

# CHINA'S APPLICATION FOR ACCESSION TO THE WORLD TRADE ORGANIZATION

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## HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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APRIL 13, 1999

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# CHINA'S APPLICATION FOR ACCESSION TO THE WORLD TRADE ORGANIZATION

TUESDAY, APRIL 13, 1999

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

The hearing was convened, pursuant to notice, at 10:13 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr., (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Hatch, Murkowski, Gramm, Thompson, Baucus, Conrad, Graham, and Robb.

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

The CHAIRMAN. The committee will please come to order.

China is the tenth-largest trading nation in the world. Despite a recent slow-down in its economic growth, it remains among the fastest growing markets in the world. Indeed, within the next decade, China may pass Japan as the world's second-largest economy after the United States. It represents a fifth of humanity.

While there are, indeed, a number of serious challenges that beset our bilateral relationship with China, I want to be absolutely clear on one very important point: it is in our National interest for China to become a fully participating member of the World Trade Organization. In fact, until it is, the term "World Trade Organization" is a misnomer.

That is not to say that we should concede WTO membership to the Chinese at any price. I have advocated a hard-nosed approach to the negotiations to ensure that, by its own terms, any agreement that allowed China into the WTO met the objectives we outlined at the outset of the talks and served our National economic interest.

This past week, we took a significant step forward towards that goal. The United States Trade Representative obtained significant market access commitments from the Chinese and came close to cinching a deal on the terms of a bilateral market access packet that represents one step in China's accession to the WTO.

I want to applaud the team at USTR, from Ambassador Barshefsky—we welcome her here this morning—on down for their extraordinary work thus far in the negotiations.

China made commitments to significantly lower its market barriers across most business sections to levels, I am told, that rival

the access that we have to many of our industrialized trading partners.

The Chinese have also agreed to adopt WTO rules on a variety of fronts, including an immediate end to scientific bans on imports of wheat, citrus, and meats, including poultry.

China has also agreed to address the significant problems with transparency and the rule of law in that country, as part of its protocol of accession. I am told that the Chinese have agreed to publish all regulations and laws to allow for judicial review of agency decisions and to establish an office to provide information on businesses on the laws they must follow.

While these commitments represent an important milestone, it must be understood that the work is not complete. There are still critical issues to be resolved before a bilateral market access agreement can be reached. That agreement will only be the first of a series of steps for China to accede.

This hearing continues the Finance Committee's ongoing oversight and review of the possible agreement of China's potential WTO accession. This committee will have to examine any agreement in exhaustive detail to ensure that China has made the commitments necessary and will abide by those commitments to ensure that our exporters have the same access to China's markets that China has to ours.

The Finance Committee will also have to determine if an agreement meets the specific needs of U.S. manufacturers, farmers, service providers, and workers. This hearing presents an opportunity to examine the agreement as a trade agreement. There will be other opportunities to address the other issues that affect our bilateral relationship with the Chinese.

The question before us, however, is whether, standing alone, an agreement on accession is in the United States' interests.

My goal today is simply to learn more about the package Ambassador Barshefsky has negotiated. I want to ensure that the committee has the opportunity to assess the prospective agreement on its own merits as a trade agreement alone in order to determine whether the agreement is in our National economic interest.

We need to understand who benefits from the agreement and who, if anyone, in the United States would be hurt. We also need to know how the agreement would compare in market access terms to agreements reached with other WTO trading partners, both the developed and developing.

I would ask that, if Senators have opening statements, they would please limit them to three minutes. I regret to say that our good friend, Senator Moynihan, is not here, but he is recovering from a back injury. My understanding is that he is doing very well.

In the meantime, I would like to turn to my other good friend, Senator Baucus, for his comments.

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

Senator BAUCUS. Thank you very much, Mr. Chairman. First, I compliment you for holding these hearings. Second, I want to give my very, very strong commendation and thanks to Charlene Barshefsky, our USTR ambassador. I know how hard you have

worked, Charlene, and probably how hard you will continue to work before we finally close this deal. But you have done a great job, and your team has done a great job, and everybody should know that.

Mr. Chairman, this is an opportunity which I fear is slipping by. I hope that we can find a way at this hearing to put the final wrappings on the agreement so we can finally get an agreement put together in a shape that the administration will send to the Congress in one form or another and that we can then agree to.

My main concern, is that China, particularly through the efforts of Premier Zhu Rongji, has gone a long way toward trying to reach an agreement, much, much farther than we on our side had anticipated not too many months ago. The positions they have agreed to in agriculture, for example, and a whole host of other areas are far more than we could have expected.

With respect to agriculture, I can just say, with wheat, we, for many years—25 years, to be precise—have attempted to get the Chinese to take Pacific Northwest wheat. They have been stonewalling us with all kinds of, frankly, bogus claims.

But, finally, China has agreed to let Pacific Northwest wheat come into China. It is virtually unrestricted. It will be a test to see the degree to which there might be some TCK spores, but it is my understanding that the threshold levels that they have agreed to are so high that, as a practical matter, it has no restriction of Pacific Northwest wheat, which is a major, major gain.

The same is true with respect to beef and livestock products. That is, in accession, once China does accede—

The CHAIRMAN. Do not forget poultry.

Senator BAUCUS. The tariff reductions on poultry, on beef, and on hogs is much, much more than we would have expected. It is very good. I might say the same is true in a lot of other industries. I will not go through the whole list.

Now, this is not a perfect agreement, but it is certainly far, far, far better than we would have expected, or could have expected. We cannot let perfection be the enemy of the good here.

No country is going to get everything when it is in trade negotiations with another country. In fact, the whole purpose of negotiations is to try to reach a compromise, an agreement, where both sides gain.

Clearly, based upon what has been agreed to thus far in benefits to the United States, the United States gains a lot. Clearly, the terms that have been agreed to thus far also helped China. China benefits a lot. China gets status, that is, membership in the WTO.

More importantly, in the long run the agreement will help China enact judicial reforms, more transparency in China. It will help business do business in China in a whole host of ways. It just adds a lot more confidence in doing business in China, in addition to the specific terms of the agreement.

I might also say, Mr. Chairman, that this is not just important for the sake of trade. There are many other ramifications here. China, as you mentioned, is an extremely important country. ~~It is~~ the world's largest country, the world's largest population, the world's largest standing army. It is a nuclear power. It is the fastest-growing "developing" country.

It is going to be probably one of the one, two, or three most important countries for the first 50 or 60 years of the next century. I cannot think much further beyond that, but at least beginning in the next century, China is going to be a major, major force for the United States to deal with.

So it is important, on the eve of the next century, that we get off on the right foot with China. I cannot think of a better foot to put forward than this package, which brings us together in a very positive basis.

Let us not forget, if this agreement does not go through, think of the negative signals that is going to send, both in China and around the world. It is going to strengthen those in China who do not want to have a close relationship with the United States. They will gain power in China. It is also going to have a very strong chilling effect on the United States' relations with China.

So I am not going to sit here and indulge in palace intrigue, that is, who in the administration is in favor of this and who is not in favor of it, and so on, and so forth. I do not think that is really very helpful here.

When the Ambassador speaks, I would like her to address what we can do next, where we go from here. What are some of the steps that we can take to help us put the final wraps on an agreement that the President can agree to and China can agree to.

One point that I would like you to address, Madam Ambassador, when the time comes, is the dispute settlement mechanism, because I do sense that that can be tightened up a bit.

But, anyway, thank you, Mr. Chairman, for holding the hearing. I very much hope that, when the administration talks about taking just a couple, three more weeks, or a couple of months, that we find some deadline or something to make sure that happens, otherwise I am afraid that intervening events are going to interfere and it is going to make it, with each passing day, more and more difficult to finally put this together.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus.

I would just like to underscore that progress that was made would never have been made if it had not been for the Prime Minister. We are all pleased that he interceded and provided the kind of leadership necessary to make the progress that has been made.

With that, I would like to turn to Senator Chafee.

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

Senator CHAFEE. Thank you, Mr. Chairman. I just hope we can get this thing solved. I found it disappointing, what took place. You read the various statements that the Chinese leaders were angry after the summit. That is not good news. They certainly gave a lot.

Mr. Chairman, I thought you made a very good opening statement, and I agree with it all. I think you can hardly call it a World Trade Organization with the world's third-largest economy not included in it. That economy is growing by 7 percent a year. U.S.-China trade alone now stands at more than \$80 billion a year.

So I look forward to the Ambassador's report. I guess the Ambassador came out as one of the stars of the show that went on, but,

nonetheless, at least I came away—perhaps inaccurately—with reading the descriptions of what took place as it being disappointing in that the U.S., overall, it seems to me, failed to come up to the mark. Now, if I am wrong on that, I would be glad to hear it.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Chafee.

Senator Conrad?

**OPENING STATEMENT OF HON. KENT CONRAD, A U.S.  
SENATOR FROM NORTH DAKOTA**

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

I had the privilege of going to China last week with a delegation headed by the Chairman of our committee. In fact, we traveled on the same plane with the Trade Ambassador. She was going for 1 day. I think that, in itself, is remarkable. I am still recovering from jet lag, myself.

Let me just say, I would like to report to our colleagues that our Chairman, I think, performed splendidly in our meeting with the Premier in China. As I have gone back over my notes and reflected on that meeting, I do not think anybody could have set a better tone for the discussion we had than our Chairman.

I think he sounded exactly the right note in that discussion with the Premier. He was tough, he was firm, and he was very clear that we expect the same access to their market that they get in ours. He was clear and unequivocal about that. Mr. Chairman, I want to commend you and thank you for the really excellent job you did.

Madam Ambassador, one of the things the Premier said during our discussion was, he has never encountered a tougher negotiator than you are. He made that very clear. That is good, because you should be a tough advocate for this country. I know you are.

He said to us that they have made concession after concession, and it is never enough for you. You always want more. He said he believes that Congress has put too much pressure on you. As he said to us repeatedly, you have turned an economic issue into a political issue.

Now, the fact is, there are a lot of irritants in our relationship. Some of them are more than irritants: espionage, human rights, controversy over Taiwan, our disagreements over Kosovo, the trade imbalance itself. We have a \$57 billion trade deficit with China. The fact is, they do keep their market closed to us in many ways, both tariff barriers and non-tariff barriers, as you know so well.

I can just tell you, looking over this agreement, I think you have done a rather spectacular job. Certainly in agriculture, these are dramatic improvements, opening up, as Senator Baucus indicated, the Northwest ports. That is critically important.

The changes in the treatment of our beef, poultry, hogs, and in a whole series of areas that are going to be very meaningful to us. It does not stop with agriculture. Telecommunications is a home run. I do not think anybody would have thought we could have gotten what you have now negotiated. But we are not there yet. We have not reached conclusion. I would be very interested to hear

from the Ambassador what she thinks needs to be done before we can reach agreement.

Again, I want to commend the Ambassador for her dedication and for her tough negotiating, and again say my thanks to the Chairman for what I think was just a superb job in leading our delegation.

The CHAIRMAN. Well, thank you. I want to say, I appreciate your most generous remarks about me. I could not have said it better myself. [Laughter.] But thank you. I now would like to turn to Senator Grassley.

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

Senator GRASSLEY. Based on briefings and press reports that we have heard thus far, I agree with the analysis made by Senator Baucus and Senator Conrad that there is quite a positive movement in this direction.

I guess if there is any reservation on my part, it would be to wait until I see the Attachment 3 that the President refers to on the joint U.S.-China statement of April 8, 1999, where it sets out what has been done in trading rights, technology transfer, offsets, state enterprises, and subsidies, as set out in Attachment 3. But I would not have any reason to believe that it is any different than what has already been described to me, but I would like to see it in writing.

I would also like to, in my opening comment, put it in a broader context. That is, to speak very bluntly two things about China's possible accession to the WTO. The first, is that it would be a good thing for China to be a part of the WTO under the right terms.

But we cannot make the same mistake that we made with Japan when we essentially ignored the problems with Japan's market access commitments because some thought that geopolitical considerations were more important than getting the best possible trading terms.

The second point, is that I believe it is possible for the United States be as great, as strong, and as smart as the United States to do two things at one time. First, it is possible for us to lead a global trade policy that enhances world economic stability in U.S. interests, and also protects our National security. I am very concerned about credible allegations of Chinese nuclear espionage.

I am also very concerned about allegations presented to Senator Warner yesterday before the Senate Armed Services Committee that "Clinton Administration officials failed to implement reforms to deter nuclear spying." We will sort this out. We will protect our National security.

We should also do what is best for our own economic interests in deciding whether China should join the World Trade Organization. And, under commercial terms, I think very much China should be in the WTO.

Thank you, Mr. Chairman.

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

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

Senator MURKOWSKI. Thank you very much, Mr. Chairman. Let me welcome you. I understand you are logging more miles than many of the Northwest pilots back and forth to China. Traveling to Alaska as much as I do, I know it will ruin your whole night or your whole day. But, nevertheless, you are to be congratulated for your tireless efforts to wrap up what I think is one of the most important trade opportunities the United States has.

I am concerned, of course, with reports that it was a lack of, perhaps, political will within the White House rather than the absence of will on behalf of the Chinese on the issue of necessary concessions that really prevented a final handshake on this deal and that might prevent ultimately the deal from being signed before the next Presidential election. But perhaps you can comment on my concerns in your statement.

I personally heard from representatives from insurance, agriculture, petroleum, manufacturing, and other sections of the economy supporting your efforts that, indeed, the deal that the Chinese were offering was fair and acceptable. I must admit, labor has not provided me with that same satisfaction, but, nevertheless, there is significant evidence that this was a fair arrangement.

It is also my view that a commercially viable deal that puts China into the World Trade Organization is not a concession to China, in my opinion. We are not doing them a favor. It is also recognized, in my opinion, that this is, indeed, in the economic interest of the United States.

I do not believe that we should link every other problem that we have with China, linking it to our trading relationship. I did not support that linkage with the presidency of George Bush, and I do not support it now.

Senator Grassley indicated concern over Congressional investigations with China on other related issues. Tomorrow, as Chairman of the Energy Committee, I am holding a hearing on the Chinese espionage allegations because I want members of the Energy Committee to have full understanding of the disturbing information that we have received during the participation in the Intelligence hearings, the Armed Services hearings over the last several weeks.

But I think, Mr. Chairman, the investigation of espionage issues does not color how I particularly view China's accession into the World Trade Organization. If there is a good deal, then it will hold up to business, it will hold up to Congressional scrutiny.

But the disturbing thing that I sense is that the White House is blaming a poisoned atmosphere in Congress for killing any deal that they are too timid to put forward, and I hope you can address that in your statement.

I would like to be proved wrong, but it is my view that a good economic deal may, indeed, have been sacrificed on the altar of political, either ineptitude, incompetence, or expediency. I cannot decide which one is more appropriate.

Senator GRAMM. Number one.

Senator MURKOWSKI. One was right. All right. Fair enough.

Thank you very much, Mr. Chairman. Again, I want to congratulate you for your tireless efforts to bring this matter to a conclu-

sion. I hope that you have not lost your energy; I know you have lost a lot of sleep.

The CHAIRMAN. Thank you, Senator Murkowski.  
Senator Gramm?

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

Senator GRAMM. Well, thank you, Mr. Chairman and Madam Ambassador. Let me say, I am glad that you are negotiating on our behalf. You are a very smart lady. You are a very good negotiator, very tough, and I appreciate it.

I am for bringing China into WTO. My primary concern is, are they going to live up to the commitments they make? That is what we need to be concerned about. If they come in to WTO and they do not live up to the commitments, they are going to be a disruptive force at the very time that we are trying to lower barriers.

My primary concern—and I have great concern about what the administration is doing—is not with what you have gotten in the agreement, but with what you are trying to get.

First of all, to insist that China's textile quotas extend 5 years longer than any other member of the WTO is not only outright discrimination, is not only outrageous theft, taking the shirt off the back of working people in this country, when we already have textile quotas that cost the average family of four in America \$700 a year, to be talking about protecting Americans from cheap and good-quality textiles is outrageous and political. And, like everything else this administration does, it is driven by domestic politics. I think the administration ought to be ashamed of it.

The second thing that I strongly object to, is another raw, rotten, protectionist issue which you are negotiating hard for which would change our standards for engaging in protectionist practices, just with regard to China, from an industry being seriously injured—which is the current standard for everybody else in WTO—to market disruption.

Now, let me tell you why I am against these two things. Number one, the American consumer loses in both. We are going to lose more jobs by protecting noncompetitive American industry than we are going to possibly gain in those areas where people have strong political ties, but very weak positions in the marketplace.

Now, I think you have negotiated some very excellent provisions. As Chairman of the Banking Committee, I want to commend you for what you have done on banks. The provision on banking is excellent. It opens up full American ownership, it allows us to deal in U.S. currency, it opens up the whole market, whereas now you can only engage in banking on one city in China and you have to engage in it in their currency.

But if you had spent the time and energy trying to get the same kind of agreement on securities that we have spent on these two protectionist matters, we could create ten times as many jobs, paying three or four times as much, if we got away from this protectionism.

So when our colleague, Senator Murkowski, said that the President had killed this deal over politics, or incompetence, or whatever, let me say, number one is the answer. Basically, the Presi-

dent pulled the plug here, not because Congress is not ready to ratify this agreement. We are ready to ratify this agreement.

But, basically, what the President has done is he has taken two domestic political issues, one is textiles and protectionism of textiles, the other is protectionist interests that would like to have lower standards so that they can cheat the American consumer by getting protection from the Federal Government, and let those two issues stop this whole deal from going through.

I would like to say that, obviously, I represent 19 million American consumers in Texas. If I were China, I would never agree to these two agreements. The idea that China would be asked to have a quota on textiles five years longer than any other member of WTO is outrageous and unreasonable, and it is there for one simple reason: domestic politics.

I think the idea that we are going to set a separate, lower standard so that we can engage in more protectionism is a movement in the wrong direction. Is this administration for trade or are they against it? Well, in truth, like everything else this administration does, they are on three sides of a two-sided issue. They are for trade, but they are against it. They are for opening markets, but they are for protectionism.

I think you have done a very good job trying to represent irreconcilable objectives. I hope we will throw out these two protectionist matters. I hope we will go back and renegotiate the securities section. I hope we will reach this agreement for agriculture, industry, and for job creation. So, I thank you for the job you are doing. I just wish we were asking for different things.

The CHAIRMAN. Senator Thompson?

**OPENING STATEMENT OF HON. FRED THOMPSON, A U.S.  
SENATOR FROM TENNESSEE**

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

It seems to me that we may not be in a bad position at all as far as China's coming into the WTO, that it may be just about right. That is, although I am not sure I share some of my colleagues' notion that we are ready and willing to jump in and approve China for WTO right now, I do think it would be a mistake to let our disagreements cause us to cut our nose off to spite our face. We do need to keep it open and go through all of these matters and these processes, on the one hand. We have that.

But, on the other hand, it needs to be understood that there is price to pay for some of the behavior of the Chinese, that trade is not unrelated to some of these other matters.

Now, they maybe should be. In a lot of people's minds there are too many different things tied to trade, but in reality they are not. They are irrelevant. When I hear some of the comments made about espionage and campaign finance that I know are not correct and they are being totally disingenuous, it irritates me. But I am not sure that something like that ought to be a deal killer.

Frankly, what concerns me even more than that that has not been mentioned this morning is the fact that our own intelligence community continues to delineate China as the world's worst proliferator of weapons of mass destruction.

So I am not at all concerned that we have got their attention a little bit on some of these things. If it is domestic politics on behalf of the President or if it is because of the pressure that some members of the Congress from the right and left have been bringing to bear, so be it. But I kind of like the idea of Premier Zhu going home with not everything that he wanted. Maybe their attention has been gotten a little bit. Maybe we can help them improve with regard to some of these things.

Finally, my other concern is the one that Senator Gramm expressed, and that has to do with their record of fulfilling their commitments and whatever is put on paper. It is almost, some people describe it, too good to be true. You have done an excellent job in that regard.

But it makes you wonder, once they get inside, what complications are going to arise if they do some of the things that some of our European allies do with regard to some of the trade disputes that we have right now, in view of the fact that they have a legal system that is delineated by malfeasance and incompetence, at best, over there. No rule of law in a situation where most of the companies we are dealing with are state controlled.

So, the challenges are out there. I am glad that we have got a little bit more time to think about it and, in the meantime, maybe heighten their sensitivity a little bit to the fact that we know that they are not telling us the truth with regard to some of their activities.

Second, they are going to have to improve in the kind of world that we live in today with regard to some of these nuclear proliferation activities.

Thank you.

The CHAIRMAN. Thank you, Senator Thompson.  
Senator Hatch?

**OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S.  
SENATOR FROM UTAH**

Senator HATCH. Thank you, Mr. Chairman.

I want to commend Ambassador Barshefsky for the diligent work over the past 5 years in continuing our efforts to admit China to the global trading forum.

Having been in China recently, I can easily acknowledge the profound differences that exist in many commercial sectors. But I can also say that China understands very well the need for a workable trade agreement with the U.S. and the WTO membership.

China needs the United States, and the \$56.9 billion trade deficit that exists today with the U.S. only motivates protectionist impulses that could easily range out of control.

China is a big trade partner. It is also a big target with a complex and evolving political-economic culture that invites differences between our countries. Naturally, we need a forum to work out these differences, and this negotiation process is establishing procedures for interpreting, applying, and enforcing rules that are essential to a healthy, yet competitive, commercial relationship.

There is no political deal here. Our foreign policy differences, which are inevitable, numerous, and serious, are the subject of other negotiations between our governments.

Anyone who reads through the USTR white paper summarizing the agreement cannot help but be impressed by the structure which our negotiators have created. Of course, we still need to settle on the protocols that will ultimately frame our implementation of the deal and we will hear many analyses and interpretations from many sources. But I, for one, want to state my strong support for what I expect to be a successfully negotiated outcome.

I am fully aware, of the differences that exist, that some will not be settled to everybody's satisfaction, certainly at least not right away. I am interested in, and even directly affected by, some of the deficiencies.

Mr. Chairman, I think what I will do is just put the rest of my statement into the record. But I want to commend Ambassador Barshefsky one more time, because these have been tough negotiations and she has done a very good job, under the circumstances.

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

The CHAIRMAN. Thank you, Senator Hatch.  
Senator Graham?

#### OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA

Senator GRAHAM. Thank you, Mr. Chairman. I want to join in recognition of the outstanding job that Ambassador Barshefsky and her colleagues did in negotiating this very difficult and important agreement, and hope that it will soon come to full reality.

Mr. Chairman, in deference to time, I would like to ask if I could file my full statement. But I would like to take particular note of the successful efforts that the Ambassador has made on behalf of American agriculture, including wheat and citrus products. This is a very important issue for our Florida citrus industry, and is estimated to mean, potentially, \$200 million a year or more in additional sales.

This is a very positive step. It helps to hopefully conclude a chapter of exclusion of our citrus products from China. There will, however, be a continued close focus on the enforcement of these provisions to see that the opportunities which this agreement appears to make available will, in fact, be achieved and whether there is a renewed commitment to a rule of law in China so that, as the inevitable commercial controversies arise, there is a forum in which they can be resolved that is seen to be fair and equitable. But, with those caveats for the future, I want to commend Ambassador Barshefsky for outstanding work.

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

The CHAIRMAN. Thank you, Senator Graham.

Madam Ambassador, let me just make one comment. Recent events, without pointing a finger in any direction, has underscored, as far as I am concerned, why we need a cabinet trade department. I think trade is of such critical importance to this country. I think the USTR ought to be broadened into a cabinet organization.

But it is a great pleasure to welcome you here today. We look forward to hearing about the negotiations.

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

Ambassador BARSHEFSKY. Thank you very much, Mr. Chairman and members of the committee. It is a great pleasure to be here to be able to testify on our trade relationship with China.

If I might thank you for the kind words that you have directed toward the administration and toward me, but I would like to ask that you redirect your kind remarks to my lead negotiator, Robert Cassidy, who is sitting behind me, and the work that he and his team have done, as well as Secretary Glickman with respect to agriculture and his very, very fine team; the Commerce Department, State Department, Treasury Department, on banking and securities, and so on. We have had a very larger interagency effort on this matter.

I would hope that the committee would appreciate the work of all of the negotiators, particularly our career negotiators, who have done, I think, a very fine job for the United States.

The CHAIRMAN. Could I just ask the negotiators to stand so everybody can see them?

[Applause].

The CHAIRMAN. We thank you for your splendid work.

Ambassador BARSHEFSKY. If I might begin by briefly outlining the status of the talks. As you know, on the WTO side they are not yet complete, but we have completed the SPS agreement. Then I will move on to some of the specifics.

I think over the past months we have made very significant progress across a range of issues. First of all, we have concluded an agreement on agricultural cooperation, signed last Saturday, which immediately lifts China's import bans on meat, including poultry, pork, and beef, Pacific Northwest wheat and other grains, and citrus.

Second, China has made a broad set of commitments on market access, for agricultural and industrial goods, and also on services, although discussions continue on banking, on securities, as Senator Gramm has pointed out, and audiovisual services. The commitments in relation to market access would not go into effect until WTO membership is achieved for China.

Third, we have reached agreement on a number of special rules. These include prohibitions on forced technology transfer and offsets, the treatment of state-owned and state-invested enterprises, safeguards, non-market economy dumping, anti-surge protections, and other issues.

There are some critical differences that remain with regard to these special rules and, apart from the special rules, where negotiations are continuing, any final package, of course, must include the full range of WTO rules which must be agreed, not only bilaterally, but multilaterally. This work alone will require a number of months of additional very intensive negotiation with the Chinese.

So I think we have a lot of work ahead of us, including substantial multilateral work in Geneva, as well as substantial bilateral negotiations on market access and on some of the special protocol issues. But, that said, I think we have made a major advance in our trade relationship and we have taken an important step towards China's WTO access.

I think this is vitally important, for several reasons. First, an accession by China to the WTO will move China—as you have pointed out, Mr. Chairman, the largest country in the world, the fastest-growing economy in Asia—toward market economics and the rule of law. These goals are of immense importance to the U.S., not only in economics, but in security.

Second, WTO accession would fundamentally change an inequitable trade relationship in which our markets are far more open to Chinese products than China is to ours, and China remains free to use a number of WTO-inconsistent practices.

So, accession would open new opportunities for American farm families, working people, and businesses, and ensure stronger protection for Americans against unfair trade.

Let me turn to the specifics of these commitments, but, first, make a general comment. We have proceeded with these talks over the last 6 years on the firm basis that China's WTO accession can only be completed on commercially meaningful terms.

There is, and will be, no special deal for China, no sweetheart deal for China, no less rigorous deal for China than what we collectively believe the United States needs to have in an accession package with China.

We have proceeded, over the course of 6 years, in a very methodical manner, argument by argument, piece by piece, to put together this partial package that you have before you.

We have not been swayed by false deadlines, not by two presidential summits—one when Premier Jiang came here, the other when the President went to China—not by a false deadline created by Premier Zhu's visit.

This is a very important point, because the kind of methodical approach we have taken and the principle that we have set forward, that is, that there will be no special deal for China, is critical if we are to achieve the kind of market access gains, a kind of reciprocal balancing of our trade relationship that is so very vital to us and to our future potential.

We intend to persist in this methodical, commercially-oriented manner. I thank the committee very much for being supportive of this approach. Of course, we have consulted with the committee throughout and will continue to do so.

The CHAIRMAN. Even on the airplane.

Ambassador BARSHEFSKY. Even on the airplane. I bothered the Chairman on the airplane to ask him a few words of advice.

But I think that what is most important is that, at the end of the day, China, as a major trading partner, has commitments comparable to those of other major trading partners in breadth, in timetable, and in enforceability. I think the progress we have achieved thus far lives up to these standards, and the future progress we make will live up to these standards.

Let me then just turn to a brief review of some of the specifics on the market access side and on the protocol side. Broadly speaking, China's market access commitments reflect four features.

First, they are comprehensive, covering agriculture, industrial goods, and services. They address unfair trade practices and trade barriers including tariffs, quotas, other non-tariff measures, the application of non-scientific agricultural standards, discriminatory

regulatory processes, a lack of transparency, export subsidies, and other barriers to trade.

Second, they grant no special favors. They require China to reduce its trade barriers to levels comparable to those of other major trade partners, including some industrial countries. There are no special developing country deals in this package.

Third, they are fully enforceable. The commitments China has made are specific and in great detail in this regard with respect to enforceability. I think we have a number of provisions that will assist in enforcement, but I agree with you, implementation means everything.

We will want to work with the committee, Mr. Chairman, on a few ideas that we have with respect to further measures on implementation. I would like to have committee views on this very, very important topic.

Fourth, the results will be rapid. The sanitary and phytosanitary agreement which lifts the import bans on our agriculture is now in effect, and almost all of the WTO commitments that have been made thus far would come into effect within 5 years, and most between one and 3 years.

Let me spend a moment just to take each key area in turn. First, agriculture, then goods and services. In agriculture, China will reduce tariffs both on accession to the WTO and over time, adopt liberal tariff rate quotas in bulk commodities of special importance to American farmers, apply science-based sanitary and phytosanitary standards, and eliminate export subsidies.

I think notable are these: with respect to sanitary and phytosanitary standards, China will apply SPS standards based on science. That begins immediately, with the signing last Saturday, of the agricultural agreement that lifts the longstanding import bans.

With respect to tariffs, China's average agricultural tariffs will decline to 14.5 percent for our priority items. All cuts will occur within 4 years. By contrast, WTO-developing countries received 10 years.

Some examples include cuts from 45 percent to 12 percent in beef; 20 percent to 10 percent in poultry; 40 percent to 12 percent in citrus; 30 percent to 10 percent in apples; 50 percent to 12 percent in cheese; 65 percent to 20 percent in wine. All tariff cuts will be bound. That means once they are made, they cannot be raised.

TRQs. China will adopt tariff rate quotas. That is, very, very low tariffs on a set volume of commodities, in wheat, corn, rice, cotton, the other large bulk commodities. This system helps to ensure imports into China of bulk commodities at essentially world market prices, making those commodities highly competitive and desirable in the Chinese market.

The wheat TRQ, for example, begins at 7.3 million metric tons. Present import levels are two million metric tons. It will rise to over nine million metric tons by 2004. In these TRQs, private traders will have a share and a right to use unused portions of the share of state trading companies.

Export subsidies. China will not provide agricultural export subsidies. This is an important achievement in its own right, and an

important step toward our goal of eliminating all agricultural export subsidies in the next WTO round.

Let me turn for a moment to industrial goods. In industrial goods, China will cut tariffs and bind them at the new lower levels, make deepest cuts in areas of top U.S. priority, allow U.S. firms to import, export, and distribute their products freely in China, and eliminate quotas and other numerical restrictions.

Specifics include, on trading rights and distribution, China will grade American companies, over a 3-year phase-in period, the right to import and export products without Chinese middlemen, and the right to distribute those products, to market, wholesale, retail, repair, maintenance, transport, and so on, and our companies which set up business in China will be able to import the goods they choose from the United States.

With respect to tariffs, China will make substantial tariff cuts on accession, and further cuts phased in, two-thirds of which will be done within 3 years, and virtually all of which will be completed in five.

On U.S. priority items, tariffs will drop to an average of 7.1 percent, a figure comparable to those of many major U.S. trading partners, including some of our industrial trading partners. As in agriculture, these tariffs will be bound: once cut, they cannot be raised.

Some specifics include China's full participation in the zero-for-zero information technology agreement, where most tariff cuts to zero will be made by 2003, but all by 2005.

In autos, China will reduce tariffs from the current 80 to 100 percent range today to 25 percent, and on most auto parts to 10 percent. This will be phased in by 2005.

And China will commit to the vast bulk of chemical harmonization, reducing tariffs from present rates between 10 and 35 percent to 5 and 6.5 percent. In other high-tariff items in this field, China will make very significant cuts as well.

With respect to non-tariff industrial barriers, China will eliminate all quotas and other quantitative measures on accession for U.S. top priorities, such as certain fertilizers and fiberoptic cable. Most quotas will be fully eliminated by 2002, but in no case will they extend beyond 2005.

Let me touch then on services. Discussions continue on audiovisual, on banking, and on securities. There are a number of issues here that we are trying to address with our Chinese counterparts. But, thus far, highlights include, first off, the grandfathering of existing rights and market access of all services providers. This is very, very important to those of our services providers currently operating in China.

With respect to insurance, China, immediately on accession, will allow foreign insurance companies to offer large-scale risk insurance throughout China, no geographic limitation. China will also grant licenses solely on prudential grounds.

Within 5 years, China will phase out all geographic restrictions and restrictions on internal branching. China will also remove restrictions on partnering joint ventures for both like and non-life insurance. In 4 years, foreign companies will be able to offer health insurance, and in 5, group and pension lines.

As I said, discussions on banking and securities remain open. China has made, I think, some important commitments in banking, including the right to establish branches and joint ventures, and the right to serve both Chinese and foreign customers with local currency service phased in. There are other banking issues still under discussion. In securities, China has limited its commitments to a grandfather of present operations. Discussions, here, continue.

In telecommunications, China will join the basic telecom agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will phase out geographic restrictions and end its ban on foreign direct investment in the telecom sector, phasing in 49 percent foreign equity in all modes of service in 6 years, and 51 percent foreign equity for value added in paging services in 4.

With respect to audiovisual services, talks are still continuing. China will allow 49 percent foreign equity participation for the distribution of video and sound recordings, and majority ownership in 3 years for the construction, operation, and ownership of cinemas. But, here again, talks continue.

On distribution, as I have mentioned, China will remove all restrictions on wholesale, retail, maintenance, repair, transport, within 3 to 4 years, along with any restrictions on auxiliary services. This is a very broad set of distribution commitments, broader actually than any WTO member has made.

Also covered is a range of other services: architecture, engineering, legal, travel, tourism, and so on, as well as direct sales.

If I might just spend one minute and turn to the special protocol issues. Of course, there are literally hundreds of WTO rules and China must accept them all in order to be a member.

There are, as I said, months of negotiations still to continue in Geneva on these rules. But the U.S. and many trading partners would like to see certain additional special rules, owing to the unique nature of China's economy.

Now, these provisions are still under discussion. There is a question as to some with respect to the duration of these special provisions. That is, a question by China on duration. But let me at least just tick off for you the areas.

First of all, China has agreed to a product-specific safeguard to ensure effective action in the case of import surges. If I might say here, in response to the question raised by Senator Gramm, the market disruption standard that we have used here is the standard utilized under Section 406 of existing U.S. trade laws, which is our anti-surge remedy applicable to Communist countries.

Second, we will continue to use our current non-market economy dumping methodology in antidumping cases. With respect to our countervailing duty law, which currently does not apply to China, we have already begun to make a start on certain rules that might pertain were the law to be applied to China.

Third, China will eliminate requirements that companies export what they make in China or use Chinese parts or other products when they manufacture there. Our companies also will not have to agree to offsets to invest in China, or to receive permission to import U.S. goods.

Fourth, China will end requirements for technology transfer as a condition of U.S. investment in China. Fifth, China will ensure that state trading companies and state-invested enterprises operate solely on commercial terms.

Purchases by these entities will not be considered to be government procurement and, therefore, would not be subject to any rules different from the national treatment and nondiscrimination rules that pertain generally in China's economy.

As I have said, the question of duration of some of these provisions remains open and, of course, there are many, many additional rules and negotiations that will have to take place, both bilaterally and in Geneva.

And, in this connection, the issues of implementation will take a substantial amount of time by us and by our trading partners, and we will want to come to the committee specifically for some advice in this regard.

Let me say, in conclusion, that while overall I think we have made quite significant progress, our work is not yet done. WTO access for China will only come on the completion of a commercially meaningful market access agreement, and adherence by China to all of the rules necessary to ensure that these market access commitments, in fact, yield market access results.

In the weeks and months ahead, we, of course, will stay in close touch with you, Mr. Chairman, and with the committee. We value, of course, your ideas and advice. We hope to re-engage our Chinese partners as soon as possible.

Thank you very much, Mr. Chairman.

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

The CHAIRMAN. Thank you, Madam Ambassador.

As you know, people are concerned about the trade imbalance between our two countries. Could you guesstimate what impact this proposed agreement would have on that trade imbalance?

Ambassador BARSHEFSKY. I cannot give you any precise numbers, although, as Senator Gramm pointed out, for example, just on the basis of the SPS agreement just signed on citrus, I think our citrus producers believe that hundreds of millions of dollars in sales will now be able to be made to China, which formerly had been prohibited.

I would say, as a general matter, all of the concessions that are made here are one-way concessions. We are not altering the tariff line in the U.S. tariff schedules. We are not changing any U.S. market access practices in relation to Chinese goods. These are all one-way concessions.

They all embody market access the U.S. does not currently have in China, other than the grandfather provisions, and, therefore, we would expect to see quite substantial benefits to our export performance as this agreement is further fleshed out, and once China accedes.

The CHAIRMAN. I think you make a very important point. I do not know that many people understand that, in these negotiations, we make no concessions. Is that correct?

Ambassador BARSHEFSKY. Correct.

The CHAIRMAN. On tariffs?

Ambassador BARSHEFSKY. None.

The CHAIRMAN. Non-tariff trade barriers?

Ambassador BARSHEFSKY. None.

The CHAIRMAN. None of any kind.

Ambassador BARSHEFSKY. No.

The CHAIRMAN. Is there any sector of our economy that will be worse off because of this agreement that you have obtained thus far from the Chinese? What are the down sides, for example, for workers? What workers, if any, would be hurt by this market access?

Ambassador BARSHEFSKY. Mr. Chairman, we do not foresee that there would be any injury to U.S. workers or to U.S. companies as a result of this agreement. Actually, we believe the reverse to be the case. That is, there will be substantial benefits to U.S. companies and workers which make goods for export to China.

Let me make a couple of points in this regard. We have focused our efforts in these negotiations on enhancing our export performance from the United States. That is why it is so vitally important that these Chinese high tariff barriers come down, that the non-tariff barriers and quotas come down, that trading rights, the direct right to export to China, be granted, that full distribution rights in the Chinese market for imported goods be granted.

These are concessions made in order to help ensure that our export performance to China, which has been anemic over these past years, will improve substantially. So, we have focused our efforts on improving the positioning of American companies, American workers, and American farmers who would be better able to export to China in a market in China that is far more open and receptive to U.S. goods.

Second of all, and this goes back to the first point you and I were just discussing, the U.S. is not making any concessions with respect to market access here for imports from China.

Our current trade regime, what we accept from China, is what the regime will continue to be. In that context, Chinese exports to the U.S. may go up, they may come down. That would happen in the ordinary course, but would not be influenced by, or increased by, an agreement that opens the Chinese market to our exports, which is what the WTO agreement would do once it is finalized.

The CHAIRMAN. You talked in your preliminary statement about the enforcement of the agreement. You also talked about the rule of law. Now, China has a long ways to go to create, in my judgment, the rule of law. How do you see the rights under this agreement being enforced? They become a member of WTO and let us say something is taken to arbitration under its provisions. We have seen what has happened with bananas, for example.

How can we be sure that these significant concessions are, indeed, enforceable?

Ambassador BARSHEFSKY. I think we have a number of provisions that help to ensure that: of course, our own trade laws, which are in no respect compromised; WTO dispute settlement, which, despite Bananas, has worked exceptionally well for the United States in the 22 of 24 cases that we have won among the cases that we have brought; the special anti-surge safeguard will be of assistance; the continued application of non-market economy dumping provi-

sions will be of assistance; and provisions which we are looking at and working on in Geneva in order to have some multilateral surveillance on China's implementation as an ongoing matter, I think, will also all help with respect to the enforceability of the commitments, and with respect to China's implementation.

I do think this is a very, very critical area. It is one thing to get an agreement at the end of the day that looks good on paper. It is another thing to get the full benefit of that agreement and to ensure that a country implements fully what it has agreed to do.

For that reason, we have moved very, very cautiously in this area. We did not want to close off a package on protocol or on market access until we felt satisfied, until we felt that the committee would be satisfied, that we had taken all possible steps to protect implementation of the commitments that China has made.

So this issue of implementation has taken, and will continue to take, a lot of our time within the administration. And, as I said, we would hope to impose upon the committee as well on the implementation issues.

The CHAIRMAN. One final question. I would ask for a brief answer. But, if I could be parochial for a moment. When I go back home, what can I say? What progress has been made in our poultry, auto, chemical, and banking business?

Ambassador BARSHEFSKY. On poultry, the ban has been lifted. China will accept certification by USDA of the safety and sanitary nature of our poultry plants. The tariff will be reduced. It will be cut in half, down to 10 percent, over the course of several years. And I think we can expect to see some very good results on U.S. poultry exports.

Autos is something we are still working on, and that implicates the banking side. But in autos, China will phase out its auto quota. The tariffs will come way down. Trading rights will be available. Wholesale and retail rights will be available.

We would like to achieve progress on consumer finance for auto purchases. This implicates the banking issues and is an area that remains under discussion with the Chinese.

On banking, I have given a brief summary in my remarks. The overall banking issues do remain under discussion. We do have some questions about the phase-in schedule that China has proposed, but, by and large, we will see an end to geographic restrictions, the ability to fully branch, and the ability to deal in local currency over time, both for enterprises and with respect to individuals in China.

I apologize. You asked me for one more area, and now it has slipped my mind.

The CHAIRMAN. Chemicals.

Ambassador BARSHEFSKY. Chemicals. China will participate in the vast bulk of chemical harmonization, which will bring tariffs down to the 5 to 6.5 percent level, which is the harmonization rate.

In some of these areas, either because they were not of U.S. priority but maybe the priority of other countries who I am sure will achieve their aims, or because they were areas of very, very high sensitivity in China, the tariffs will come way down, but may not quite reach the 6.5 percent level.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I just, again, want to thank you very much for your very hard work on agriculture. I mean, it is amazing, what we got in agriculture. You are very commended, Madam Ambassador.

Second, though, I would like to follow up on the points you have been talking about, briefly, and try to flesh it out a little more. That is enforcement and implementation. An agreement is only as good as its implementation and its enforcement.

Can you kind of tell us a little bit about some of the problems you currently have and some of your thoughts on where we might go, and just kind of open this subject up a little bit so we can proceed?

Ambassador BARSHEFSKY. Well, I think, if I may thank you for your comment on agriculture, but I would be remiss if I did not thank publicly Ambassador Peter Scher, our special negotiator for agriculture, who has done such a superb job, as well as, of course, Agriculture Secretary Glickman and his whole team.

Senator BAUCUS. Right.

Ambassador BARSHEFSKY. What we are trying to accomplish in this accession is to have a range of commitments that is as detailed as possible, step by step, year by year, area by area, sub-area by sub-area, sub-sub-area by sub-sub-area, so that it is very clear to us, to China, to the trading partners, what should be accomplished in that particular area, in what year, and by how much.

We have tried to be very specific to assist in the enforcement and implementation area. Ambiguity here serves no interest. This is another reason that we felt a close-out of the market access package at this point would be premature. We need specificity across the board. This is very important.

Senator BAUCUS. Are you trying to quantify?

Ambassador BARSHEFSKY. That was not achieved in all areas. Of course, tariffs are the most readily quantifiable. You know if a tariff is 10 percent, you know if it is 6 percent.

Senator BAUCUS. Right. Right.

Ambassador BARSHEFSKY. But in some of the services areas, with respect to, for example, geographic phase-outs, well, what are the exact cities that will come into play first, and what is the next group of cities, and what is the next group of cities? There is very substantial detail here that is very important in order to ensure that we are getting the benefit of the bargain fully, and also to ensure that enforcement efforts can proceed with ease.

If, in year one, Shanghai was one of the cities that should have been opened to telecom, and if in year one Shanghai is not, we know we have a breach. We know that immediately in year one, and we can proceed accordingly.

Senator BAUCUS. Are you, though, trying to quantify in terms of, say, how much Shanghai is opened? It may be a dispute as to whether Shanghai has or has not opened.

Ambassador BARSHEFSKY. It is hard to do that in the abstract. As you know, we rely very substantially on the work of our embassies, the work of the Foreign Commercial Service, and of course the experience of our companies to the extent obligations are not fully implemented.

But we are trying to proceed on a very detailed—perhaps unusually so—basis in order that, first and foremost, China knows precisely what it is that will need to be done.

Senator BAUCUS. Do you have any sort of snap-backs or automatic provisions that say, if China does not—

Ambassador BARSHEFSKY. Well, we have, as I have outlined, of course, dispute settlement in general in the WTO, which we think has been very effective, but also the surge mechanisms, non-market economy dumping mechanisms, and others, in an effort to put together a package of measures that we think would be protective of U.S. interests, but we're not there yet.

Senator BAUCUS. Now, do you think WTO dispute settlement is sufficient, or are you discussing some other provisions as well?

Ambassador BARSHEFSKY. I think that dispute settlement is excellent, but we have to be careful. Again, I am being quite direct about this. We cannot expect to litigate our way to an open market in China. That is never going to work.

We are going to need, I think, a multilateral push on China which I think we will be able to effect through provisions being discussed in Geneva. I think we have to be prepared to provide China with technical assistance if it is trying, in good faith, to comply with particular commitments but is unable fully to comply for lack of technical support or technical understanding. I think there are just many elements that need to be woven in together.

Senator BAUCUS. All right. I see the light is cutting down on my time. The question I want to address now is, what is the most efficient way to keep us moving, keep the ball advancing, rather than slowing it down or getting it hung up somehow?

I am asking about deadlines. What is the importance of deadlines? I mean, Zhu's visit here obviously helped create the expectation that we are going to get an agreement. We have a June 3 date coming up, the Seattle ministerial. Give me some thoughts on what some next steps are, and what some of the additional leverage might be to help both sides come together.

Ambassador BARSHEFSKY. Well, of course, the ultimate leverage is China's desire to be a member of the WTO in 1999. That is a goal to which President Clinton is firmly committed. He and Premier Zhu issued a joint statement on Saturday morning in which the consensus achieved thus far on market access and protocol was reiterated, and in which the President and Zhu agreed that China should be a member of the WTO, that this should occur in 1999. However, the statement also notes there is much additional work that needs to be done.

Senator BAUCUS. But do deadlines not help?

Ambassador BARSHEFSKY. Deadlines do. Where we are now, we will be speaking with our Chinese counterparts. We would like to re-engage as soon as possible. Of course, the Premier, as you know, goes on to Canada from the United States, so there will be a brief delay.

But I think that we will be able, very effectively, to re-engage quickly and we will discuss with our Chinese counterparts a precise schedule that would suit them and would suit us. But the desire by the administration, certainly, is to move forward as soon as possible.

Senator BAUCUS. I encourage the administration to set some kind of date, deadline, in some way to force this to happen. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Madam Ambassador, I just hope that the collateral issues, important though they might be, Taiwan, Los Alamos spying, or whatever it is, will not bog down the negotiations. This is a trade negotiation. The other matters can be taken care of separately.

We have had other nations spy on us, and those nations even admit it, yet we continue with our trade relationships with those nations. I just hope that those collateral issues, important though they might be, will not bog us down here.

Second, if I can get into the parochial area that the Chairman opened up a little bit here, I want to say that in the tentative agreement you have got now you do have jewelry tariffs eliminated, and some fish tariffs, likewise. So, I want to commend you for doing that.

But what you have told us here, except for a very small part which deals with fruits, citrus, are all tentative. In other words, we have not got the horse in the barn yet.

I have heard you say you think this is going to work out. But could you elaborate a little bit more? I mean, everything you have said is terrific, and I am all for it, with automobiles, fish, jewelry, and whatever it might be. But nothing has been signed yet.

Ambassador BARSHEFSKY. You are quite right, we do not have a final agreement yet with China. We have made very substantial progress, as I think is evident. But we have said from the beginning that this agreement needs to meet a high commercial threshold. That is what we continue to aim for. There are outstanding issues, as I have already indicated, not simply on the market access side, but also on the companion protocol side.

I do think that we will be able to conclude an agreement in the not-too-distant future, and I do think that the Chinese will continue to engage with us because they do see the light at the end of the tunnel. I think this is very important to them, and important for us.

But we do not yet have a final agreement. My basic posture on this has been, when it is done, it will be done. We have yet a ways to go. We do not want to make the perfect the enemy of the good, and I agree with that fully, but we want to make sure this agreement is as good as it can be and that it resolves as many concerns of our industries, our farmers, as can reasonably be expected. I think we are not quite there yet, though we are getting close.

Senator CHAFEE. Well, it seems to me that there are some concerns here that the Chinese might back off. You have said here, "the U.S. does not give up anything in this." Well, I suppose the Chinese follow that, the Chinese public.

If we are going to increase our citrus sales by the tremendous amount that is mentioned here, a very significant amount of dollars, obviously somebody who is currently supplying the citrus is not going to be selling that citrus. It may be the Chinese themselves growing it in the warmer parts of their country.

So what is your level of confidence that this thing is going to come across all right? It seems to me, I regret we were unable to seal the deal while the Premier was in Washington, but that is water over the dam, I guess. Give us your level of confidence.

Ambassador BARSHEFSKY. I think we are confident that we can bring a good agreement to closure. It will require further work. The issues that are outstanding are important issues. Certainly, this will require continued good faith on the part of the Chinese.

I think, and I agree with the Chairman, that Premier Zhu's personal involvement in this over the last several months has been absolutely critical to what we have been able to achieve, and will continue to be critical.

But I think China sees that its way toward WTO entry is now established through the commitments made thus far, through the progress that will be made in the future. I do think that an agreement will come to closure which will be a very, very strong agreement.

Senator CHAFEE. Well, I certainly hope so. In some of the newspaper accounts, they talk about the administration being reluctant to go forward with this, that there will be a storm raging of labor and so forth, and so on. I do not know whether those are accurate or not.

Ambassador BARSHEFSKY. If I might say, the administration is quite unified on, first, the notion that China absolutely should be a member of the WTO. There is no question about that in the administration, from the President, obviously, who sets the policy, on down.

Second, there is firm agreement in the administration that accession, as we have said repeatedly, can only occur on strong commercial grounds. The hurdle rate for this accession is high. It should be high.

We welcome that kind of rigor. We think it is entirely appropriate, given our anemic export performance to China and given the extraordinary access China has to this market.

Third, there is absolute agreement in the administration that what we have now, while very, very good, and we agree it is very, very good, is not quite there yet.

Senator CHAFEE. You mean, what you have outlined so far.

Ambassador BARSHEFSKY. Right. It is not quite there yet. We have unresolved issues which China could not come to closure on, but which we will need closure on for an agreement to be successfully concluded.

And, as I said earlier, we have proceeded very methodically here through countless so-called deadlines, whether because Jiang Zhi Min was coming here or President Clinton was going there, or Premier Zhu was coming here. We cannot be too concerned about the clock. We have to be concerned about the agreement we are able to achieve.

Having said that, obviously, we are not going to now raise the hurdle rate. We know the issues that need to be resolved and we will tackle them in the kind of methodical way we have tackled the rest and, I think, through that process, will arrive at a mutually acceptable agreement.

Senator CHAFEE. Well, I certainly hope so. I want to commend you for what you have done, and urge you on and wish you the very best of luck.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Yes. I like what you just said, Ambassador Barshefsky. I think what it does, is reduce a lot of the cynicism that was around the talks going on at the same time the Premier visited here.

I think, even though we could have ended up with the very best possible agreement that anybody in the Senate or you would want for our country, that the fact that it was not signed last week, makes sure that it is less suspect because there was always this implication—and you even heard it from members of this committee, including me—that we were fearful, not for what you might negotiate, but political considerations beyond your control that might come into play. With this now going to finally come to finality some time other than when there is a State visit, it seems to me to be the appropriate environment for doing it.

I would turn to a comment that you made to Senator Gramm about why you used the new terminology that you said was from Section 406 of our law. I read from Ways and Means' explanation of Section 406, "Enactment of Section 406 resulted from concern that traditional remedies for unfair trade practices, such as anti-dumping and countervailing duty laws, may be insufficient to deal with sudden and rapid influx of substantial imports that can result from Communist country control of their pricing levels and distribution processes."

The fact that they have agreed to commercial terms for their state trading enterprises, does that not then preempt the use of 406, because they are going to be totally commercial and so no longer, as least as far as international trade is concerned, a control and command economy? Or when you say that they are commercial, is it something less than what we think of as a commercial, free market?

Ambassador BARSHEFSKY. Right. State-invested and state trading enterprises will need to operate on commercial terms with respect to their purchases and sales. That does not speak to the question of the prices or volumes at which they export. I think our concern is that we be assured that all appropriate protections which we have traditionally had under our trade laws be continued in the case of China.

There is a question of duration. The Chinese have raised the question, how long should such a provision remain, given that it is reforming its economy and it is moving toward market economics and away from a command and control economy?

I think that is a question that we have to look at very, very carefully. It is a complicated question on policy grounds, but I think it is one we have to look at very carefully, and is in line rather with the kind of question that you are raising.

But, to the extent their state enterprises, either state trading enterprises or state-invested enterprises, need to operate on commercial terms in China, this is obviously critically important. But when they export to the United States, we need to be sure that that

trade is fairly conducted. We need to be sure that we have the proper tools to ensure that outcome.

Senator GRASSLEY. Now, if the market disruption test is accepted by China, and if they then get into WTO, does that have the effect of changing the WTO's serious injury standard used for every other WTO member with regard to China?

Ambassador BARSHEFSKY. No, not at all. This would be a special rule that pertains to China because of the unique nature of its economy, particularly the nature of its economy when combined with its size. It would not affect any other commitments made by any other countries or the way in which our laws would operate in respect to any other countries.

Senator GRASSLEY. According to the April 8 joint statement by the Premier and by our President, the second attachment covers the bilateral agricultural agreement, and the third attachment covers technology transfer, trade, state enterprises, and subsidies.

I would like to have complete attachments and specific details contained in both attachments as soon as possible. Is that possible?

Ambassador BARSHEFSKY. Yes. I was going to say to the Chairman that, because the negotiation is ongoing, these documents are not available to the broad public but are fully available to Congress and to the cleared advisors, and we will make them fully available to the Chairman and to the committee as a whole.

Senator GRASSLEY. Along that line, can I bring to your attention—and I do not remember the exact details of it; this is not a question, and I will be done here—something Senator Conrad said in regard to the Canadian Free Trade Agreement, maybe predating NAFTA, in regard to wheat coming into this country.

He, a long time after we had agreed to the Canadian Free Trade Agreement, came across some papers that were an agreement between a Canadian official and somebody in the then administration that allowed that wheat to come to this country.

I thought in my mind then, and still, that any sort of agreement that we have with the administration, including any of these papers, we should know exactly what is agreed to. Ten years from now there should not be some sheet of paper that showed up that Charlene Barshefsky signed with some obscure Chinese official that gave some special arrangement that Congress was not fully aware of. So, it is in that spirit that I ask for this information.

Ambassador BARSHEFSKY. Let me just say that anything the administration signs on this, you will have.

Senator GRASSLEY. All right. Thank you very much.

The CHAIRMAN. Senator Murkowski?

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

I know that Senator Chafee mentioned fish in the broad term. I assume that includes salmon.

Ambassador BARSHEFSKY. I knew you were going to ask me about salmon. Should I give you the numbers?

Senator MURKOWSKI. Sure.

Ambassador BARSHEFSKY. On frozen salmon, the tariffs will come down to 10 percent. I will have to get you the phase-ins. I think that is by 2004, but I will double-check that.

Senator MURKOWSKI. Do you know anything about canned salmon?

Ambassador BARSHEFSKY. Canned, 15 percent.

Senator MURKOWSKI. The tariff will come down.

Ambassador BARSHEFSKY. Yes, down to 15, and fresh, down to 12.

Senator MURKOWSKI. All right. Frozen, 15. It will come down to.

Ambassador BARSHEFSKY. Come down to, right. Right.

Senator MURKOWSKI. Thank you.

Ambassador BARSHEFSKY. As you know, these tariffs are very, very high.

Senator MURKOWSKI. I am very well aware of that, and I thank you for that.

A couple of things that I am really concerned about, is kind of where you go from here. I gather that the Chinese are not too happy with the realization that the administration has seen fit to release a long list of the agreements. I am looking at a comment that came out today. It was very unfair of them, meaning the administration, to publish the things they think will be agreed. This was what Long said in a telephone conversation, the excesses, the accuracy of U.S. claims, about what tentative agreements the two sides had reached, and reminds us that we have to trust each other. Harsh words came on the same day, as representatives of the U.S. business community voiced sharp disagreement and concerns to top administration officials about Clinton's rejection of the offer presented by the Prime Minister. There is a concern over the possibility of this thing unraveling. My understanding is, the administration released 17 pages of Chinese concessions.

Is the next "go to Jesus meeting," so to speak, of the World Trade Organization in Seattle?

Senator GRAMM. It's "come to Jesus."

Senator MURKOWSKI. I stand corrected. [Laughter.]

Ambassador BARSHEFSKY. Let me say, if I might, that the administration—

Senator MURKOWSKI. Is there an opportunity in between now and then? Because what I am concerned about, is Seattle comes in September. Then we are in the election year. We are going to have our focus on other matters, and this could be a Presidential issue and get completely torn down.

Or the Chinese side could see this—they have been known to be pretty stubborn at times, and see going back with the Premier having nothing tangible, taking a hard line and saying, all right, they did not take it. We are concerned about the imagine in China. Let them go out and hang with it for a while.

Ambassador BARSHEFSKY. Let me say, Senator, that there has been not only no rejection of the Chinese offer, but, rather, we have accepted China's offers in the broad range as I have outlined, and as is outlined in the white paper.

What we did not accept, where Chinese offers in several areas, banking, securities, audiovisual, for example, on the market access side, some of the protocol proposals made by China, because we felt we were not there yet and that what they were offering was not quite there yet. We are committed, and the President has personally committed, that China enter the WTO this year.

Senator MURKOWSKI. I know. But when does the opportunity start? Is it September? Are you going to do something between now and then?

Ambassador BARSHEFSKY. No, no, no, no. I think we will—

Senator MURKOWSKI. How do you bring this together to sign it, another trip to China?

Ambassador BARSHEFSKY. Yes. As I said, the Chinese team goes from the United States up to Canada for a state visit there. I think we will reengage with the Chinese shortly after they return to Beijing and work on each of the issue areas that are open to bring this full agreement to closure.

Senator MURKOWSKI. Prior to September.

Ambassador BARSHEFSKY. Oh, yes.

Senator MURKOWSKI. And you do not put much credence in the news reports that your office basically wanted to close this deal, but counsels to the President, both political and economic, suggested that it was pure Congressional criticism, Republicans on the right, labor on the left? You do not put any credence in that?

Ambassador BARSHEFSKY. No.

Senator MURKOWSKI. You are a good soldier.

Ambassador BARSHEFSKY. No, no, no. I will tell you exactly my view. This is absolutely, 100 percent accurate. My major concern in these talks has always been to find a means to capture progress made, to arrest any Chinese backsliding.

If they make a commitment and backslide half way, we are never going to get to the finish line. To arrest any Chinese backsliding, but also not to do an agreement under the press of a deadline because of the visit, when what they were offering in certain areas was not adequate and they would not move, and they would not move further.

That is what we have tried to accomplish. That has always been our goal. I think we have done that. I think we have achieved consensus on the broad range of issues. They know our concerns in the areas in which they would not move any further, and we will proceed from that basis.

Senator MURKOWSKI. We will be watching. Thank you.

The CHAIRMAN. Senator Gramm?

Senator GRAMM. Thank you, Mr. Chairman.

Madam Ambassador, maybe I was just confused at one point, but there seems to be something contradictory in what you are saying with regard to protectionist measures related to China.

It appeared at one point, in response to me, that you said that the standards used were the same that we used for every WTO member, and then in response, I think it was, to Senator Chafee, it appeared you said exactly the opposite.

But let me give you, at least, the facts as I see them. In your publication, market access and protocol commitments in Section C—that is the section on product-specific safeguards—on page 16 you say, “China is a major exporting country that enjoys open access to U.S. markets. This mechanism, which is in addition to other WTO safeguard provisions, differs from traditional safeguards in that it permits the United States to apply restraints unilaterally based on standards that are lower than those in the WTO safeguard agreements.”

Now, in my mind, that is exactly what I said in my opening statement. It appeared to me at one point in your statement you were disagreeing. Is this your document or am I confused?

Ambassador BARSHEFSKY. No. Let me explain the meaning. China's accession, and these negotiations, have been very, very complicated because of the nature of the practices that China employs because of the range of barriers. It is not often with a country—I actually cannot think of one—where we actually have to start with the basic right to export to that country, or the basic right to import into that country.

I mean, we are starting from a baseline in China that is way behind the eight ball and quite atypical for any acceding country, including countries of the former Soviet republics, many of whose accessions we are in the process of doing now.

I think we have to be very careful with how we proceed to ensure that we have all the means at our disposal to effect China's implementation of its commitments, as well as to ensure that our interests here at home can be adequately protected. I do not equate the word protected with protectionism.

In the case of the special safeguard, we are up a little bit against two competing standards for how a non-market economy should be treated. On the one hand, in the ordinary case you have a serious injury standard for a safeguard measure, which already, as you may know, is higher than the WTO standard.

Senator GRAMM. And I rejoice for it, because it benefits every working American.

Ambassador BARSHEFSKY. And we have had this discussion before. I understand your view.

On the other hand, we have Section 406, which is a statute of long standing designed to deal with surges from non-market economy countries.

The question is, on that spectrum, where does China fit? Is it closer to the traditional market economy country or is it closer to the traditional non-market economy country? That is to say, should it have a serious injury market economy standard or should it have the standard attributed to non-market economies, that is to say, market disruption? We have taken the position that we should use the market disruption standard, and China has taken the position, that may be all right, but we would like a phase out of that provision over time so that it does not apply in perpetuity.

Senator GRAMM. Well, Madam Ambassador, let me just interrupt you, because I am running out of time. The point I want to make is, I am fully in agreement, as I said at the beginning. My concern about the deal is the enforceability.

Ambassador BARSHEFSKY. Yes.

Senator GRAMM. I am in favor of enforceability, but I want to enforce a common standard. It seems to me that you can cloak this in any garb you want, but the reality is that this gives us an ability to engage in protectionism to a greater degree with regard to China than any other WTO member.

Now, if China is not moving toward a market economy, maybe we ought to question them being a member of the WTO. But it seems to me, if they are going to be a member, they are going to be a member.

I want to ask you one additional question before my time runs out. In a Wall Street Journal article on 4/8/99, there is a statement that says, "The Chinese withdrew concessions on financial services in response to the U.S. move on textiles." Now, I obviously do not believe everything I read in the newspaper, but is that true or not?

Ambassador BARSHEFSKY. No. Certainly, they have made no such statement or implied any such connection in any talks in which I have been engaged, and I do not think in any talks in which Mr. Cassidy has been engaged. No.

Senator GRAMM. Well, Mr. Chairman, let me say, obviously we have our own objectives and we are all trying to do different things. I would just like to say that, rather than focusing on these two parts of our disagreement with China that really have to do with reductions in trade, I wish we could work with the same alacrity and attention in those areas where there are really big dollars involved and where there are huge numbers of jobs that we would desperately like to have, in areas like securities. It seems to me that politics—domestic politics, U.S. politics—is dictating too much of what we are doing internationally. If I could give up both of these issues, which I would do voluntarily because they hurt America, they hurt American consumers, and they hurt American jobs, but if instead of wasting all of this energy and threatening the agreement over these matters we were negotiating to open up their securities markets and expanding financial services—and I want to congratulate you on banking and insurance. Banking is an A+, insurance is about a B—.

But if we could, by this same energy and attention and pressure, get that B— in insurance up to an A+, we would create more jobs and better jobs than we are going to protect in getting involved in this silly business of trying to protect textiles by treating China differently than anybody else. In the end, it is going to be self-defeating, as you know as well, or probably better, than anybody else.

Ambassador BARSHEFSKY. If I might just make a brief statement. I do not believe that we dissipate energy in one area even as we pursue interests in another area. I think we have marshalled our resources behind the full range of market access issues.

We—and, as you know, Treasury leads on banking and securities—have spent enormous amounts of time in those areas. Securities, as you know, is very, very tough in China because they do not have a functioning SEC. They do not have a Federal reserve kind of system. It makes it very, very difficult.

This is an area on which, particularly Treasury, will be spending additional time, as well as on some of the banking issues. But certainly we believe we have used our resources and our negotiating time and leverage in the right way to effect the broadest possible benefits for the widest range of industrial sectors and for the farming community. I think that that kind of marshalling and utilization of our resources will continue.

Senator GRAMM. Thank you, Mr. Chairman.

The CHAIRMAN. Next, we have Senator Robb.

Senator ROBB. Thank you, Mr. Chairman.

Madam Ambassador, there is light at the end of the tunnel. [Laughter.] I appear to be the last one scheduled to interrogate you this morning, and I join with my colleagues in commending you

and your team on the progress made to date. It is evidence of tough bargaining on our side.

I think it might be fair to point out that you are not gaining all victories without some give and take. The suggestion that we gave nothing, certainly you negotiate over tariff rate reductions, the length of transition periods, the percentage of foreign ownership, geographic distribution rates, things of this nature, where concessions are made both ways.

I think it might be a little misleading in terms of just overall credibility of where we are now that we gave up nothing, or simply steam-rolled the Chinese. If nothing else, it would make it more difficult for us to achieve meaningful results in some of the areas that remain unresolved.

Ambassador BARSHEFSKY. Senator, if I can clarify. The reference to our giving up nothing was simply in response to the Chairman's question, were we changing our trade regime? In other words, were we lowering our tariffs in exchange for China lowering theirs? In that connection, no, we do not alter our trade regime in that regard.

But in terms of where we are, this has been a 6-year-long negotiation, and a negotiation implies give and take on both sides. I think we certainly did not set a rigid standard with China in every area and say, there is the bar, jump over it.

We have worked with them, we have tried to push these talks in the right direction. There, of course, is give and take on both sides in relation to their ability to make commitments, but it remains true that, with respect to our trade regime, we are not altering our market access regime to further accommodate China. Our market access that is available here remains the same.

Senator ROBB. I thank you. I wanted to give you an opportunity to put that explanation on the record, because taken in isolation, there might be a feeling that the talks were one-sided.

Ambassador BARSHEFSKY. Thank you. No, not at all.

Senator ROBB. Nothing in my experience leads me to believe that the Chinese are not very tough negotiators.

Ambassador BARSHEFSKY. They are the toughest.

Senator ROBB. As evidenced by your 6 years and counting on this particular accession agreement.

Let me ask you one question. You have talked a good deal about the specificity in services, you have talked about implementation. With respect to their ability to do their end—Senator Gramm was talking about some concerns on our end—but they may, in fact, negotiate in good faith and have every intention of following through. But do you believe they have the administrative process/personnel that are necessary to ensure compliance with the agreements into which we hope they are about to enter?

Ambassador BARSHEFSKY. I think that the Chinese will have to spend some considerable time internally on ensuring that the ministries responsible for carrying out the commitments have the ability to do so in an effective and timely manner.

I do think that it is of immeasurable importance and help that President Jiang is committed to this process and that Premier Zhu has taken such a personal, hands-on approach to this process. That gives us some degree of confidence that the necessary internal ar-

rangements will be made in order to ensure effective implementation.

We have told the Chinese that we, as well as many of our trading partners, are available for technical advice and technical assistance. We have done this in the case of intellectual property rights, to very, very good result. We have indicated that kind of technical advice will absolutely be available, should they desire it.

But I do think the good will is there on the part of the Chinese. I think, with the leadership as committed to this process as they are, the necessary internal arrangements will be made.

Senator ROBB. You had acknowledged that there were still some significant areas, and indeed Senator Gramm was referring to some of those in banking, securities, market access for audiovisual, et cetera.

Is it possible, in your judgment, that we could reach agreement on virtually everything that we seek to resolve and leave any area simply unresolved, anything that would be of significance without some constraints, whether they be minimalist, but just simply an open question and still move to accession?

Ambassador BARSHEFSKY. I think we will have to take a look at what our next round of negotiation produces. Also, we will have to take a look at requests being made of China on market access from other countries.

Bear in mind that the kind of market access exercise China has going on with us bilaterally it also has going on bilaterally with all of its other major trading partners, many of whom have also made certain requests of China with respect to priority areas.

I think we, of course, have worked very closely with Europe on this, and our requests are quite similar of China. But there are many other countries involved. I think, as we go through a next round of negotiation with China and as we move toward closure, and as we see more specifically now the areas other of China's trading partners will focus on, we will be able to make a determination whether we can proceed with one or two areas open for further work in Geneva, or whether we feel we need to close off and have some definitive outcome and not leave any further market access process to Geneva.

I think if we reach a point where we need to make that decision, we would probably want to consult with the committee and get a feel for how you all think we should proceed. But right now, I will not even have a sense of whether we can reach your question until we go through another round bilaterally with the Chinese, and until I see with more particularity the requests China's other major trading partners make of it.

Senator ROBB. Thank you, Madam Ambassador. My time has expired. I join others in wishing you well in the completion of the process. If you were to return from Seattle with a signed deal that you could exhibit to all of the members of this committee, I think we would all be very grateful.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Robb.

Let me ask you one sort of summing up question. What you have told us today, Charlene, or at least it sounds like it, is we are pretty close to an accession package that holds, I think, great promise

of benefits for everyone, for workers, for the exporters, at relatively little or no cost to the United States. I understand, as you just commented, we still have some areas to close.

But my question is, assuming we make progress in those areas, what will we have lost? What will our workers have lost? What will our companies have lost? Indeed, what will we have lost in terms of overall American interests if we fail to conclude a deal?

Ambassador BARSHEFSKY. Well, I think the loss would be very significant on many fronts. First, of course, the loss in market access, which the U.S. has sought for so many years.

That implies, of course, the loss of U.S. exports, the loss of jobs that would have been attributed to those exports, the loss of farm revenue, particularly at this junction where farm prices are still in a very depressed state, as you know, virtually across the board in all the major commodity areas. So, certainly we would have lost all of that.

I think we would have lost, perhaps more importantly, the ability to move China in the direction of a rules-based regime. First off, with respect to trade, but second, with respect to moving their country toward market economics, toward an end to state control.

In that regard as well, when one considers some of these areas of commitment like telecom, the notion of Internet service being more widely available in China can only help those that wish to see a rule of law develop, that wish to see improvements in communication in China, that wish to see the Chinese move toward a more open society over time. So, I think we would have lost quite considerably.

Then, of course, there is the question of the stability of Asia and China leading as a productive member of Asia, as a constructive force in the region, not as a destabilizing or destructive force.

In order to accomplish that aim, we need to be looking at the kinds of changes to China's internal regime, but also at their membership in the large, multilateral rules-based institutions like the WTO.

I think is terribly important that China understand fully that it has interests in stability beyond its own borders and that those interests are locked in through a series of rules-based commitments that are public and that are fully enforceable.

I think that is ultimately to the good, not only on the economic side, but on the securities side and stability side in Asia. I think it is the ultimate goal, perhaps, in this that is most important for the U.S. long-term interest.

The CHAIRMAN. Well, let me thank you and your team for being here today. I know the pressure and time you have dedicated to these negotiations, but I thought it was important that you had the opportunity to come forth and lay out to the public where we are.

I can think of no negotiations more important than you are conducting. Once more, I want to congratulate not only you, but the team of people you have put together.

The committee wants to work with you. We look forward to continuing dialogue. Thank you very much for being here today.

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

The CHAIRMAN. The committee is in recess.

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

[Whereupon, at 12:07 p.m., the hearing was concluded.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

### PREPARED STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY

Mr. Chairman, Senator Moynihan, Members of the Finance Committee, thank you for inviting us to review with you the status of our trade policy with China today.

The past weeks have been eventful ones for this relationship. Our negotiations since the beginning of this year have been highly productive in all the major areas of American trade concern: agriculture, industrial goods, services and rules. China has made very significant commitments across the range of sectors and issues of concern to us, but a number of important issues remain to be resolved.

President Clinton and Premier Zhu have stated their goal of continuing negotiations to try to resolve the outstanding issues. We have, for six years, pursued these negotiations in a methodical manner, insisting at every juncture that accession must be on commercially meaningful terms. We have come far but are not there yet. This is the right approach for America's business, agriculture and workers. Now is not the time to depart from this careful, substantive approach and allow arbitrary deadlines to influence our negotiating position.

Our work has involved negotiations on a very large number of issues. Today I will review our progress so far. But let me begin with some more general comments about the place of China's accession to the WTO in our Pacific strategy and our national trade interest. I will then move on to review the specific commitments China has made, and to your questions and concerns about the work we have done and that which lies ahead.

### TRADE IN AMERICAN CHINA POLICY

Fundamentally, we have worked toward China's integration into the global rules-based trading system, because as a Pacific nation we have a vital interest in a peaceful, stable and prosperous Asia-Pacific region.

To secure this interest we maintain 100,000 troops in Asia, and we maintain strong alliances with Japan and other Asian democracies. We vigorously promote human rights, democratic principles and the rule of law throughout the region. And we engage China—Asia's largest nation and fastest-growing economy—to address our differences and find common ground wherever possible.

This includes a wide range of issues, from cooperation in regional security issues like the Korean peninsula to control over weapons proliferation, advocacy of human rights improvements at the UN Human Rights Commission and in our bilateral relationship, promoting labor rights, addressing climate change and other environmental questions, narcotics and crime control, and other issues as well. And a fundamental part of this policy, as a matter of commercial interest and as a complement to our strategic and security policies, is support for the economic integration of China into the Asia-Pacific region and the world economy.

China's economic isolation during the Cold War was vastly damaging to both China and to the Pacific region. For nearly forty years, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability—in fact, saw advantage in warfare and revolution—beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

Our effort to undo this isolation—a bipartisan, patient effort continuing over the nearly thirty years since President Nixon's visit to China in 1972—has included the lifting of the U.S. economic embargo in the mid-1970s; our initial Commercial Agreement and mutual grant of normal trade relations in 1979 and 1980; the con-

sistent renewal of normal trade relations for the past 20 years; and the market access, textile and intellectual property agreements we have negotiated in the 1990s. All of these trade policies have had multiple goals: the creation of opportunity for American businesses, working people and agricultural producers; the guarantee of fair trade principles; the advance of the rule of law, and the strengthening of China's own stake in the stability and prosperity of its neighbors.

And this policy has succeeded over the years. It has increased China's contacts with the outside world, bringing new ideas and opportunities to its people and giving China greater common interests with its Asian neighbors and with us. China's constructive approach to the Asian financial crisis may well be at least a partial consequence of this policy.

#### U.S.-CHINA TRADE RELATIONS TODAY

But at the same time, the progress has been slow. China remains a country characterized by high trade barriers and numerous unfair trade practices—which create inefficiencies within the Chinese economy; slow the process of integration; and cause frustration and sometimes injury to American farmers, workers, and businesses.

China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain closed, depriving China of the jobs, efficiency and innovation competition could bring to the domestic economy. And the rule of law—as Hong Kong Chief Secretary Anson Chan said last summer, the “infrastructure which enables enterprise to flourish” in any economy—is undeveloped.

Thus, China remains insecurely integrated, and only opportunistically so, with the world outside; and its economy faces severe challenges which, over time, more open trade could help to solve. Likewise, China's neighbors remain blocked from an economy which—like Japan's—could be an engine of growth in the present financial crisis and in the future. One index of this is our trade deficit with China, now over \$1 billion per week. Another is that between the opening of Normal Trade Relations (formerly MFN status) in 1980 and 1997, our exports to China grew only \$9 billion—barely half of our \$16 billion in export growth to Taiwan, and less than a quarter of our \$39 billion in export growth to the ASEAN nations.

WTO accession allows us to address the policy issues at the root of these problems in a comprehensive way. As it does so, it also is an opportunity to advance our broader interests and values beyond trade:

- As a matter of trade policy, a sound agreement will open Chinese markets to our exports, and give American domestic industries stronger protection against unfair trade practices.
- As a matter of strategy, WTO membership will complement our efforts to maintain peace and stability in the Pacific by linking China's economy more closely with the world's, creating constituencies within China for stability beyond its borders.
- And as a matter of values, WTO principles—transparency, fair and impartial judicial practices, peaceful settlement of disputes, the rule of law—are those we hope to advance in China and worldwide.

To win these benefits, an agreement on WTO accession must be commercially meaningful, addressing our major concerns in a detailed, enforceable and rapid way. This is also true for China—a weak, “political” agreement would not yield the full potential for economic efficiency and growth in China. Thus, we are committed to a commercially meaningful accession; but while we have not yet reached agreement on such a package, in the past months we have made significant progress toward the goal.

#### PROGRESS THUS FAR

We have reached consensus with China on a broad range of market access commitments covering each major sector: agricultural products, manufactured goods, and services. And we have reached consensus with China on some of the most important and difficult Protocol issues, including safeguards against import surges, guarantees for our right to use appropriate non-market economy methodology in dumping cases, and protection against abusive investment policies like forced technology transfer and offset requirements. Talks will continue on a range of important market access and Protocol issues, however—including many that must be addressed multilaterally—and until they are each concluded on an acceptable basis, we will not be in a position to conclude the WTO accession. These include banking, securities, consumer auto finance, and the duration of rules regarding dumping and safeguards.

Let me now review the progress we have made thus far in agriculture, industrial goods, services and rules.

#### OUTLINES OF COMMITMENTS THUS FAR

On market access, we have a broad set of Chinese commitments covering most of our concerns. This set of commitments has four features:

- First, it is broad. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution within the Chinese market; unjustified sanitary and phytosanitary standards; and restrictions on services.
- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.
- Third, it is fully enforceable. The commitments China has made in all areas are specific, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the protocol issues.
- Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat took effect immediately on their signature last Saturday, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one, in virtually every area. The phase-in of further broad concessions in all these areas will be limited to five years in almost all cases; in many instances the transition time ranges from one to three years.

Some examples of the progress thus far include:

##### 1. Agriculture

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time, adopt liberal tariff-rate quotas in bulk commodities of special importance to American farmers, apply science-based sanitary and phytosanitary standards including in grains, meats and fruits, and eliminate export subsidies. Notable achievements here include:

**Sanitary & Phytosanitary Standards**—China will apply sanitary and phytosanitary standards based on science, eliminating its bans on American meats, citrus fruit and Pacific northwest wheat. In citrus, the industry estimates that this can mean up to \$700 million in new exports, when coupled with China's market access commitments on accession and later.

**Tariffs**—China's agricultural tariffs will decline to 14.5% for our priority items. All cuts will occur within a maximum four-year time-frame; by contrast, WTO developing countries received ten years. Results in some top priorities include tariff cuts from 45% to 12% in beef; 40% to 12% in citrus; 30% to 10% in apples; 50% to 12% in cheese; and 65% to 20% in wine. And all tariff cuts will be bound at applied levels—that is, unlike many of our trading partners, China will not have a right to raise tariffs beyond these levels once it enters the WTO.

**TRQs**—China will liberalize its purchase of bulk agricultural commodities like wheat, corn, soybeans, rice, cotton and so on. It will adopt tariff-rate quotas—that is, very low tariffs on a set volume of commodities—in these bulk commodities. The wheat TRQ, for example, begins at 7.3 million tons and rises to 9.3 million tons by 2004. (Present import levels are below 2 million metric tons.) In all these TRQs, private traders will be guaranteed a share of the TRQ and a right to use unused portions of the share given to state trading companies. This will help establish legitimate private-sector trade in China.

**Export Subsidies**—China will not provide agricultural export subsidies. This is an important achievement in its own right, and a major step toward our goal of totally eliminating export subsidies in the next WTO Round.

##### 2. Industrial Goods

In industrial goods, China will cut tariffs and bind them at the new, lower levels; make the deepest cuts in the areas of highest priority to the U.S.; allow American firms to import, export and distribute their products freely in China; and eliminate quotas and other numerical restrictions. Specific achievements in industrial goods include:

**Trading Rights and Distribution**—China will grant American companies, over a three-year phase-in period, rights to import and export products without Chinese middlemen, and to market, wholesale, retail, repair and transport their products—

whether produced in China or imported. Companies which set up business in China will also be able to import the goods they choose from the United States. Even for China's most protected sectors, such as fertilizer, China will grant full trading rights and distribution rights in five years.

**Tariffs**—China will make substantial tariff cuts on accession and further cuts phased in, two thirds of which will be completed in three years and virtually all of which will be completed within five years. On U.S. priority items, tariffs will drop on average to 7.1%—a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these levels. Some specific examples include:

**Information Technology Agreement**—China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items connected to the information superhighway by 2003 in most cases and 2005 in a few others. This places China on the same footing as other ITA participants, who are required to phase out all tariffs in these sectors by 2005.

**Autos**—China will reduce tariffs on autos from 80%-100% today to 25%, and on most auto parts to 10%. This will be done by 2005.

**Wood and Paper Products**—China will reduce high tariffs on wood and paper to levels generally between 5% and 7.5%.

**Chemicals**—China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%-35% to 5% to 6.5% in most cases. In other high-tariff items, China will cut tariffs significantly as well.

**APEC**—China has agreed to implement the early voluntary sectoral liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

**Non-Tariff Barriers**—China will eliminate all quotas and other quantitative measures on accession for top U.S. priorities such as certain fertilizers and fiber-optic cable, by 2005 in all cases and by 2002 in most cases. In autos, China has committed to an initial quota of \$6 billion—well above our current exports and the highest level of exports achieved in the past, and thus large enough that it will pose no restriction on trade. That quota will grow by 15% each year and will be eliminated entirely in 2005.

### 3. Services

In services, while discussions continue on audiovisual, banking and securities, China has agreed to broad-ranging commitments such as:

**Grandfathering**—China will guarantee to protect the existing rights and market access of all service providers operating in China.

**Insurance**—China will end restrictions on large-scale risk insurance throughout China immediately, grant licenses solely on prudential criteria, phase out restrictions on internal branching and remove restrictions on majority control or joint ventures, gradually eliminate geographical and numerical limits on licenses, and take several other measures.

**Telecommunications**—China will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services within four years, mobile and cellular within five years; and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, phasing in 49% foreign equity in all services in six years and 51% foreign ownership for value-added and paging services in four.

**Audiovisual**—Here, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction, and ownership and operation of cinemas. We continue to discuss several issues here as well.

**Distribution**—China will remove all restrictions on wholesaling, retailing, maintenance and repair, and transportation within three years, along with restrictions on auxiliary services including express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

Also covered, of course, is a broad range of other services—architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and many more.

#### 4. Protocol

Let me now turn to the Protocol issues. Some of these are completed; on others we will need work, including as part of the WTO process involving a large number of other countries. China has already made significant commitments in a number of major areas of concern, but significant issues remain outstanding. Commitments include:

- Product-specific safeguard provisions to ensure effective action in case of import surges.
- Guarantees that we will continue to use our current "non-market economy" methodology in anti-dumping cases.
- Commitments to eliminate requirements that companies export what they make in China or use Chinese parts or other products when they manufacture there. Our companies will not have to agree to offsets to invest in China or to receive permission to import U.S. goods.
- A ban on requirements for technology transfer for U.S. companies to invest in China.
- Guarantees that state trading companies and state-invested enterprises operate solely on commercial terms, and specification that purchases by these companies are not government procurements and are thus not subject to any special or different rules.

The important question of the duration of several of these special provisions remains open, and we continue to discuss other issues as well.

#### WTO ACCESSION AND OTHER AMERICAN PRIORITIES

Any final accession package must be judged primarily on its value to working people, businesses and agricultural producers. It is not a substitute for a vigorous and effective policy in other areas of our relationship with China, and is not intended to be such. When completed and when enforced, however, it will complement our work in such areas as human rights and security policy, helping us build a peaceful, prosperous and open Pacific region; and to advance fundamental American principles of freedom, transparency, accountable government and the rule of law.

Thus, as I welcome scrutiny of the trade policy details of the WTO accession, I also hope that Americans will think about them in the larger context of Pacific security and American values. And I would like to take the remainder of this time to speak to those questions.

##### 1. Pacific Security

First of all, with respect to security, as ultimate WTO membership helps integrate China more fully in the Pacific and world economies, it will ensure that China's stake in its neighbors' stability and prosperity continues to grow.

This trend began with the economic opening of China in the late 1970s and early 1980s. Its results are clear in the contrast between the revolutionary foreign policy China pursued in the 1960s and early 1970s, when it sought the overthrow of neighboring governments; and the approach China has taken to the Asian financial crisis today, when it has sought to help stabilize their economies through contributions to IMF recovery packages and its own currency stability policies.

WTO accession, by reducing Chinese barriers to trade and investment and providing enforceable means of keeping them lowered, will deepen and accelerate this process of integration. Thus, this is in no sense a substitute for the U.S. military commitments, security treaties and other policies designed to ensure peace and security in the Pacific; but it will complement them in our larger search for a peaceful, stable and open Asia-Pacific region.

##### *The WTO Accession and American Values*

And as in the case of security, the WTO accession will complement and support efforts to advance the cause of human rights.

WTO membership, in its largest sense, represents adherence to a set of accepted international rules. They include the development and publication of laws and regulations; consistency in decision making; recourse to law enforcement and judicial proceedings; curbs on the arbitrary exercise of bureaucratic discretion. And these concepts in turn rest upon universal values and ideals including transparency, public and enforceable commitments, and openness to the outside world.

The WTO accession thus will accelerate the trend toward development of the rule of law within China. It thus complements the work our colleagues in other agencies are doing in advocacy for political prisoners, activity at the UN Human Rights Commission and engagement with China's top leadership on human rights issues in the Administration's efforts to bring China closer to conformity with international standards of human rights.

## CONCLUSION

In summary, over the past months we have made very significant progress on this work.

We have attempted to address the principal concerns of American agriculture, manufacturing, and service industries. And we have enhanced the work on rules.

If this progress continues, we will ultimately reach a result that creates a fundamentally fairer trade relationship. And at the same time, we will contribute to our larger goals of a Pacific region more stable and peaceful than it is today; and to the advance of universal values worldwide. This is a process which is in the American national interest.

Let me conclude, though, by saying once more that the work is not yet done. WTO accession will come only on completion of a commercially meaningful agreement; and that means each part of a commercially meaningful agreement, including the market access commitments and the Protocol issues, which are central. In the weeks ahead, we will consult with the Committee and other Members of Congress to make sure that our work meets your concerns.

Thank you very much. And now I will take your questions.

**Questions for the Record from Senator Orrin Hatch  
Ambassador Charlene Barshefsky  
China Hearing on April 13, 1999**

**Questions:** Neither the information in the USTR White Paper nor your statement provides much detail on the lifting of the market access bans on direct selling. Can you provide more specific information on such issues as:

- 1. It appears that there is a three-year phase-in period, is this correct? Presumably the start date will be the effective date of WTO accession, or will it occur sooner?**
- 2. In the event that China's WTO application fails, do you see the Chinese agreeing to allow direct selling for wholesale and retail services outside of fixed locations?**
- 3. Will all direct-sales marketing companies which had approved marketing plans before the ban on such sales activities be grandfathered into the agreement?**

**Answers:**

1. Assuming that China completes its accession to the WTO by January 1, 2000, China committed to lift all market access restrictions on direct sales by January 1, 2003. China, however, would not commit to taking specific actions prior to that date. We intend to consult closely with appropriate Chinese officials as they develop a regulatory framework to ensure that China liberalizes as soon as possible.
2. In our view, China would not have agreed to liberalize direct sales outside of the context of the negotiations on WTO accession.
3. The grandfathering provision agreed to in April only takes effect upon China's accession and applies to the conditions of market access as of that date. Consequently, none of the marketing plans approved before the ban was imposed in April 1998 are grandfathered.

## PREPARED STATEMENT OF HON. BOB GRAHAM

Let me first thank Chairman Roth and Senator Moynihan for holding this hearing regarding the market access and protocol agreement negotiated between the United States and China. This bilateral agreement is unparalleled in scope, addressing far-reaching market access commitments and internationally accepted rules of commerce. While there is still work to be done in certain areas such as textiles, banking and audio visual services, the agreement is the framework for China's entry as an active participant in the global economy. The agreement moves us closer to our common goal of facilitating China's accession into the World Trade Organization.

I want to recognize the efforts of Ambassador Barshefsky, Ambassador Fisher, and the other members of the negotiating team for their commitment to negotiating this market access and protocol agreement. As a result of their outstanding efforts, every sector of the U.S. economy will benefit from fair and open access to previously impenetrable Chinese markets. Of particular interest to my home state of Florida, previously banned U.S. agricultural products, including Florida citrus, will enter the expansive Chinese market for the first time. It is anticipated that Florida citrus exports to China will produce an additional \$200 million in sales for Florida's citrus growers.

This agreement is a positive step toward engaging China in fair and open international trade, based on internationally accepted, market based rules. By reaching this agreement, our long term interests of economic growth and stability in this era of economic globalization are well served.

I look forward to hearing from Ambassador Barshefsky.

## PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, I want to commend Ambassador Barshefsky for her diligent work over the past five years in continuing our efforts to admit China to the global trading forum. Having been in China recently, I can easily acknowledge the profound differences that exist in many commercial sectors. But I can also say that China understands very well the need for a workable trade agreement with the US, and WTO membership.

China needs the US market. The \$56.9 billion trade deficit that exists today with the US only motivates protectionist impulses that could easily range out of control. China is a big trade partner, but it is also a big target with a complex and evolving politico-economic culture that invites differences between our countries.

We need a forum to work out these differences. This negotiation process is establishing procedures for interpreting, applying and enforcing rules that are essential to a healthy yet competitive commercial relationship. There is no political deal here. Our foreign policy differences, which are inevitable, numerous and serious, are the subject of other negotiations between our governments.

Anyone who reads through the USTR "white paper" summarizing the agreement cannot help but be impressed by the structure which our negotiators have created. Of course, we still need to settle on the protocols that will ultimately frame our implementation of the deal.

We will hear many analyses and interpretations from many sources. But, I for one, want to state my strong support for what I expect to be a successfully negotiated outcome. I am fully aware of the differences that exist. Some will not be settled to everyone's satisfaction, at least not right away. And I am interested in and even directly affected by some of the deficiencies: I'm uneasy about weakening our domestic trade laws, such as safeguards, and I want to preserve the statutory tools available to us in managing relationships with non-market economies. I would like to see much earlier adoption of many tariff reductions, and the earlier removal of market access restrictions. And I want to make it clear that our negotiators need to work toward these goals.

But, let's keep in mind that we have been down this road, in this Committee, many times. We know how to proceed with incomplete agreements, and how to defer controversies without trashing core accomplishments, as we've done in numerous GATT rounds and even under NAFTA.

This is just another way of saying that we will not and should not accept a bad deal. But we should begin building a meaningful trade relationship with China in every sectoral area where we can agree. We need to keep in mind that this is more than just another bilateral agreement between the U.S. and a trading partner. The approach we're taking here will lead to the institutionalization of a methodology for getting China, the world's largest potential market, to adopt the most basic rules and standards of international commerce.

I thank the chair.

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PREPARED STATEMENT OF HON. DANIEL PATRICK MOYNIHAN

Good progress appears to have been made last week on China's bid to join the WTO. The bilateral agriculture agreement that Ambassador Barshefsky and her counterpart Minister Shi signed on Saturday ought to eliminate two particular irritants in our agriculture trade—China's bans on citrus and wheat—that have preoccupied this Committee for years.

But there is still much work to be done, and the devil is in the details. For example, China's proposed import substitution policy in the telecommunications sector has been a matter of significant concern to me, as it seemed aimed at displacing U.S. exports of fiber optics and other such equipment. There was some progress on this matter last week: China agreed not to impose quotas on imports of fiber optic cable. That is good as far as it goes, but the tariffs matter as well, and we still do not know the specifics—what the tariff rate will be and over what period of time it will be reduced.

China is the world's tenth largest exporting nation. It should be in the WTO and bound by the same rules and disciplines as the vast majority of our trading partners. At the same time, it is unquestionable that China's participation in the WTO will have a profound effect on that organization, given the sheer size and nature of China's economy. I thank the Chairman for giving us this opportunity to examine in detail the status of these negotiations.

