies to reap substantial income and profit and to employ numerous U.S. workers in connection with these exports.

Removal of MFN status will cause the Chinese to engage in retaliatory measures. Such measures will undoubtedly include the halting of the exportation of U.S. products to China or a severe limitation of these exports. U.S. companies, which are the

target of retaliation, will suffer grave losses and U.S. workers employed by these companies will be left without employment and income. We submit that this is another example of innocent parties suffering unnecessarily.

### III. U.S. CONSUMERS AND U.S. WORKERS WILL SUFFER DUE TO HIGHER TARIFFS ON IMPORTED PRODUCTS

Since China became an MFN nation in 1980, U.S. imports of a wide range of products have steadily increased. These importations have accounted for increased industrialization and employment in China, jobs for U.S. workers in the transportation and retail areas among others, and a cost benefit to U.S. consumers. The increase in duties for products from China will virtually wipe out importations from that country because for many companies it will be uneconomical to continue to trade with China.

The drastic impact of the loss of MFN status becomes apparent when specific tariff classifications are examined. For instance, the tariff on stuffed toys which are presently entitled to duty-free entry under a temporary duty suspension will increase to 70%. The tariff on women's cotton knit nightgowns would jump from 9% to 90%, silk panties which are currently assessed at 14.1% would be subject to a 90% duty rate, bamboo and rattan furniture would go from 7.5% to 60%. Duty rates from 50% to 90% would be common on those textile and apparel products, and duty increases of at least 100% to over 1,000% could be anticipated on all products.

The denial of MFN status will necessitate the cutback or the dissolution of jobs in businesses which continue to import. Furthermore, no company no matter how profitable can afford to absorb these additional costs. Companies will be forced to reduce the volume of imports and increase the cost of products to account for the exorbitant duty rates. Eventually, the U.S. consumer, who has come to rely on and enjoy the benefits of purchasing imported products at reasonable costs, will be faced with unreasonable increases in the cost of those products.

For Gund the denial of MFN status would be devastating. The company has made a substantial commitment of resources to manufacturing in China. In the stuffed toy area, alternative sources overseas are limited and domestic sources are practically non-existent. The draconian action of denying MFN status would ultimately punish the forces of democracy, U.S. importers, our employees and the U.S. consumers both the parents who purchase our products and the children who love and use them.

### CONCLUSION

Gund believes that MFN status should be continued for China. Damage to and perhaps the permanent silencing of the forces for change in China is too great a price to pay in order that the U.S. can voice its opposition to last year's events in China. Economic desertion of China may contribute to a weakening of their resolve to continue the struggle. Moreover, U.S. business interests will be severely damaged. Continuation of MFN status and a monitoring of activities in China is the most sound course of action at this time. Gund submits that the Congress should give bipartisan support to the measured restraint exercised by the administration in this most delicate area of foreign policy.

INTERNATIONAL MASS RETAIL ASSOCIATION, INC.  
Washington, DC., June 20, 1990.

Hon. LLOYD BENTSEN, *Chairman,*  
*Senate Finance Committee,*  
*Washington, DC.*

Dear Mr. Chairman: I am writing on behalf of the International Mass Retail Association (IMRA) to express our opposition to legislation that would revoke "most favored nation" (MFN) tariff status for the People's Republic of China. We respectfully ask that a copy of this letter be included for the record of your committee's hearings on this issue.

While our members fully understand the impulse to "punish" the Chinese government for its deplorable crackdown on pro-democracy demonstrators in Tiananmen Square, we strongly believe that revoking MFN benefits would be counter-productive in the long run. Imposing drastically higher duties on Chinese exports would weaken those segments of the Chinese economy with which the United States has the most in common. The bulk of Chinese consumer product exports originate in the southern provinces and come from new quasi-private enterprises established in

many cases by U.S. entrepreneurs. The provincial governments, the business leaders and the workers in South China are the most supportive of the pro-democracy forces within the PRC, and it is hard to see how punishing these provinces will have any effect on the Chinese government at large. Moreover, destroying this segment of the Chinese economy could have long-range implications for the future of political and economic reforms within China.

Closer to home, the imposition of prohibitive tariffs Chinese exports would harm U.S. discounters and consumers. Chinese products provide an exceptional value for American consumers, and these imports of toys, consumer electronics and small appliances, and footwear cannot be easily replaced, domestically or abroad. Equally important, sudden revocation of MFN status imposes many market hardships for our member companies, many of whom have contracts for merchandise which will not be shipped until much later this year.

Finally, of course, is the matter of retaliation. China is a large purchaser of U.S. export products, and there is no doubt that the PRC will retaliate if the U.S. revokes its MFN status.

For all these reasons, we believe it would be counterproductive to revoke MFN benefits for China.

By way of background, IMRA is a trade association representing 140 major discount retail chains whose sales represent an overwhelming majority of the \$130 billion a year discount retail industry. Our members collectively operate over 35,000 stores in all fifty states and employ millions of Americans.

Sincerely,

ROBERT J. VERDISCO, *Vice President,  
Government Relations.*

---

#### STATEMENT OF THE INTERNATIONAL TRADE COUNCIL

Mr. Chairman and members of the Committee, we thank you for this opportunity to submit testimony before the Committee on Finance.

I am Dr. Peter Nelsen, an economist and President of the International Trade Council (ITC). My associate is Marie A. Boisen, Director of Research. ITC is a trade association dedicated to the expansion of free trade world-wide. The companies we represent are largely U.S. based.

We wish to address the issue of the US-Chinese trade relations, including a discussion on China's most-favored-nation (MFN) status.

##### I. THE NATURE AND EXTENT OF TRADE WITH CHINA

The People's Republic of China (PRC) was first granted nondiscriminatory MFN trade status on 1 February 1980, and it has been renewed annually ever since. Following the granting of MFN status, bilateral trade rose four-fold, reaching \$18 billion in 1989. If China's MFN status is revoked, US Imports will be subject to non-MFN duty rates of about 60 percent. This status also affects Hong Kong; approximately seventy percent of China's exports are routed through Hong Kong.

##### II. EFFECT ON PRC AND IT'S REFORM MOVEMENT

The consequences of denying the PRC the same trade status enjoyed by some 178 other nations will be counterproductive with respect to reform efforts in China and will undermine both US consumer and producer interests.

The Chinese reform movement is fueled by the individuals desire for civil rights, a higher standard of living, and opportunities to better their quality of life. Among the strongest supporters of reform are the provincial governments in Southern China. US and Hong Kong companies have made the majority of their investments in these provinces. Hurting those provincial governments, and the companies with investments there, not only limits the opportunities of those reform-minded activists and citizens residing there, but also hinders the current efforts to achieve respect for basic human rights in China. In a sense, the most reform-minded part of China will be punished most if MFN is ended. This, in turn, would also undermine those American companies with major investments in Hong Kong, which is China's largest trade partner and one of the world's few free-trade centers. Consequently, Hong Kong would suffer heavy losses.

In recent years trade between the US and China has been steadily expanding, reaching \$18 billion last year. Two-thirds of that was Chinese exports. If MFN status is not renewed, that figure will drop by about 30 percent. Hong Kong will lose close to \$10 billion worth of trade a year. This will have a major impact on the

900 American companies which conduct \$6 billion worth of business there, especially considering the bulk of that figure is related to investments in China.

### III. EFFECT ON U.S.

China is a principle supplier for certain retail goods. Without MFN status the average tariff on imports from China will rise from nine to 50 percent according to the US-China Business Council. The major US imports are toys, games, sporting equipment, apparel, footwear, and crude oil. Without MFN status tariffs on clothing will rise tenfold to 60 percent, while tariffs on toys will rise to 70 percent. For example, Teenage Mutant Ninja Turtle toys, which are made in China by a Hong Kong-based firm, will almost double in price. Many other goods, like shoes and clothes, are essential to lower- and middle-income consumers attempting to make ends meet. The increased tariffs inevitably will translate into price hikes and would hit those low- and middle-income families hardest. These consumers need to be able to buy at competitive prices and cannot afford a large price increase for their essentials. Likewise, as the prices rise on Chinese goods, they may become priced completely out of the US market because of the high tariffs. This may result in forcing US companies to switch to other foreign producers, a time-consuming and costly process. Toy companies such as Mattel Incorporated and Kenner Products Incorporated, clothiers like Levi Strauss and Company, and department stores like K-Mart Corporation and The Limited will be hit especially hard.

All Americans are outraged by the Peking Governments blatant disregard for basic human rights, however if we continue our economic presence, we have an opportunity to share our views with the Chinese provincial governments. Our presence also provides a bargaining chip with the Chinese government by giving us input on policies which affect US companies. Likewise, if we compel the US companies to pull out by making their investments unprofitable, we also cut off our opportunities to protest. The Chinese government will have no reason to recognize our protests. We must consider that if we pull out of the Chinese market, someone else will step in. As a result, the US will lose the market permanently. However, if our presence is continued we not only help American consumers and producers, but also the Chinese citizens looking for information and opportunities to strengthen their reform movement.

### IV. RETALIATION OF PRC AGAINST U.S. EXPORTS

The U.S. exported nearly \$6 billion in goods to China in 1989. Those exports included wheat, commercial aircraft, phosphate fertilizer, and high technology equipment, such as computers and scientific equipment. It is a historical fact that just as a country can open up its economy, it can just as quickly close itself off. China has demonstrated its willingness to retaliate in the past. Just as our exporters are finally regaining their competitive edge throughout the world, we will be putting our agricultural commodities and manufactured goods at risk. Moreover, the economic sanctions which were implemented after the Tiananmen Square incident are still in effect. Therefore, for our nation to prosper we need to keep the US-Chinese markets open. We already suffer a six billion dollar trade deficit with the PRC. Trade sanctions would only deepen it. China also imports a great deal of agriculture from the U.S. U.S. farmers would be unduly burdened by a stoppage of trade due to Chinese retaliation against U.S. trade policies.

### V. CONCLUSION

We conclude that denying the People's Republic of China MFN trade status will have several detrimental effects. First, international trade will suffer. US imports on Chinese goods will be subject to an import duty of approximately 60 percent. This will hurt US companies, including those trading through Hong Kong. Second, refusing to grant MFN status will be detrimental to the Chinese reform movement. It will limit their access to outside information and interests. Denying MFN status also will limit the resources available to those within the movement. Third, US consumers are put at a disadvantage by having to pay more for basic consumer goods. The opportunities available to US companies will be limited due to less competition, especially those who were encouraged to invest and now have established large investments in China. Finally, it will open the doors to retaliation by China.

The US wants to express its anger over the Chinese government's actions, however, if we respond with a denial of MFN trade status we may find ourselves completely out of the picture. Scorned in the American market, Chinese trade officials and plant managers not only may turn to other markets to sell their goods, but also may give preferential domestic treatment to America's competitors in China, principally

Japan and the European Community. The Chinese government will most certainly look elsewhere to make major government purchases, such as grain. Since our economic restrictions remain in place, these restrictions can be implemented to show our disapproval of their actions. In order to benefit the American consumers, we need to work on opening world markets-not close them. Therefore we encourage you to support President Bush's decision to continue granting MFN status to the People's Republic of China.

---

NATIONAL ASSOCIATION OF MANUFACTURERS,  
Washington, DC, June 21, 1990.

Hon. LLOYD BENTSEN,  
U.S. Senate,  
Washington, DC.

Dear Senator Bentsen: The National Association of Manufacturers believes strongly that U.S. trade with China serves to advance our country's values and her commercial interests. We urge that the nondiscriminatory tariff treatment (MFN) on which it depends be maintained.

Hearings were held in both the Senate and the House this week on the subject of U.S.-China trade. The question for the Congress to decide is whether this country's current, non-discriminatory trading relationship with China, which has existed for the last 10 years, should be continued, or whether, in light of the tragic events of last June in Tiananmen Square and those that followed, this relationship should be effectively broken off. On May 24, 1990, President Bush announced his decision that the U.S. trading relationship with China should be continued, thereby fulfilling the relevant statutory requirement of the 1974 Trade Act.

China's commercial contact with the United States and other Western countries is perhaps the most powerful tool we have for promoting democratic values in China. It would be counterproductive in the extreme to curtail such contact, as the withdrawal of MFN would do. For that reason alone, we support the President's decision to extend MFN, i.e., normal trading terms, to China for another year.

As the attached statement explains, NAM and its members are also concerned that denying or seriously qualifying MFN to China would harm American producers and American competitiveness; that it would harm our friends and allies abroad—especially Hong Kong; and that it would harm the very people in China whose success we wish to encourage.

We urge you and your colleagues not to withdraw MFN from China. We agree that American outrage and intolerance at the wanton disregard for human rights and human life that Tiananmen Square has come to symbolize must be expressed. Trade policy, however, is the wrong messenger.

Sincerely,

HOWARD LEWIS, III, *Vice President.*

Attachment.

#### STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

On May 24, President Bush notified the Congress of his intention to continue to extend normal, or most-favored nation (MFN) trade status to the Peoples Republic of China. Clearly, it is within the power of the Congress to insist upon a different course, and several pending bills would, if enacted, do that. Some would effectively cut off MFN immediately. Others would impose stringent conditions for granting MFN in the future. These techniques are discussed further later in this statement.

The National Association of Manufacturers believes that the United States should continue to grant MFN to China and that MFN should not be made any more conditional than it now is. Already the President must make an annual decision on continuation of MFN for China and a handful of other countries. This in itself is a fairly rigorous conditionality.

Last June, the Chinese leadership made the infamous, brutal and tragic decision to move against, to murder, the pro-democracy students who were at that time demonstrating in Tiananmen Square. Most of the bills offered in the Senate and House on this issue are, at least in part, a reaction to that and subsequent events.

NAM and its members readily understand the motivation behind these proposals. Several individuals from our member companies, people we work with and talk to frequently, have served in China. Their emotional reactions are marked by the same anger, bitterness, and disappointment that inspires these bills, save that their



reactions are infused with the intensity and complexity that comes from having lived and worked where the tragedy occurred.

Nevertheless, we view the effort to punish China with discriminatory tariffs as seriously mistaken. We believe it would harm American producers and American competitiveness. We believe it would harm some of our friends and allies abroad. We believe it would harm the very people in China whose success we wish to encourage, and we believe it would fail, almost completely, as a messenger from us to China's leaders. Yes, the point that America is outraged over the crackdown against democratic forces in China would be underscored, but it is unlikely that there would be any moderation of that policy as a result. To the contrary, we expect that stripping China of its MFN status in the United States would have the opposite effect. It would increase both Chinese isolationism and the hardships endured by those in China who believe in democracy.

#### CHINA MFN AND U.S. COMPETITIVENESS

These things needed to be said, but NAM's principal reason for speaking publicly on this issue is our belief that the wrong decision in this matter would be a serious blow to American competitiveness.

We very much admire and appreciate the leadership the Senate Finance Committee and the House Committee on Ways and Means showed in achieving the enactment of The Omnibus Trade and Competitiveness Act of 1988. A passage from that Act that is especially relevant here is this one from the Findings and Statement of Purpose:

"... it is essential, and should be *the highest priority of the United States Government, to pursue a broad array of domestic and international policies—*

(A) to prevent future declines in the United States economy and standard of living,

(B) to ensure future stability in external trade of the United States, and

(C) to guarantee the continued vitality of the technological, industrial, and agricultural base of the United States . . ." (emphasis added)

In each case, continuation of non-discriminatory trade treatment for China would be supportive of these objectives; termination of that treatment would not.

#### MFN AND THE COMMERCIAL RELATIONSHIP WITH CHINA

The terms of the Jackson-Vanik amendment are such that the Administration is obliged to make a decision on MFN for China every year. Yet it is misleading to see those decisions as a series of discreet and independent events. MFN for China is better understood as the linchpin in a complex economic relationship.

In contemporary terms, that relationship began with President Nixon's trip to China in 1972; it was greatly strengthened with the Carter Administration's conclusion of the 1980 Trade Agreement with China; and it has been nourished by an array of subsequent commercial arrangements.

Last year, two-way trade between the United States and China amounted to over \$18 billion and U.S. investment in China, in place and planned, exceeds \$4 billion.

These numbers deserve some comment. The first point to be made is that the commitment by U.S. business that they express is impressive. China is a difficult country in which to do business. Things do not happen quickly there. In the words of the experts, it takes patience, persistence and perseverance. Notwithstanding whatever truth there may be to the charges that American business is short sighted and unwilling to work in foreign markets, an effort has been made in China.

We do not know what message the old men in the Imperial City will get if Congress decides to withdraw MFN. We have a better idea of how business decision-makers in this country will react. They will conclude that China is just too risky. They may also conclude that other countries in transition are also too risky, from Poland to the Soviet Union to certain Latin American countries.

In the age of the global economy, that would be a tragic message for Congress to send to American business. Our exports are coming back. The trade deficit, at long last, is moderating. That trend will not last if foreign markets are turned over to competitors so that we can send a message to foreign leaders.

The second point about the numbers has to do with the fact that, in narrow bilateral terms, they are not in our favor. We have a \$6 billion trade deficit with China. Even so, taking MFN away from China would only make the U.S. trade deficit worse. Almost certainly other countries would fill the import gap, but no one is going to offer the United States a new \$6 billion export market. From wheat to air-

planes, U.S. exports will fall if Congress takes normal trade privileges away from China. This is one of the few instances in which retaliation against a U.S. trade action is virtually certain.

#### BEYOND THE U.S. BUSINESS RISK

Others have covered this ground more effectively than can we. Still, it is worth noting that American businesses are not the only ones who stand to lose if the United States tears up its trade agreement with China. Roughly 70 percent of China's exports to the United States come through Hong Kong. Indeed, many are produced in Hong Kong-owned enterprises in South China.

Hong Kong already labors under a dark cloud. Bills to take MFN away from China are aimed at Beijing; they will hit Hong Kong and the entrepreneurs in South China. Even some of those abroad who might stand to gain new business in this country are worried about the consequences of such a serious step.

President Bush said in his press conference on May 24 that, in addition to the United Kingdom, South Korea, Japan, Thailand, Singapore, and Taiwan have all requested that the United States continue to extend non-discriminatory trade treatment to China. An often repeated lesson of American culture, from John Wayne to Kojak, is this: When the bad guys are holding hostages, the good guys hold their fire. One could easily stretch the analogy too far, but we are convinced that American interests and those of our allies would be better served by a restrained and level headed approach to China. We should hold our fire.

#### LEGISLATION

As these remarks suggest, NAM is opposed to all of the bills that would curtail or qualify with new conditions China's MFN trade status with the United States. There are, however, important differences among them, and a few general comments are in order.

*Joint Resolutions of Disapproval.* Some of the bills in question are straightforward resolutions disapproving the President's recommendation to continue normal trade relations with China. We disagree with what these resolutions would do. On the other hand, if this issue is to be voted upon in the Congress, NAM believes that a joint resolution of this type would be the best vehicle.

We expect that the so-called mini trade bill, H.R. 1594, will be enacted soon and that it will provide that these kinds of decisions should be made by joint resolution. The United States is much more likely to develop and pursue constructive, steadfast trade policies through the consistent use of this kind of mechanism than through a series of free-standing bills.

Further, some of these resolutions are clean. That is they do not attempt to make complicated judgments about China. They simply disapprove the President's action.

Others share the attribute of being joint resolutions, but they go further in that they attempt to explain the withdrawal of MFN for China. One, for example, contains the finding that "renewal of most-favored nation status would show United States support for a brutal, murderous regime" in China.

Normal, non-discriminatory trading relations do no such thing, and we would be doing ourselves and the world a serious injustice to suggest that they do.

*Free-Standing Bills.* With respect to the free-standing bills, i.e., Senate and House Resolutions, to strip China of normal trade privileges, NAM disagrees with both the substance and the technique of these bill for the reasons given above.

Other legislation would not immediately deny MFN to China. Rather it would amend the Jackson-Vanik provisions of the 1974 Trade Act to ensure that, in the future, China is held to a higher standard when these decisions are made. This is not a rash approach, and we recognize in it an attempt to fashion a solution to an intractable problem. Nevertheless, we believe enactment of legislations embodying this approach would do more harm than good.

Bills of this type underscore the general dilemma of using trade policy as a messenger. In the case of China, one must decide at the outset whether the standards to be inserted into the Jackson-Vanik Amendment (Section 402(d) of the 1974 Trade Act) are to be vague and unenforceable or whether they should be serious, meaningful standards. Tests of the first type might achieve the goal of political statement without causing serious economic harm. The latter course is perhaps more honest but it only puts things off for a year.

It is not likely that new, meaningful conditions attached to MFN for China will be met by the Chinese government. That being the case, the U.S. companies affected will act as if they had received notice of the withdrawal of MFN. The economic

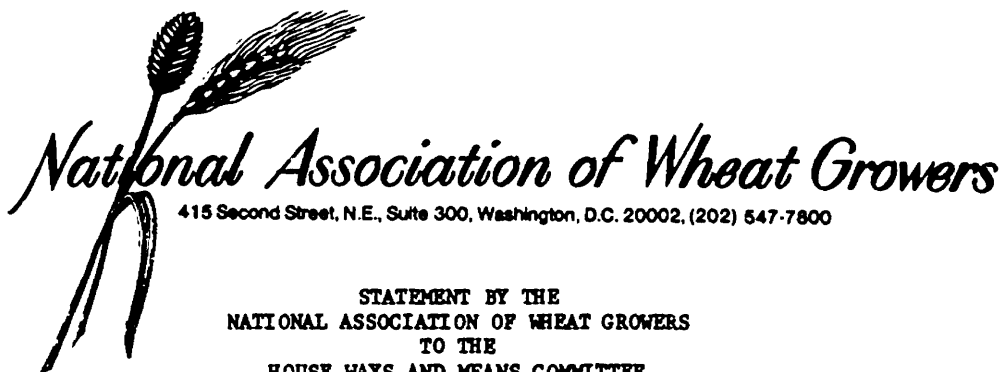
harm would be only slightly less than that caused by immediate cessation of normal trade.

#### AMENDING JACKSON-VANIK

Finally, by recommending that the Jackson-Vanik provisions of the 1974 Act be amended with new conditions, these bills raise a generic question: Should the United States expand the use of trade policy as a tool of foreign policy—a kind of diplomatic messenger? America's manufacturers believe that the answer to that question is no.

Our economic problems, including the serious and persistent imbalance in the trade and current accounts, do not allow us the luxury of using economic tools in that manner. Perhaps it is as well that they do not. Through normal commercial relations, we have a fair hope of influencing people and societies that we deal with day in and day out. At the very least, we can improve our understanding of those societies. Both advantages are all but lost when normal commercial contacts are cut.

For all of these reasons, we urge the Congress not to tear up this country's ten-year-old trade agreement with China—not to withdraw or further qualify MFN for China.



415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800

STATEMENT BY THE  
NATIONAL ASSOCIATION OF WHEAT GROWERS  
TO THE  
HOUSE WAYS AND MEANS COMMITTEE  
SUBCOMMITTEE ON TRADE

June 21, 1990

Good morning, I am Ron Rivinius, Vice President of the National Association of Wheat Growers. I am pleased to have this opportunity to present to you the NAWG's position in support of renewing most-favored nation trading status to the People's Republic of China.

The NAWG strongly supports the continuation of MFN to China. Our position is based on the belief that failure to continue China's MFN status will result in immediate retaliation against imports of U.S. wheat. China trade is vital to the U.S. farm sector and loss of this market would result in a deep decline in U.S. wheat sales and a severe drop in farm income.

U.S. Wheat Exports Would Decline

U.S. wheat sales to China currently account for 20 percent of our total exports. In 1989/90, China imported approximately 5.5 mmt of U.S. wheat worth over \$1 billion, making the PRC our top customer for the second year in a row. Given current production and consumption trends and barring any disruption in present trade relations, we believe the PRC will remain a major wheat importer of U.S. wheat through the end of this century.

The Chinese typically buy U.S. soft red winter wheat (from Ohio, Illinois, Indiana, Missouri, Arkansas and Michigan) and hard red winter wheat (from Kansas, Oklahoma, Texas, Colorado, Nebraska, Montana, South Dakota, and California). In 1989/90, the Chinese bought 602,400 mt of hard red spring wheat from Minnesota and the Dakotas. The loss of China as an export market will have an enormous impact on the farmers in these states. It will also have a spillover effect on a number of other wheat producing states. In short, we will have a disaster on our hands similar, if not greater, in magnitude to the 1980 Soviet grain embargo.

U.S. Farmers Have a Longstanding Investment In China

Following the death of Mao in 1979, U.S. Wheat Associates, our sister organization and the cooperator arm of U.S. wheat producers, in cooperation with USDA's Foreign Agricultural Service decided that the time was right to invest in China. Their first effort, undertaken in 1981, was to establish China's first modern commercial bakery. This successful

-2-

project was very closely followed by the building of the first instant noodle factory in the city of Shanghai. Several years later U.S. producers made their largest single investment in China, by undertaking the construction of China's first modern wheat flour mill in Beijing.

These "firsts", which have vastly improved the sophistication of China's food chain, have been met with widespread acceptance and popularity in the PRC. Better quality, varied, and convenient wheat-based food products have become an intrinsic part of Chinese life. Revocation of China's MFN would assure that ten years of U.S. farmer investment in building the China market will have been a terrible and costly waste. The subsequent effect on the quality of life for the average Chinese is unfortunately not quantifiable.

### The Competition

The U.S. competes with Canada, Australia, Argentina, 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, is currently considering revoking China's MFN tariff status. If we abdicate our position as the major exporter to China by unilaterally taking this action, it will be difficult, if not impossible, to find a market as large for our product. Moreover, our reliability as a supplier of wheat to the world will suffer.

### U.S. Agricultural Competitiveness

Like many other businesses in the United States, the economic well-being of this Nation's farmers is increasingly dependent upon our ability to sell overseas. The 1985 Farm Bill, the 1988 Omnibus Trade Act, and the U.S. GATT negotiating strategy for agricultural trade reform, all set out a course for U.S. agricultural policy that is based on the concept of international competitiveness and market orientation. For years, the rallying cry has been "competitiveness" and the agricultural committees of the House and Senate have spent much of this year writing a new five-year farm bill which is predicated on access to markets.

U.S. wheat producers need a consistent trade policy. The vagaries of the market and the unpredictability of the weather give us enough to worry about without having to fear the loss of major markets for our products.

### In Conclusion

China represents the largest export market for U.S. wheat. This is due to the general warming of relations between the U.S. and China and the corresponding commitment of U.S. wheat producers to this market. If U.S. agriculture is to remain competitive in the global marketplace, we need access to all markets, most especially one as vast as China. To this end, I respectfully urge you to renew China's MFN status.

Again, I thank you for the opportunity to appear before you today. I will be glad to answer any questions you might have at the appropriate time.

NATIONAL SPACE SOCIETY,  
Washington, DC, June 15, 1990.

Hon. CARLA HILLS,  
U.S. Trade Representative,  
Executive Office of the President,  
Washington, DC.

Dear Ambassador Hills: I am writing in order to direct your attention to a serious problem facing a new and strategic industry. I refer to the problem of unfair trade practices on the part of the People's Republic of China in the area of commercial launch services.

The commercial launch services industry is a strategic industry,<sup>1</sup> providing an essential input to virtually all space-related goods and services: satellite hardware, space manufacturing, remote sensing, communications, etc.<sup>2</sup> The civilian space industry accounted for nearly \$25 billion in sales and 210,000 employees in 1987.<sup>3</sup> According to Norman Augustine, CEO of Martin Marietta, each commercial Titan launch offsets the import of 10,000 Toyotas.<sup>4</sup> That is why the commercial launch industry has been identified as a vital national priority by both the Executive branch<sup>5</sup> and Congress.<sup>6</sup> Moreover, the United States is truly a technology leader in this vital area, with a number of established competitive firms including General Dynamics, Martin Marietta, and McDonnell Douglas, as well as numerous "start up" companies such as the American Rocket Company, Orbital Sciences, and Space Services, Incorporated.

No industry can flourish, however, in the face of government-sponsored competition. Unfortunately, that appears to be precisely the kind of competition that the Chinese are offering. Beginning over two years ago, the Chinese government has offered launches on its Long March vehicle at prices of \$20-30 million dollars—about half the price of a comparable commercial launch on a U.S. or European vehicle. Such pricing is below cost, and constitutes an unreasonable, unjustifiable burden on United States commerce.

Continuation of this practice also constitutes the violation of a trade agreement. After many complaints from the United States launch industry in 1988, U.S.T.A. arrived at an agreement with the Chinese government under which the Chinese were to limit the number of launches offered to no more than nine over a six year period, during which the launches would be spread evenly, and to price those launches on terms "on par with those . . . prevailing in the international market for comparable commercial launch services." It appears, however, that the Chinese are not abiding by this agreement. Published reports suggest that the recent Chinese bid to launch for the Arabsat consortium is again in the \$20-30 million range, the same kind of price charged by the Chinese before the agreement was signed and well below the commercial rate in the United States or Europe. Arianespace officials have complained that the price is 50% below normal and amounts to dumping.<sup>7</sup> Gerald Musarra of the Office of Commercial Space Transportation is quoted as saying, "That certainly seems to be totally at odds with the terms of the agreement with the Chinese."<sup>8</sup>

<sup>1</sup> See Reynolds & Merges, *Problems and Prospects of the Commercial Launch Industry*, 29 *Jurimetrics: Journal of Law, Science & Technology* 7, 9-25 (1988); Hertzfeld, *Economic, Market, and Policy Issues of International Launch Vehicle Competition*, in *International Space Policy: Legal, Economic, and Strategic Options for the Twentieth Century* (D. Papp & J. McIntyre eds. 1987).

<sup>2</sup> As Tony Iorillo, who heads Hughes Aircraft's space and communications group, says, "If we lose the launch business, we'll lose the satellite business." Perry, *We're Losing the New Space Race*, *Fortune*, April 23, 1990, at p. 233.

<sup>3</sup> *Space Related Employment Shows Strength*, *Aviation Week & Space Technology*, Feb. 15, 1988, at 73.

<sup>4</sup> Quoted in Perry, *supra* note 2.

<sup>5</sup> See White House Fact Sheet, *The President's Space Policy and Commercial Space Initiative to Begin the Next Century*, Feb. 11, 1988.

<sup>6</sup> See Commercial Space Launch Act of 1984, Pub. L. 98-575, 98 Stat. 3055 (1988); Commercial Space Launch Act Amendments of 1988, Pub. L. 100-657, 102 Stat. 3900 (1988).

<sup>7</sup> Reuters, April 9, 1990. See also Selding & Rains, *Europeans Want U.S. To Toughen Launch Deals with Soviets, Chinese*, *Space News*, May 21-27, 1990, at 3 (quoting European Space Agency director George van Reeth as saying that Chinese do not intend to abide by the accord: "I talked with the vice president of Great Wall Industry who negotiated it. I said, 'What about the quota?' He told me the quota doesn't matter. 'We can always sign a contract for a launch date outside the quota timetable, and then suddenly find a launch opening much sooner,' he told me.")

<sup>8</sup> *Chinese Deal to Launch Arabsat Renews U.S. Concerns About Long March Pricing*, *Aviation Week & Space Technology*, April 9, 1990, at 25.

As is hardly necessary for the National Space Society to point out, these circumstances seem to support (indeed, to mandate) action on a petition under Section 301 of the Trade Act of 1974, for violation of a trade agreement.<sup>9</sup> NSS is seriously considering the possibility of filing such a petition concerning the Chinese practices. However, we encourage you to make such a petition unnecessary by taking prompt action on your own initiative in response to the Chinese practices.

It is worth stressing that NSS does not want to limit fair competition in the launch services industry; in fact, NSS strongly favors such competition as a means of promoting new technology and lowering costs in the launch field. The Chinese, however, are not offering fair competition. If China were to abide by its international commitments on fair pricing and number of launches, NSS would not be concerned. If China refuses to abide by those commitments, however, the impact will be severe not only for the U.S. launch industry, but ultimately for the payload sector—and the future of the entire U.S. commercial space industry—as well. The United States must act promptly to prevent such an outcome.

Such action must be firm, and (given the apparent failure of the 1988 agreement to end the Chinese practices) may require the imposition of sanctions as a means of persuading the Chinese government that the United States is serious about this matter. NSS also urges USTR to consult closely with European interests, who are equally concerned about unfair Chinese pricing.

We are prepared to meet with you at your earliest convenience to discuss these matters further, and to offer whatever assistance NSS may provide in bringing this matter to a swift conclusion in favor of the United States launch industry and fair competition. NSS is a nationwide pro-space organization made up of tens of thousands of members who support the creation of a spacefaring civilization, a goal also endorsed by President Bush. NSS has repeatedly spoken and acted in favor of the development of a truly competitive commercial space launch industry, another goal we share with the President. For such an industry to develop, however, competition must be on the basis of prices that reflect efficiency, reliability, and technical quality. Government subsidies and “dumping” distort such competition, since in a government-subsidized pricing regime the “price” charged is purely arbitrary and may reflect no more than the desire of the government in question for hard currency, national prestige, or technological development for national economic or military purposes. Competition distorted by dumping and government subsidies will not provide the incentives for efficiency, technology development, and real cost reduction that a truly free market will provide.

Given the vital role of the commercial space launch industry for our nation's future, we cannot afford to allow the American companies involved to be extinguished by unfair foreign competition. NSS asks that you act to end the Chinese practices immediately.

Sincerely,

LORI GARVER, *Executive Director,*  
*National Space Society.*

---

## STATEMENT OF NMTBA—THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY

### I. INTRODUCTION

NMTBA is a trade association representing over 300 machine tool building firms with over 400 locations.

We appreciate the opportunity to address the Committee on the importance of U.S.-China trade relations. We support the President's extension of normal trade status to China and oppose attempts to set conditions on that extension.

### II. STATUS OF THE U.S. MACHINE TOOL INDUSTRY

America's machine tool industry builds and provides to a wide range of industries the tools of manufacturing technology including cutting, grinding and forming machines, universal measuring machines, and automated manufacturing systems. Although our industry is relatively small by some standards, it accounts for a very basic and strategic segment of the nation's industrial capacity. Not only does our

---

<sup>9</sup> Section 301 specifically applies to unfair foreign practices in the services arena, which includes launch services. For more on this see G. Reynolds & R. Merges, *Outer Space: Problems of Law and Policy* 229 *et seq.* (1989) (describing space-related international trade problems in general and application of Section 301 to space industries in specific).

industry build the machines essential to our military readiness and our ability to respond quickly and effectively in the event of a national emergency, but it also builds the product which underlies virtually every other commercial product. Machine tools are the very essence of the industrial manufacturing process. They are the "tools of production." Our industry is the belt that holds up the pants of America's military and economic security.

A struggling machine tool industry is a threat to the stability of the United States' industrial base. It truly jeopardizes national security. Unfortunately, for varied reasons, the industry is struggling. We wish to thank this Committee and its members who have assisted us in that struggle. During the past several years, U.S. machine tool builders have seen a substantial reduction in their customer base. Many machine tool consuming industries have moved manufacturing capacity offshore and equipped their facilities with foreign-made machine tools. Many of the manufacturing firms that have retained U.S. production facilities have also purchased foreign machine tools. They have, in fact, opened a floodgate of imports—which now represent approximately 50 percent of the value of machine tools consumed in the United States.

### III. THE CHINA EXPORT MARKET

Despite these facts, the U.S. machine tool industry is determined to survive, and one of the ways we are fighting back is through the export of our machine tools to markets such as China. China represents a wealth of opportunity for our industry, and we have really made an effort to increase our market share there. In 1975, NMTBA was the first industrial trade mission to China since World War II. In 1977 and 1979, we held a series of technical seminars there, and in 1978 and 1980, NMTBA hosted Chinese buying missions to the United States for machine tool users. This culminated into a machine tool exhibition in China in 1983. NMTBA put on two subsequent solo trade shows in China in 1985 and 1987, and last year, we had a pavilion at CIMT, the China International Machine Tool Show, with forty-seven of our member companies exhibiting. We have made a tentative commitment to return in 1991.

The effort our industry has put into building ties with China has paid off. *Exhibit A* shows that U.S. machine tool exports to China topped \$40 million last year. In fact, China was the seventh largest export market for U.S. machine tools in 1988 and 1989. Now we are faced with seeing all of our time, hard work, and money go down the drain if normal trade status to China is denied.

The machine tool industry is not the only industry in the U.S. that values current trade relations between this country and China. A wide cross-section of American industry, as diverse as agriculture and aerospace, is voicing concern over any attempt by Congress to disapprove normal trade relations to China or to attach conditions to their approval. *Exhibit B* illustrates why. U.S. merchandise exports to China totalled nearly \$6 billion in 1989. If normal trade status is not extended to China, the Chinese will certainly retaliate by refusing to import from the United States. Business ties that this country's industries have worked so hard to build will be severed in a heartbeat. The Chinese will simply look to our foreign competitors, who are not considering revocation of normal trade status. U.S. exports would be crippled and thousands of American jobs would be lost at a time when our global trade deficit is close to \$120 billion. This type of trade policy makes no sense. By denying normal trade status to China, the United States would be risking our own economic stability and national security.

### IV. THE U.S. WOULD BE REGARDED AS AN UNRELIABLE TRADING PARTNER

This is not the first time that the machine tool industry and U.S. industry, as a whole, have suffered at the hands of the U.S. Government's inconsistent trade policy. Our competitive posture in Eastern Europe and the Soviet Union has been severely damaged by an outdated and inconsistent export control system. The U.S. position with regard to export controls was initially so out-of-tune at the COCOM negotiations this year in Paris that it almost caused the demise of COCOM. Luckily, the Administration yielded their position. However, we are not out of the woods yet. The Senate Banking Committee will soon be bringing to the Senate floor a reauthorization of the Export Administration Act that will hopefully alleviate many of our problems in the export control area. The House adopted its version of export control reform on June 6th by a 312 to 86 vote.

Now, we are watching as some in Congress attempt to damage our reputation as a reliable trading partner in China by revoking or setting conditions on normal trade status with China. How can we expect any savvy Chinese businessperson to do busi-



ness with a U.S. company that is subject to on-again, off-again trade policy? What would be done about parts and service? The intelligent thing for the Chinese to do would be to seek other suppliers who will be there in the future, and that is exactly what they will do. American industry will be left out in the cold once again. How does this country possibly expect to survive (let alone, prosper) in the global marketplace by alienating or appearing to be unreliable suppliers to our trading partners?

#### V. TRADE IS THE SOURCE OF WESTERN IDEAS

Probably the most tragic players in this drama are the Chinese who continue to fight in the name of freedom. They are the people we all must support. However, they stand to lose much if the U.S. severs ties with China.

Trade is the means of contact between the Western world and the Chinese people. It is a major source of our ideas, our knowledge, and our principles. Thousands of Chinese have gone abroad to study the Western methods they have seen, and when each returned to China, a piece of the Western world went with them. Frequent contact with the West is what has planted the seed of the democratic ideal into the minds of the Chinese people.

American presence in China symbolizes the reform for which the Chinese people dare to fight. We are their source of strength. Many Chinese patriots recognize this and support continuance of normal trade relations between their country and ours.

#### VI. CONCLUSION

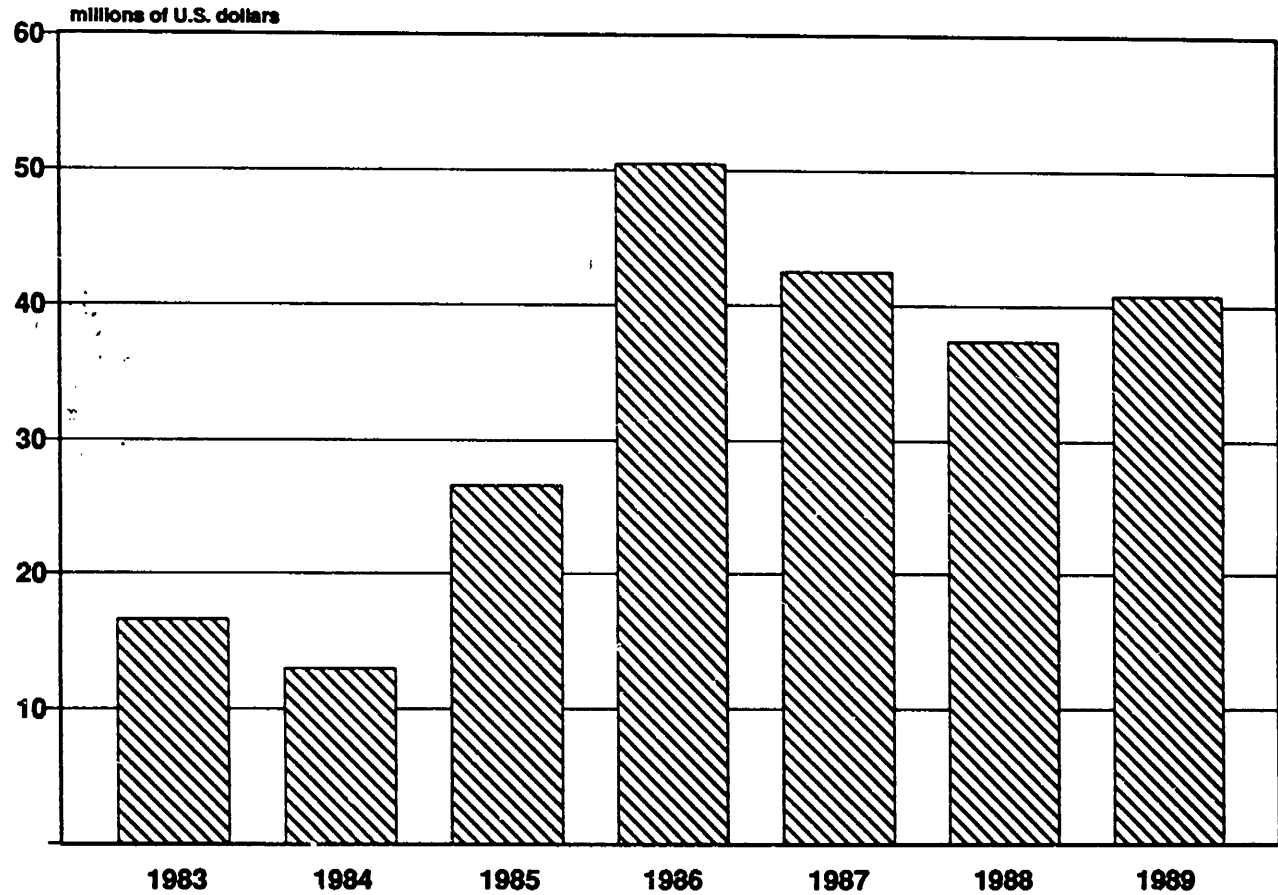
Many NMTBA members were in China exhibiting at the China International Machine Tool Show last June and left a few days before the atrocities of Tiananmen Square. We all felt anger and disgust at the complete disregard of human rights displayed there. The President and the Congress responded by imposing sanctions that remain in place today—including halting of U.S. weapons exports to China, opposing a resumption of World Bank and Asian Development Bank lending to China, and suspending the relaxation of export controls on high technology shipments to China.

The Jackson-Vanik Amendment expressly ties normal trade status to emigration policy, and under this U.S. law, China qualifies. However, tying the continuation of normal U.S.-Chinese trade status to the Chinese government's general recognition of human rights would be misdirected. If normal trade relations are denied—U.S. exports, U.S. businesses and U.S. workers will become the true victims.

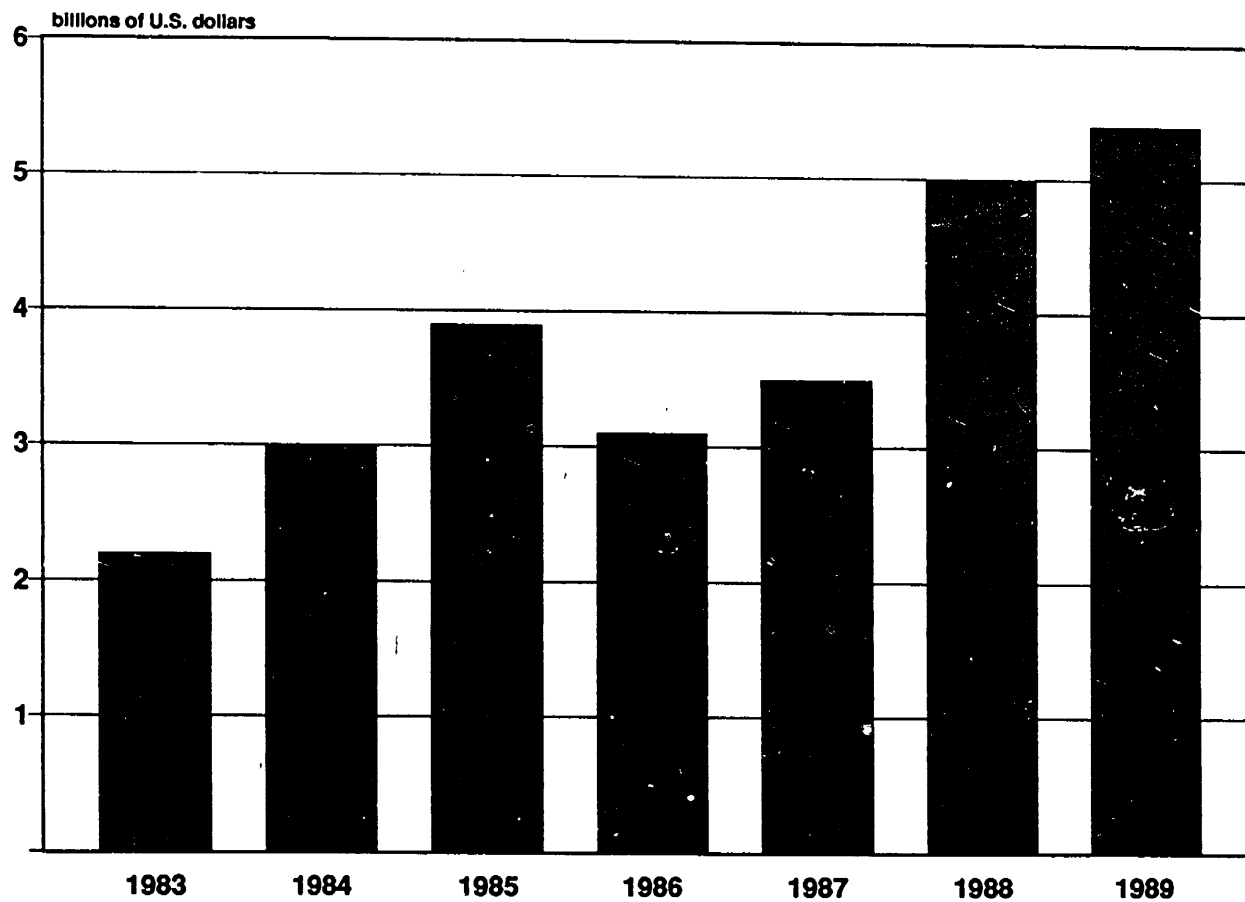
America will have once again aimed at the heavens but shot itself in the foot. On behalf of America's machine tool industry, I urge you not to repeat the mistakes of the past. I urge you to support the President by granting China a one-year waiver of the Jackson-Vanik restrictions.

Attachment.

# U.S. Machine Tool Exports to China



# U.S. Merchandise Exports to China



## STATEMENT OF PANDA MOTORS CORPORATION

## A. BACKGROUND OF PANDA MOTORS

Panda Motors Corporation ("PMC") is a U.S. corporation established in 1988 to invest in the manufacture of high-technology low-cost automobiles in the Peoples' Republic of China ("China"). These automobiles will be manufactured for export to emerging nations in the Pacific Basin and for domestic use and sale in China, if practicable. PMC's executive offices are located in Vienna, Virginia.

PMC has obtained an operating license from the Chinese Government to form a wholly foreign owned enterprise to construct an automobile manufacturing plant in Guangdong Province, approximately fifty miles northeast of Hong Kong. Shortly after the issuance of the license on March 20, 1989, PMC formed Panda Motors (China) Corporation ("PMCC"). PMC and PMCC will be referred to collectively in this document as "Panda."

The Chinese Government has leased to Panda the land upon which to build the plant and is constructing the infrastructure for a new industrial port which will serve the new facility.

PMC spent millions of dollars purchasing two American automobile plants closed by General Motors; a sheet metal stamping plant in Fairfield, Ohio and a four cylinder engine assembly plant in Flint, Michigan. Panda will spend millions more disassembling the equipment from these plants, refurbishing it and shipping it to its plant site in China. In addition, Panda has contracted with a top automotive group in Detroit, Michigan, and will expend substantial sums to design and engineer a new automobile prototype. PMC exports of U.S. automobile equipment, parts, technology and management skills, as well as its continued participation in the venture, will directly result in numerous jobs in the U.S.

PMC has joined many U.S. corporations as investors in China. By the end of this year, Panda will have invested over \$100 million in this venture, making it the largest of any foreign investment in China. Moreover, Panda has pledged to the Chinese that it will budget at least \$250 million for the project. Hundreds of millions of dollars more will need to be raised through other financing sources to complete the project. Incorporation of PMCC as a wholly foreign owned entity has enabled Panda to pursue its business goals without the participation of the Chinese Government or other Chinese entity as a joint venturer.

## B. EFFECT OF LOSS OF MFN STATUS ON U.S. INVESTMENT IN CHINA

In 1989, U.S. investments in China totaled approximately \$4 billion. If Congress revokes China's MFN status, the Chinese Government is certain to retaliate, creating significant obstacles and bureaucratic burdens to inhibit present U.S. enterprises in China. This retaliation would jeopardize all U.S. investments in China.

Loss of MFN status would result in duty increases on 91.5% of U.S. imports from China, and these increases would be substantial. As a result, the cost of imports from China would increase and U.S. demand for imports from China would decrease. The U.S. consumers would bear the brunt of China's loss of MFN status in the form of higher prices for Chinese goods such as luggage, handbags, footwear, toys, games and sporting goods. While the U.S. manufacturers may benefit in the short-term, U.S. consumers would pay higher prices and find a smaller selection.

China would retaliate. Beijing would likely raise tariffs on U.S. imports by a comparable amount and halt their purchase of U.S. grain which amounted to \$1 billion in 1988, and accounts for 40% of China's grain imports. Can U.S. farmers afford to lose this lucrative market in the current financial climate? If the grain embargo to the U.S.S.R. in the 1970s taught us nothing else, it was that unilateral sanctions that are not followed by other economic powers, decrease U.S. markets, endanger the livelihood of U.S. citizens and are ineffective when other import supplies are located.

The concessionary tariff rates which the U.S. has received as a result of China being accorded MFN status will disappear. The competitiveness of U.S. goods in this market will diminish. Our production equipment and raw materials could not be exported to China without paying enormous tariffs which would boost our cost of production dramatically. We could not be competitive with Japanese, Korean or other related products. The Chinese commitment to make land available for the plant and to construct a port facility would likely be revoked as the economic prospects of the project diminish. Finally, project financing through EximBank and OPIC would likely be unavailable.

### C. U.S.-CHINA TRADE RELATIONS

Trade between the U.S. and China resumed in 1972 when political control was restored between the two governments. Following full normalization of diplomatic relations in 1979, the U.S. and China concluded a general trade agreement. The agreement called on the respective governments to promote economic and trade relations, and for each to accord the other most-favored nation tariff treatment. Both also agreed to consult in the event of bilateral trade problems.

Further agreements covering aviation, shipping and textile trade were signed by the U.S. and China in 1980. The U.S. took the first steps to liberalize its controls on exports of high technology to China and extended EximBank and OPIC facilities to commerce with China. In the later part of the year, the Department of Commerce staged the first U.S. national trade exhibition in Beijing, and the Chinese sponsored a trade exhibition in San Francisco, Chicago and New York. The two governments negotiated a bilateral trade agreement in 1985, which was ratified by the U.S. Senate in 1986.

U.S.-Chinese commercial relations have expanded rapidly during the past decade. In terms of the dollar value of total turnover, China rose from 43rd in 1978 to 10th largest trade partner in 1988. In 1989 U.S. exports to China totaled approximately 5.8 billion. That number is far greater if U.S. exports to Hong Kong are also considered, since a large portion of those goods are re-exported to China. The U.S. is China's third most important trading partner, behind Hong Kong and Japan, comprising 11 percent of its total imports, and 8 percent of its exports in 1988 according to the International Monetary Fund.

### D. FOREIGN POLICY CONSEQUENCES OF WITHDRAWAL OF MFN STATUS

If MFN status is withdrawn, trade and investment will plummet, and the economic reforms, which the U.S. acknowledges are China's hope for a fairer, more humane society, will falter. Living standards, which were on the rise as a result of increased trade and investment, would decline. U.S. influence on China, which may have led to the lifting of martial law in China and Tibet, and the release of hundreds of participants in pro-democracy demonstrations, will diminish as the open door to the West begins to close. As Chinese trade officials have noted, "If the U.S. Government takes such a serious step, Sino-U.S. relations will be put back 20 years."

The effect of this action on U.S.-China political relationships will likely be severe. The people of China who fought so bravely for democracy would be further isolated since the doors to one of their major supporters and sources of quiet persuasion would be effectively closed.

Enterprises such as the Panda project are helping to redefine the way the Chinese view foreign investments. Panda's goal, through its investment, is to build a bridge between the American and Chinese people, to encourage the Chinese people to accept privatization of investments and to promote American views of management and democracy.

Panda had envisaged that its involvement in the Chinese market would lure auto component manufacturers to the region, and eventually create a vast number of jobs as a result of increased activity in this economic zone. Withdrawal of MFN status will prevent this from becoming a reality for decades if at all.

Panda has committed to reinvest in its China operations, including the continued transfer of technology, localization of component manufacture, and the training and schooling of Chinese citizens. Eventually, within 10 years, Panda plans to manufacture 100 percent of its components in China if local resources and talent allow. This economic development, which would boost the standard of living of the Chinese and make foreign currency available to purchase U.S. products, may become infeasible.

### E. SUMMARY

While no U.S. business or American citizen can condone the brutal suppression of the pro-democracy movement which commenced last June, the Congress should seriously consider whether unilateral trade action adversely impacting American business and the Chinese people is an appropriate response. This is especially true in an international environment where few, if any, of our foreign competitors have taken similar action.

In summary, we believe it is in the best interest of Panda and of citizens of the United States to renew MFN status to China for the following reasons:

#### 1. Threat to U.S. Investments

Panda's investment and all other U.S. investments in China would be jeopardized, thereby frustrating business goals, creating higher tariffs and taxes, and causing

Americans to lose their resources and investments in Chinese ventures. The benefits of American management, training and education to both the Chinese and Americans would be lost for another generation.

## *2. Threat to Panda's Investment*

If China loses its MFN status, Panda's plans for automobile production in China may no longer be practicable and Panda may lose millions already invested for the design and production of its automobile.

### *a. Increased Cost of Plant*

Increased reciprocal tariffs on the export of U.S. automotive machinery and raw materials into China, which could increase by 40%-90%, would boost the cost of the cars produced so substantially that they could not compete with Japanese and Korean cars.

### *b. Destroy Incentive for Suppliers to Establish Plants*

Potential suppliers to Panda may be unwilling to establish new production plants in China due to higher import tariffs, and component manufacturers already in China may pull out due to a loss of foreign Capital resources and Panda production contracts.

### *c. Damage to Relationship*

The good-will created between Panda and Chinese officials resulting from the negotiations of the present transaction could be damaged. Without the relative normalization of attitudes made possible by past cooperation between our countries, the democracy movement would not likely have occurred. The result of these sanctions may be that the next generation of Chinese would be trained not by Americans, but by traditional Chinese management.

## *3. Unilateral Trade Sanctions Hurt Americans*

Any revocation of MFN status, or other trade sanctions, must have the multilateral support of our trading partners. otherwise, the U.S. will only lose markets to Japan, Europe, or South America. No other country has imposed significant trade sanctions against China. Most have revoked economic sanctions in January 1990 after China announced the end of martial law. We learned in the 1970s, when grain embargos against the USSR devastated U.S. farmers, while the Soviets found alternative supplies, that unilateral trade sanctions hurt Americans the most. Repeal of MFN status will only create vast new markets for our major international competitors.

## *4. China May Become Moderate if U.S. Ties Are Maintained*

In the last month, China has reported the amnesty or release of 784 individuals investigated for their association with democratic demonstrations. On May 1, 1990, martial law imposed in the City of Lhasa, the capital of Tibet, was lifted. On January 11, 1990, China lifted martial law within Beijing. The timing and implementation of these events are undoubtedly due in large part to China's open door to the West and the U.S. Many foreign policy experts agree that we can influence China policy as China's third largest trading partner. That door will close and Sino-U.S. relations will be "put back 20 years" according to Chinese trade officials, if MFN status is terminated.

## *5. Approximate Trade Parity Between U.S. and China*

Official reports of U.S. exports to China amounted to at least \$5.8 billion in 1989. Those figures fail to calculate the majority of U.S. goods which enter China indirectly through U.S. exports to Hong-Kong. Economists calculate approximate parity between imports of Chinese goods to the U.S. of approximately \$18 billion and U.S. exports to China and Hong Kong. These enormous markets would be jeopardized if MFN is not renewed.

## *6. Chinese Retaliation will Hurt U.S. Consumers*

China will undoubtedly retaliate against non-renewal of MFN status by raising tariffs on U.S. goods entering China (and entering Hong Kong). The loss of foreign capital to China provoked by reduced sales of Chinese products in the U.S. will further inhibit the sale of U.S. goods in China. Finally, the price of Chinese textiles, toys, and other products which have dominated the U.S. market will increase dramatically to U.S. consumers, and consumer selection will diminish.

### *7. MFN Used to Promote Sale of U.S. Goods*

The U.S. extends MFN status to nearly all its trading partners, even such countries as South Africa, Iraq and Syria. MFN is generally not used principally as a tool of foreign policy, but to promote U.S. goods abroad.

#### E. CONCLUSION

Unilateral and confrontational "big stick" diplomacy would be unwise when dealing with China. Political repression can best be averted by encouraging Chinese leadership to rejoin the world community and by increasing its economic interdependence on the U.S. The extent of costs imposed on China by termination of MFN status would depend heavily on the degree of multilateral cooperation. To date, such cooperation is absent. Large segments of the U.S. economy depend on enhanced foreign trade opportunities. It has taken 12 years to cultivate the largely untapped Chinese markets. In its haste, the Congress should not destroy these initiatives to deliver a message that the Chinese government has already received and for which the people of the U.S. and China will be required to pay.

Thank you.

STATEMENT OF AMY L. SHERMAN, RESEARCH ASSOCIATE  
THE PUEBLA INSTITUTE

SUBCOMMITTEE ON INTERNATIONAL TRADE  
FINANCE COMMITTEE  
U.S. SENATE

HEARINGS ON THE EXTENSION OF MFN STATUS TO  
THE PEOPLE'S REPUBLIC OF CHINA

JUNE 20, 1990

Introduction

Based in Washington, D.C., the Puebla Institute is a lay Catholic human rights group defending religious freedom for all peoples, of all creeds, in all parts of the world. Puebla is privately funded and nonpartisan. Puebla has reported on religious and human rights in Haiti, Chile, Nicaragua, Romania, Albania, Zaire, and Nepal, as well as China. Puebla released this month a new report on the suppression of religious freedom in China. This report is based on the results of a Puebla fact-finding mission to China in 1989; our continued monitoring of the situation through private religious contacts in Hong Kong; interviews with Chinese Christians in the U.S.; and information from Catholic religious orders and Christian mission groups with long-standing commitments in the mainland. In it we conclude that persecution of independent religious believers has dramatically increased over the last 18 months. We have documented the cases of 62 Christian clerics and lay leaders, 48 Catholics and 14 Protestants, currently deprived of liberties in China. We have also compiled information regarding the arrests of hundreds of other Chinese Christians and the closing of scores of independent churches. To date this serious abuse of human rights has largely escaped public scrutiny, so we are grateful to the Committee for the opportunity to shed light on it. We urge that Most Favored Nation trade status to China be granted conditionally for one year on the fulfillment of specific human rights criteria. The restoration of liberties to all religious believers persecuted for their faith should be one criterion.

Background

Since the Communists came to power in 1949, the government has sought to control religious affairs in China and force worshippers to sever their links with churches abroad. Toward these ends authorities created the Patriotic Catholic Association (PCA), an organization controlled by the Communists and independent of the Vatican, that oversees the ordination of priests and other Church affairs. The government also established an official Protestant organization, called the Three Self Patriotic Movement (TSPM), to oversee all activities of Protestant believers. Christians defying the state's religious policies by worshipping and engaging in religious activities independent of these organizations are harassed and persecuted.

Throughout communist rule religious worship has been closely circumscribed, with the government's ultimate stated objective being the abolition of religion. The degree of persecution has waxed and waned along with political cycles. This dialectic of restriction (*shou*) and liberalization (*fang*), as Chinese scholar Professor Thomas B. Gold of the University of California at Berkeley has observed, makes difficult the emergence of civil society. The Chinese Communist Party fears the prospect of independent activities and organizations; and makes every effort to prevent them from springing up. Nevertheless, independent religious activity continues on the mainland, with reliable, independent statistics estimating Christians to number in the tens of millions.

Under Deng Xiaoping, by the early 1980s China had adopted a slightly more liberal religious policy, but by 1987 was showing signs of a return to a harder-line stance. New religious regulations were issued in 1988, resulting in increased pressure on churches from



local administrative authorities. Following the crackdown on pro-democracy demonstrators in Tiananmen Square in June 1989, the State Council's Religious Affairs Bureau strengthened its control over the official religious organizations, regulating church activities more directly and aggressively. All reports documented by the Puebla Institute over the past year indicate that Chinese Christians are again experiencing a painful period of "shou" as human rights violations against them have significantly increased.

While both Catholics and Protestants are under intensified pressure, their circumstances differ.

### Catholics

Of the 48 Catholic leaders on Puebla's list, 19 priests have been arrested since December 1989 alone. This recent spate of arrests is part of a crackdown on the underground church that coincided with the government's crushing of the democracy movement last June. But the persecution of Catholics is not simply part of the generalized repression following the June 1989 democracy demonstrations. Rather, such persecution predates Tiananmen and is directly linked to the democratization of Eastern Europe.

According to China scholar Merle Goldman of Boston University, Deng has greatly feared the influence of reform movements in Eastern Europe since the rise of Solidarity in Poland in the early 1980s. The influence of these countries, rather than of the West, preoccupied Deng during the early stages of the Tiananmen Square demonstrations. On April 25, 1989 he railed against Chinese pro-democracy students: "Those people who have been influenced by the free elements of Yugoslavia, Poland, Hungary and the Soviet Union have arisen to create turmoil. Their motive is to overthrow the party." In the context of this concern about reforms in other communist states provoking increased demands at home, Deng has tightened the grip on all centers of independent authority in China, especially the churches. At a Chinese Communist Party congress in December 1989, officials accused Pope John Paul II and the Catholic churches of instigating and nurturing the trend of liberalization in the Soviet bloc. The Pope was specifically charged with holding "reactionary and subversive" intentions towards China, as well. As a result, Catholics in China defying the state's religious policies by refusing to join the government church and maintaining loyalty to the Vatican -- a fundamental tenet of Catholicism -- have been singled out for particularly harsh treatment. Currently deprived of liberties for religious reasons are 13 Catholic bishops, 28 priests, eight laymen, and one seminarian.

Independent Catholics are meted out sentences from ten years to life under Article 91 of China's Criminal Law, which prohibits "collusion with foreign forces in plotting to harm the sovereignty, territorial integrity, and security of the motherland." Nevertheless, some Catholic leaders have remained loyal to the Vatican, operating what is in effect an underground Catholic church. They persist in their courage and religious convictions in the face of grave personal risks. In the midst of the current crackdown, they decided in November 1989 to form an episcopal conference independent of the PCA. Within a month, seven Catholic bishops of the underground were arrested.

After the communist takeover in 1949, Catholics were accused of maintaining ties with "foreign and imperialist forces," the Church was labelled as "a tool of the imperialist aggressors," and many "clandestine" priests serving the underground church were arrested in the 1950s. Ten priests on Puebla's current list were arrested during these early purges. They had already completed sentences of up to 25 years before being re-arrested in the last few years.

One of the most compelling cases is that of Father Anthony Zhang Kangyi, an acclaimed World War II hero with the Italian resistance. Now 83, Father Zhang has already spent 30 years behind bars since 1949. He was arrested on December 11, 1989, then released, then rearrested on December 28, 1989 and is currently in prison. Father Philip Wang Ziyang, the former Vicar General of Yanggu diocese, died in prison on January 31, 1990 at the age of 90. Father Wang had been imprisoned for over 30 years in a forced labor camp in Guangdo district, where he was subjected to corporal punishment.

Violence against the Catholic Church was also documented in early 1989, even before the events of Tiananmen Square. An especially egregious instance of this was an

April 18, 1989 police rampage against 1500 pro-Vatican Catholics in Yutong village in northern Hebei Province, in which 30 Catholics were arrested, two killed, and approximately 300 wounded, 160 of them severely. The raid was carried out by thousands of policemen in an estimated 270 military vehicles. Among their many victims were young children and elderly women.

The 48 Catholics currently imprisoned or under house arrest are guilty only of seeking to worship according to the dictates of their conscience. The majority are imprisoned or sentenced, like 51-year-old Bishop Casimir Wang Milu who was arrested in April 1984, to "re-education through labor." These persecuted Christian leaders are members of Jesuit, Trappist, Divine Word and other orders, as well as diocesan priests. In many instances their precise whereabouts are now unknown. Twelve priests, all elderly or in poor health, are reportedly now under house arrest and/or strict police surveillance after having already served an initial period of imprisonment.

Among the imprisoned are Father Joseph Jin Dezhen, serving a 15-year sentence for opposing the government's abortion policy; Father Zhang Shentang, serving a 17-year sentence for printing religious literature without government authorization; Father Zhu Baoyu, serving a 10-year term for taking Catholics on a pilgrimage; Bishop Paul Liu Shuhe, under house arrest for possessing two illegal sermons and for owning a typewriter; and Bishop Joseph Fan Xueyin, who has already served 21 years behind bars, and is currently under house arrest for ordaining priests of the underground church.

In addition to these 48 Catholic leaders currently imprisoned or under house arrest by the Chinese government, there are a considerable number of priests not on this list who are "conditionally" free. This means that they have no residence permit, no ration card, no documents making it possible to travel even within the country itself. Tied to one place, dependent on others for their daily necessities, with no possibilities of finding jobs, they too are victims of the government's repressive policies.

### Protestants

As with Catholics, Protestants are required to join the state's designated official religious organization, the TSPM. Many are reluctant to do so, considering it a form of collaboration with an atheistic government. Many also feel that worshipping in the official churches restricts their possibilities to evangelize. As a result, many Protestants worship in "house-churches," private, often secret, meeting places where they gather for fellowship and teaching. Membership in house-churches has increased significantly in the last decade.

Under China's religious policy, evangelizing, preaching, and distributing Christian literature outside the officially approved channels is illegal. Consequently, believers engaged in independent religious activities have been detained and their churches closed. Throughout the 1980s there were over 1,000 incidents where members of Protestant groups were subjected to short-term detention in connection with their religious activities, and at least 79 Christian leaders were charged or sentenced to terms of imprisonment during this time.

Persecution of Protestants has increased since 1988 as a result of two new repressive policies. The first occurred in March 1988 when the government issued religious regulations in Guangdong Province (known as "Document No. 44"). This law allows the provincial government to issue its own administrative regulations for local churches, and represents a move to bring more local Christian communities under the control of officially-appointed TSPM pastors. In the first six months of this year, hundreds of Protestants have been arrested and scores of independent churches closed.

The second is a government drive begun in December 1989 to wipe out so-called "six evils," including "conducting superstitious activities." Authorities are using this political purification campaign as a basis for a renewed purge against Protestants, particularly those active in house-churches. It resembles the government's violent fight against the "Four Olds" (old ideas, culture, customs, and habits) during the Cultural Revolution. As such it bodes ill for the independent churches.

In addition to being accused of superstition, Protestant activists are most often charged with: membership in the "Shouters," a Protestant evangelical group branded counter-revolutionary by the regime; planning to overthrow China's proletarian-dictatorship

and socialist system; associating with overseas reactionary forces; receiving and distributing foreign materials; disturbing the social order; and disturbing and breaking up normal religious activities.

The Puebla Institute has documented the cases of 14 known Protestant religious prisoners, and describes in more general terms the detention of many more. Because of restrictions on expression and the press, and secrecy surrounding the judicial and penal systems in China, it is difficult to document information on prisoners of conscience.

Among those currently imprisoned is Mai Furen of Shanton in Guangdong Province. Now in his late 70s, Mai is serving a 12-year sentence on charges of distributing Bibles; having "illegal" overseas connections; and belonging to the Shouters, a Protestant evangelical group. Arrested with Mai was Sun Ludian, also of Guangdong Province, who is serving a 12-year sentence in labor camp. Seven evangelical lay leaders from Lushan County were arrested together for their religious activities, receiving sentences of up to 15 years' imprisonment. Xu Yongze, an evangelist from Henan Province, was arrested in 1983 but escaped from labor camp and went into hiding. He was rearrested by officials of China's Ministry of State Security on April 16, 1988 in Beijing, where he was attempting to attend a service led by American evangelist Billy Graham. He is currently serving a three-year sentence in Zhenping County Prison. In November 1988, it was reported that he was sick with tuberculosis and gastric disease and was lacking adequate warm clothing and medicine.

In addition to the prisoners noted by name, Puebla has received reports from various Christian mission groups and the Hong Kong-based Chinese News and Church Report of various incidents of religious persecution against Protestants, including arrests, detentions, and church closings. These incidents are sobering testimony to the dramatically deteriorating situation of independent churches in China.

Among the most disturbing reports is that of a group of five Chinese Christians arrested in November 1989. Two of them, a father and daughter, were reportedly tortured to death while in detention. This report came from a Chinese missionary whom we refer to as Mr. X, since identifying him by name would compromise his safety. The executive director of the Western missionary group with which Mr. X is associated told me the following:

Mr. X was born in mainland China and has coordinated our work there for 10 or 12 years. He has been able to establish hundreds of House Churches. These are groups of Christians who meet for worship and fellowship in hidden places because they have found it is the only way to worship God according to the dictates of their conscience...They do not want their pictures or their names published because they fear the consequences. Mr. X's identity must be safeguarded if he is to continue his organizational work and his preaching ministry amongst the secret churches in China. I know Mr. X personally and have no doubts about the authenticity of his reports...I prefer my name not be published in connection with these things either because I also travel in China from time to time and it is better to keep as "low key" as possible.

Other incidents, throughout 1989 and 1990, indicate that the overall pattern emerging is one of house-searches, fines, arrests and detentions ranging from a few days to a few months. One Hong Kong-based expert on the Chinese Protestant church, who had just returned from a trip to the mainland, reported last week that "the situation has definitely deteriorated this last year." Puebla has reports of scores of churches being closed by Public Security officials in recent months and of whole congregations being detained, interrogated, and fined amounts ranging from one month's to one year's salary.

On February 22, 1990, Lin Xiangao, a well-known pastor of the large Damazhan church in Guangzhou, was apprehended and subjected to 21 hours of continuous interrogation about his refusal to join the TSPM. Pastor Lin was first arrested in 1955 and jailed for 16 months, then rearrested in the "anti-rightist" crackdown of 1958 and imprisoned for 20 years, serving many years of this sentence doing hard labor in the Xiyu Coal Mine in Shanxi Province.

According to Lin's own account of his most recent arrest, approximately 50 policemen raided the church at about 11:30 p.m. "like an assaulting army." They commenced a four and a half hour search and confiscated all Bibles, several thousand tracts, 3,000 hymn-books, several tape-recorders, a closed-circuit TV, amplifiers, seven microphones, several thousand tapes, and mimeographing machines. Lin was released in the early morning hours of February 24 after signing a document agreeing to close the Damazhan church, which has had significant contacts abroad.

Protestant activists in Hong Kong believe the ban on the Damazhan church reflects an intensified effort by Chinese authorities to sever links between mainland churches and overseas religious organizations since Tiananmen. This interpretation is supported by the mounting evidence of worsening treatment of foreign missionaries. In June 1989, for example, several American Christians were detained several days and their passports confiscated for distributing tracts in a public park in Kunming. In August 1989, state officials banned Chinese Christians from the official TSPM church from attending an international conference of Protestant churches in South Korea. Also in August 1989 it was reported that Christians in at least five provinces were penalized with steep fines - in some cases up to the equivalent of three years' salary - and imprisonment for listening to foreign radio gospel broadcasts. In December 1989, a Japanese professor at the University of Wuhan was apprehended, detained and interrogated, and his passport confiscated, by Public Security officials who cited "reading the Bible with his students and leading many of them to believe in Christianity" as grounds for condemning him for "engaging in illegal religious activities." The teacher was expelled from the country. Finally, in April 1990 Chinese officials warned foreign Christians not to participate in house-church activities nor to bring scripture or devotional books into the country. An official from Shenzhen City was quoted in a Hong Kong newspaper as saying "It is against China's religious laws for foreign groups and individuals to engage in spreading religion in China. Their preaching the Gospel here is virtually illegal."

### Conclusion

The current, deteriorating situation of independent churches in China has largely been obscured by the much-publicized Tiananmen Square crackdown, with which it largely coincides but from which it is separate. In the case of Catholics, intensified persecution predates Tiananmen and is related to the wave of liberalization in the communist countries of Eastern Europe. With regard to Protestants, harassment began to increase before Tiananmen, but has increased in its wake. Both Catholics and Protestants are victims of the Chinese government's turn inward, its increasing suspicion of foreign influence, and its aggressive efforts to impose strict Marxist-Leninist doctrine. The situation of Christians in China, always tenuous, has taken a decided turn for the worse.

Freedom of religion is a fundamental principle of democracy, one intimately connected to other freedoms cherished by Americans -- of speech, of belief, of movement. Democracy in China can be encouraged by pressuring the government to guarantee in practice what it guarantees on paper in the founding documents of the PRC: freedom of religion for all citizens. The U.S. has human rights at the heart of its foreign policy. Given that pledge, we urge the Administration to use the extension of MFN trade status to China as a lever for encouraging concrete progress by the Chinese regime in protecting the human rights of all Chinese citizens. Specifically we request that the renewal of MFN after this one year probationary period be conditioned on the restoration of freedom for Christian believers.

Thank you very much.

## PERSECUTED CATHOLICS

1. **Bishop Joseph Fan Xueya.** 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 after intervention by Cardinal Jaime Sin of Manila. Currently under house arrest and in poor health. He has ordained many of the underground priests and bishops in Hebei, the province with a large Catholic population.
2. **Bishop Casimir Wang Millu.** Bishop of Tianshui diocese, Gansu Province. Born in 1939. Arrested in 1983 or 1984, and sentenced in 1985 to ten years of "reform through labor." Reportedly now imprisoned in a labor camp in Pingliang, Gansu.
3. **Bishop John Yang Shudao.** Bishop of Fuzhou, Fujian Province. Previously arrested, time period unknown; released in 1980. Most recent arrest occurred on February 28, 1988. Reportedly now imprisoned.
4. **Bishop Paul Liu Shube.** Bishop of Yixian, Hebei Province. 69 years old. Arrested and imprisoned on October 30, 1988; a three-year sentence in reeducation and labor prison was commuted to house arrest on January 16, 1989 because of his ill health.
5. **Bishop Julius Jia Zhiguo.** Bishop of Zhengding, Hebei Province. Born in 1935. Arrested April 7, 1989; now under house arrest for an unspecified period.
6. **Bishop Peter Liu Guangdon.** Bishop of Yixian diocese, Hebei Province. Arrested November 26, 1989, and reportedly now imprisoned. He has not been heard from since he was called to Baoding City's Public Security Bureau at the time of his arrest.
7. **Bishop Joseph Li Side.** Bishop of Tianjin diocese. Arrested on December 8, 1989, and reportedly now imprisoned. He was seized by a large contingent of public security personnel as he left his home in response to a call to administer last rites. His whereabouts are not now known.
8. **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. He returned to Hebei and taught foreign languages until 1985. 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.
9. **Bishop Phillip Yang Lipo.** Bishop of Lanzhou, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
10. **Bishop Mathias Lu Zhensheng.** Bishop of Tianshui, Gansu Province. Born on January 23, 1919. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
11. **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 home village, which he cannot leave, and where he is under strict police surveillance.
12. **Bishop Bartholemew Yu Chengdi.** Bishop of Hanzhong diocese, Shaanxi Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
13. **Bishop Jiang Liren.** Bishop of Hohhot, Inner Mongolia. Date of arrest not known.
14. **Father Phillip Wang Ziyang.** Vicar General of the Yanggu diocese, Shandong Province at time of arrest and incarceration in 1950s. Imprisoned over 30 years in a forced labor camp in Guangdo district, where he had been subjected to corporal punishment. Died in prison on January 31, 1990, at the age of 90.
15. **Father Li Fangchua.** Priest of Guide diocese, Henan Province. Arrested in early 1980s and reportedly still imprisoned.
16. **Father Zhang Shentang.** Believed to be of Niuyang diocese, Henan Province. Arrested in early 1980s and sentenced to 17-year prison term. Reportedly released because of failing health in December 1989 and now under house arrest.

17. **Father Zhu Baoyu.** Believed to be of Nanyang diocese, Henan Province. Arrested in the early 1980s and reportedly still imprisoned on a ten-year sentence after taking Catholics on a pilgrimage to Sheshan, near Shanghai.
18. **Father Huo Binzhang.** At time of arrest, Vicar General of Baoding, Hebei, and Bishop Fan's, deputy. 73 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." Probably transferred to house arrest in 1987.
19. **Father Gabriel Chen Tianzhang.** Jesuit from Shanghai. 73 years old. Previously imprisoned for 25 years between 1953 and 1979. Most recent arrest and imprisonment in November 1981. He was tried in early 1983 and sentenced to 12 years of imprisonment for having baptized Communist cadres in prison. Unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance. Health believed to be poor, suffering from coronary disease and chronic bronchitis.
20. **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.
21. **Father Vincent Zhu Hongsheng.** Prominent Jesuit from Shanghai. 78 years old. Previously imprisoned for 24 years between 1955 and 1979. Most recent arrest and imprisonment on November 19, 1981; placed under house arrest in February 1988; now allowed to move around in Shanghai municipality, but not allowed to leave.
22. **Father Joseph Chen Yuntang.** 73 years old. Arrested and imprisoned on November 19, 1981, and sentenced in 1983 to an eleven-year term. Unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance.
23. **Father Fu Hezhou.** 68 years old. Arrested and imprisoned on November 19, 1981. Unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance.
24. **Father Joseph Jia Dezhen.** Vicar General of Nanyang diocese, Henan Province. Previously jailed between 1958 and 1973. Rearrested on unknown date and sentenced in December 1981. Reportedly still imprisoned, serving a 15-year sentence.
25. **Father Joseph Guo Fude.** Member of the Society of the Divine Word. 69 years old. Spent 22 years in detention. Most recently arrested and imprisoned in spring 1982. As of late 1986, interned in a labor camp in southern Shandong; unconfirmed reports indicate that he has been released, but, if so, probably under house arrest and/or strict police surveillance.
26. **Father Wang Yiqi.** Priest of Fujian Province. Arrested probably on February 28, 1988; reportedly still imprisoned.
27. **Father Gao Yihua.** 29 years old. Priest of Changle county, Fujian Province. Arrested with Fr. Feng Yongbing (See No. 28) on September 14, 1988; reportedly still in prison.
28. **Father Feng Yongbing.** 35 years old. Priest of Changle county, Fujian Province. Arrested on September 14, 1988; reportedly now imprisoned.
29. **Father Pei Ronggul.** Trappist priest in Youtong village, Hebei Province. 50 years old. Arrested in September 1989 in Biejing. 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. Reportedly now imprisoned.
30. **Father Xiao Shixiang.** Priest in Yixian diocese. Arrested on October 20, 1989, and reportedly now imprisoned.
31. **Father Pei Zhenping.** Priest of the Trappist order in Youtong village, Hebei Province, site of bloody police raid in April 1989. Arrested on October 21, 1989, and reportedly now imprisoned.
32. **Father Shi Wande.** Priest from Baoding diocese, Hebei Province. Arrested on December 9, 1989 and reportedly now imprisoned.

33. Father Anthony Zhang Kangyi. Priest in Sanyuan diocese, near Xian City. 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 on December 11, 1989, then released; rearrested on December 28, 1989 and reportedly now imprisoned.
34. Father Xu Zhemian. Recently named Vicar General of Baoding diocese, Hebei Province. Arrested on December 17, 1989. Has reportedly died in prison. Family efforts to see him or learn of his whereabouts have not succeeded.
35. Father Wang Ruowang. See below (No. 36);
36. Father Wang Ruohan. Priests in Tianshu diocese, Gansu Province. Brothers of Bishop Casimir Wang Milu (No. 2). Both arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
37. Father Yu Chengxia. Priest of Hanzhong diocese, Shaanxi Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
38. Father Zhang Xiaocheng. Priest of Tianshui diocese, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
39. Father Sun Ximan. Priest of Tianshui diocese, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
40. Father Wei Jingyi. Priest from Qiqihar, Heilongjiang Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
41. Father Pei Guojun. Priest from Yixian diocese, Hebei Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
42. Wang Jingjing. Layman of Fujian Province. Arrested probably on February 28, 1988; reportedly now imprisoned.
43. Chen Youping. Layman of Fujian Province. Arrested on March 1, 1988; reportedly now imprisoned.
44. Lin Shanming. 25 years old. Seminarian from Pingtan county, Fujian Province. Arrested on September 14, 1988; reportedly now imprisoned.
45. Lin Wenming. 24 years old. Layman from Fuqing county, Fujian Province. Arrested on September 14, 1988; reportedly now imprisoned.
46. Pei Jieshu. See below (No. 47);
47. Pei Shangchen. Community leaders in Youtong village, Hebei Province. Arrested on October 23, 1989, and reportedly now imprisoned.
48. Wang Tongshang. Deacon and community leader in Baoding diocese, Hebei Province. Arrested on December 16, 1989 and reportedly now imprisoned.
49. Wang Tianzhang. Deacon from Lanzhou diocese, Gansu Province. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.
50. Li Yongfa. Layman from Tianjin diocese. Arrested between mid-December 1989 and mid-January 1990, and reportedly now imprisoned.

#### PERSECUTED PROTESTANTS

1. Liu Qinglin of Zalantun, eastern Inner Mongolia. A house-church evangelist, he was arrested on September 14, 1989 and charged with "wide-scale superstitious healing activity" and sentenced to "re-education through labor." Mr. Liu began his preaching activities in 1984. Since that time he has helped establish some 20 house-churches and baptized nearly 3,000 people.
2. Mai Furen of Shanton in Guangdong province. In his late 70s, Mai Furen is one of three Protestant church leaders arrested in September 1983 on charges of having illegal connections overseas; belonging to the Shouters, a Protestant evangelical group; and distributing Bibles. Brought

to trial in January 1986 and sentenced to 12 years' imprisonment, he is now detained in a labor camp in Mei County Prison, in northern Guangdong Province.

3. Sua Ludlan of Shanton, Guangdong province. 67-years old, he was arrested in September 1983 with Mai Furen for the same reasons, except that he was not accused of distributing Bibles. Sentenced in January 1986 to nine years of imprisonment, he is now detained in a labor camp in Mei County Prison. He is very ill.

4. Xu Yongze of Nanyang, Zhenping County, Henan province. 50-years-old, he was a leader of a house-church network in central China. He was arrested on April 16, 1988 in Yuetan Park in Beijing by officials of China's Ministry of State Security. Xu Yongze 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. Since then, he had managed to escape arrest and continued evangelizing in rural areas. The exact details of formal charges against Xu are not known, but he has been sentenced to three years of imprisonment. 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, it was reported that he was sick with tuberculosis and gastric disease and was lacking adequate warm clothing and medicine.

Xu Yongze is said to have started preaching the Gospel in 1968 around his home in the South of Henan Province. He soon trained a team of young evangelists who preached and created house-churches throughout the province. The group expanded to other provinces over the years. They are reported to have established over 3,000 house-churches in central China since 1980. Many evangelists in the group are reported to have been arrested or detained in recent years.

5. Song Yude of Baimaio village, Yuehe district, Tongbo County, Henan Province. This 36-year-old evangelical minister was arrested on July 16, 1984 for "counter-revolutionary" crimes in connection with his refusal to join the government's Three Self Patriotic Movement of Protestant Churches. Tried on January 29, 1986, he was convicted of distributing "reactionary" religious publications, and conducting illegal religious meetings. He was sentenced to eight years of imprisonment and three years of deprivation of political rights. His appeal was rejected in April 1986. Until trial, he was held in Tongbo County Detention Center. He is currently being held in Henan province.

6. Xu Guoxing, house-church leader in Shanghai, arrested in June of 1989. He is reported to be serving a 3-year sentence in labor camp.

The information about the following eight cases is accurate as of 1986. No information on these individuals has been ascertained since that time.

7. Mr. Wang of Zhandun Village, Fuling Brigade, Xinji Commune, Lushan County. This 36-year old evangelical elder was sentenced to 15 years' imprisonment.

8. Mr. Zhang of Zhaozhuang Village, Houying Brigade, Zhanian Commune, Lushan County. This 65-year old evangelical elder was sentenced to 14 years of imprisonment.

9. Mr. Qin of Xinji Commune, Lushan County. The length of sentence for this 54-year old evangelical deacon is unknown.

10. Mr. Cui of Lushan County. The length of sentence for this 42-year old evangelical elder is unknown.

11. Mr. Xue of Linzhuang Village, Xinhua Brigade, Zhangdian Commune, Lushan County. The length of sentence for this 35-year-old evangelical elder is unknown.

12. Mr. Wang of Second Street, Chengguan Township, Lushan County. The sentence for this 64-year-old evangelical elder is unknown.

13. Mr. Geng of Sunzhuang Village, Malon Commune, Lushan County. The sentence for this 63-year-old evangelical elder is unknown.

14. Pei Zhongxun (Chun Chui) of Shanghai. This 71-year-old Protestant activist was arrested in August 1983 for allegedly spying for the Taiwanese government because of his connection with Taiwanese Christians and activity in the house-church movement. He was sentenced to 15 years of imprisonment and currently reported to be in prison near Shanghai. Previous reports of his release have been retracted. As of June 1990 private sources in Hong Kong confirmed his continuing



detention. Pei is an ethnic Korean.

15. In March 1990, a house-church group of some 50 to 60 members in a county in eastern China was raided by the Public Security Bureau and its leader arrested and it is not known whether he has been released. In a rural area of the same region, a second house-church pastor was arrested for failing to conform with a government order to register with the State-recognized Three Self Patriotic Movement.

16. In March 1990, two female itinerant evangelists from Henan Province were arrested in Kunming and were reported still in detention as of June.

17. Also in March 1990 two brothers from Shanghai were arrested while on their way to Guangzhou to pick up some Christian literature. They are reportedly still in prison.

18. On the evening of February 22, 1990 in Canton, Guangdong Province, three house-church leaders were arrested. The house-churches were forced to close and the leaders were released following interrogation by Public Security Bureau officials. All cassettes, diaries, personal letters and books not published in China were confiscated.

19. In January 1990, *Christian Missions to the Communist World*, an evangelical missions group based in Indiana, reported that five Chinese members of an underground church established by the organization's missionaries had been arrested and imprisoned. The missions group claimed that two of the members, a father and daughter, had died in prison as a result of torture.

20. In December 1989, some 50 meeting places in the eastern part of China were seized, while in another part of the country a house-church with a congregation of over 1000 people was closed and Bibles, church possessions, and believers' books were confiscated. Some house-church leaders were believed to have been arrested although the number in detention is unknown.

21. On December 19, 1989, approximately 70 Christians attending a worship service in Shanghai were arrested by a contingent of 140 officers of the Public Security Bureau. They were later taken to a school and individually interrogated. Their hymn-books and Bibles were confiscated.

22. Also in December 1989, a Christian man in his 40s who had been studying at a Bible school in the U.S. was arrested in Shanghai for "rehabilitation" and remains in custody.

23. Two itinerant evangelists in their 40s were reported arrested in one of China's coastal cities in November 1989 on charges connected with their activities in the underground churches.

24. Also in November 1989, several Christians involved in the private printing of devotional and training materials for use in house-churches were arrested in Zhejiang.

25. In September 1989 believers from central China reported that police had raided a house-church in Henan, arresting some 100 church participants, fining them each 250 to 450 yuan (US \$67-121), and imprisoning those unable to pay.

26. Also in September 1989, at a meeting place in Jiangsu Province attended by some 300 Christians, 156 were arrested and detained. Local Christians were fined amounts equal to approximately one month's salary of the average worker while Christians from other provinces were fined amounts equal to one year's salary.

27. On May 21, 1989, two leading Protestant Christian house-church leaders were arrested by the Public Security authorities in a small city in Inner Mongolia. By June 20, the leaders had not been released. No further information about their whereabouts or what, if any, charges have been brought against them is available.

28. In February 1989 in Anhui Province authorities arrested 20 people associated with the "Whole Scope Church" (a large network of Christians in Central China that has been branded "counter-revolutionary" by the government because of its alleged support from Christians outside China and because of unspecified "illegal activities").

29. In January 1989, Public Security Bureau agents arrested three men and one woman during a house-church meeting in Baotou, Inner Mongolia.

