

CHINA MOST-FAVORED-NATION (MFN) STATUS

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
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CHINA MOST-FAVORED-NATION (MFN) STATUS

THURSDAY, JUNE 6, 1996

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

The hearing was convened, pursuant to notice, at 9:00 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, Simpson, Murkowski, Moynihan, Baucus, Bradley, Rockefeller, Breaux, and Graham.

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

The CHAIRMAN. The committee will please come to order. I am pleased to hold this hearing on China's Most-Favored-Nation status so soon after the President's decision to renew MFN for China unconditionally for another year.

I want to say up front that I think the President made the correct decision. I think Senator Dole also deserves credit for his earlier speech supporting unconditional renewal of China's MFN status.

President Bush has been kind enough to send me a letter stating his continued support for maintaining unconditional MFN status for China. Let me read, in part, this letter, which I ask unanimous consent for including as part of the record.

[The letter appears in the appendix.]

The CHAIRMAN. Former President Bush says, "China is on the threshold of becoming a great power, emerging from decades of self-imposed isolation and economic stagnation. How China develops in the coming years is a matter of vital interest to the United States.

Our strategic goals with China should be clear. We wish to see a China which plays by the rules of the international system, as well as a China which is peaceful, prosperous, and free.

There is no question that China's conduct on matters such as human rights, non-proliferation, trade, and Taiwan pose serious concerns, but revoking MFN will not help us address these problems.

By isolating the United States from China we impair our ability to influence the directions China will take on these important questions. MFN revocation is simply the wrong tool to achieve our ends."

Now, I recognize that the decision to support MFN is not an easy one, given the many problems that are current in the United States-China bilateral relationship. These problems run the gamut, from China's sale of weapons and technology of mass destruction, its continued nuclear testing, its belligerence in the South China seas, its unfair trade practices which contribute to our growing trade imbalance, its failure to protect intellectual property rights, its attempts to intimidate Taiwan, its attempts to subvert democratic institutions in Hong Kong, and its dismal human rights record.

While it might be tempting to try to resolve these problems by revoking MFN, I think that would be a huge mistake. First of all, I do not think that we can resolve any of our problems with China by revoking MFN. In fact, if we were to revoke MFN we run the serious risk of making our problems with China significantly worse.

I am convinced that revoking MFN will result in a cut-off of economic and political relations with China which will make that country more belligerent and less cooperative. Revoking MFN will also threaten hundreds of thousands of American jobs, and billions of dollars in U.S. exports and investment.

I want to stress that I seek to achieve the same goals as the opponents of MFN. I want a democratic China that is a stable and peaceful member of the international community of nations, that observes its international agreements, and that respects basic human rights.

To achieve these goals, I believe we need a comprehensive, sensible China policy that addresses particular problems with targeted and proportional responses that offer both carrots and sticks, where appropriate.

However, we simply cannot develop a coherent and effective China policy without maintaining its MFN trade status. Moreover, to ensure a strong and effective China policy, we must be prepared to use the more proportional targeted measures that are already available under U.S. laws. Such measures will be more constructive in addressing our differences with Beijing than the sledgehammer approach of revoking MFN.

Given these critical considerations, one must ask whether it is really worth revoking MFN when the chances are minimal that we will improve the situation in China by doing so.

Before we proceed with this hearing, I would like to add that I completely agree with Senators Moynihan, Chafee, and Baucus that the term "Most-Favored-Nation" should be changed. This term gives the false impression that we are giving a country some sort of preferential or special treatment when we confer MFN status.

I think, Pat, one way to make the MFN debate more understandable—not only for the average American but for members of Congress—is to replace this misnomer with a term that more accurately reflects what we are talking about—the standard and normal trade relationship that we have with nearly every country in the world.

Senator Moynihan and I, along with Senators Chafee and Baucus, have been working to come up with a better term than Most-Favored-Nation, and we hope to have a bill on this introduced

shortly. Preliminarily, we sort of like the term Normal Trade Relation. We think that better describes the status currently known as MFN.

I will close by saying that because of the importance of the China MFN question and the issues we have to consider, we have quite a number of very distinguished witnesses today. I am looking forward to their testimony.

But now I will yield to my distinguished colleague, Senator Moynihan.

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

Senator MOYNIHAN. Mr. Chairman, we have a long morning and we want to hear our witnesses. But I would just emphasize your statement that you made on the floor yesterday, and Mr. Chafee, Mr. Baucus, and I supported you.

The term Most-Favored-Nation is just completely misleading. One would read, and it would seem normal, that the country you are dealing with is going to become the most favored nation, whereas actually it is some third country altogether.

You say, we will each have treatment as good as we give to whatever other nation might be our most favored. It is an 18th century term. It does not have anything to do with our normal trading relations at this time.

There is another very special fact in our case. We are the only trading nation in the world in which this would be true. If you do not have the trading relations that are normal under the GATT, and now the World Trade Organization, that have been negotiated over the last half century, what you get is the only tariff schedule in statute in the United States, which is the Smoot-Hawley tariff of 1930, which raised tariffs, on average, to the highest level in our history. It is not as if it was some small inconvenience.

You go back to that cataclysmic event of 66 years ago, which has brought on all sorts of horror in the world. So Normal Trade Relations seems to me to describe what is being proposed here, and it gets us out of a lot of historical baggage that we do not need.

The CHAIRMAN. Thank you, Senator Moynihan.
Senator Chafee.

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

Senator CHAFEE. Thank you very much, Mr. Chairman. I want to say that I wholeheartedly agree with the statement that former President Bush sent in that you read in your opening statement. I just believe that we cannot continue on this crazy roller coaster ride that is MFN.

I think we are risking our existing bilateral relationship with China. We are risking our credibility. We are frittering away potential opportunities to achieve positive steps in countless international arenas with the Chinese.

So, I think we ought to end this politicking over MFN. We have made a start. I want to compliment Senator Dole for his vigorous support and the statement that he has made. I congratulate the President for not having changed from his last stated position on

a clean MFN extension. I do not think we should retreat. MFN should certainly remain off the table, Mr. Chairman.

Again, I want to say how enthusiastic I am about the legislation that you, Senator Moynihan, I, and Senator Baucus are involved with to change that name from Most-Favored-Nation, which is a misnomer if there ever was one.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Breaux.

OPENING STATEMENT OF HON. JOHN BREAUX, A U.S. SENATOR FROM LOUISIANA

Senator BREAUX. Thank you, Mr. Chairman, and thank you for having the hearings. I think the witness list is very impressive, and I look forward to their testimony.

I think, as many others on this committee feel, that generally the best way for our country to influence behavior is not through sanctions, but through better trading relations. I think that we all learn from each other when we have better diplomatic and trade relations.

We influence countries in a positive sense by having more contact with them, not less. I think that is what this hearing is all about, how we open up the lines of communication through the roads of fair trade.

I would just point out to our distinguished U.S. Trade Representative this morning, however, that we in Louisiana have a particular concern which has just come up, and that is that we are about to enter a trade war with China over crawfish. Now, that may not be important to anybody else in this Congress, but in my State, it is like cars in Michigan. It is a very important product.

In the last 2 years, China has increased their crawfish exports to my State by almost 500 percent and they have undercut the market with a price that is about half of what we can produce it at in our State, displacing about 16 million pounds of crawfish in Louisiana. I would like to ask, at the appropriate time, whether, with the sanctions that are being considered on the intellectual property proposal, this product may not also be added.

I would conclude, however, that Senator Bennett Johnson and I had a very good meeting yesterday with the Chinese ambassador on this issue. He said that he would take it up with Beijing immediately and report back to us.

There are better ways and more efficient ways than having my farmers have to spend a half a million dollars hiring lawyers and consultants and going through this whole process of all of the things that are available to us when these type of things happen. I think if we can work this out diplomatically, it is far preferable, it is less expensive, and probably ends up producing a better result.

So we are engaged in some very serious negotiations with the Chinese on this, and we expect them to report back very quickly to us. That certainly influences how this Senator feels about the entire process, and I am optimistic.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Simpson.

**OPENING STATEMENT OF HON. ALAN K. SIMPSON,
A U.S. SENATOR FROM WYOMING**

Senator SIMPSON. Mr. Chairman, I thank you and Senator Moynihan for your good work in this area. You can list me as a co-sponsor on the issue of the definition of this subject.

I welcome Charlene Barshefsky. I think you are doing a very splendid job in your work, and I admire you.

I have a full statement, and I ask that it be inserted in the record.

I think the sooner we get on with permanent status here and quit this annual hop and skip that we go through, which has just turned into posturing now, and remember that we give this status to Syria and some other folks around the world, so what do we do this for?

Then to think that we can increase our influence in a country with one-fifth of the world's population by doing something as absurd as removing that status when we are dealing with population of the earth, the things that go with trade and influence, and if we withdraw this minuscule, in a sense, with what we do with others around the world, nothing will change in China at all.

If we can leave MFN, make it permanent, begin to work with this huge world power-to-be, we will be better off. It just seems very much common sense.

My issue is, simply, population and the control of population. We will not get that done unless we have some influence, and this is part of that.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Thank you, Senator Simpson. I think it is important to recognize that there are only seven countries that do not have MFN, so the Normal Trading Relationship is MFN.

Senator MOYNIHAN. Will be NTR.

The CHAIRMAN. NTR. That is right. Normal Trading Relations.

Senator Graham, next.

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

Senator GRAHAM. Thank you, Mr. Chairman. Just to mention three, the continuing issues of intellectual property, the enforcement of international arbitration agreements, and Chinese compliance with a variety of memorandums of understanding which they have previously entered, including one that is of great interest to my State involving the importation into China of citrus products.

My questions are, we have granted China Most-Favored-Nation status in recent years, yet we have continued to face this series of unacceptable economic behaviors. What is it that gives us reason to believe that, if we continue Most-Favored-Nation status for China, we will see an improvement in its behavior?

If Most-Favored-Nation withdrawal is not an appropriate means of achieving our objectives of compliance with international agreements, then what are the other alternatives, diplomatic, economic, or otherwise, that are going to be suggested?

I do not believe it is an acceptable policy to say that, while Most-Favored-Nation is too extreme a response, that, therefore, we have to continue with a passive policy of acquiescence which has led to these series of abuses against U.S. economic interests.

So I conclude with a question. If not MFN, what are we going to do?

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman, I take some gratitude in the way this proceeding is going, namely, finally this country is going to wholeheartedly extend MFN trading privileges with China, at long last.

This has been a big battle. Senator Simpson has mentioned it has been like a hop, skip, and he did not say a yo-yo, but it has certainly been in kind of a turmoil, and frankly for no good purpose, for no good reason.

Our on again/off again indecision of whether to grant MFN trading privilege to China has caused more problems than it has solved. Finally, frankly, we are going to get to the point—I can feel it coming—where this Congress is going to very easily agree with the President's decision to extend MFN to China. I sense very clearly we are getting close to the point where we are going to make it permanent. That is the only sensible policy.

As we mentioned before, only six or seven countries do not have MFN status with the United States. That is true. Once we extend GSP, there will be 151 countries and territories with trading privileges that are better than with the normal trading status, which is MFN, or Normal Trading Relations, or whatever term we come up with.

MFN is such a misnomer today, it is so misleading, it deceives so many Americans, that, as I think Senator Chafee earlier said, it should be found to be violating some truth in labeling law, it is just so inaccurate.

Another point here is very important to remember. Senator Moynihan made it. If we revoke MFN, we revert to Smoot-Hawley tariffs. Smoot-Hawley tariffs are no small matter. On average, our tariffs today with China are 4.6 percent. If MFN is not extended, they will, on average, jump up to 40 percent.

There are some major exporters to the United States—toys and stuffed animals—which today have no tariff. But, if MFN were revoked, those tariffs would jump to 70 percent. The consequences of not extending MFN are much more severe than is commonly understood.

I might also add that there are major dissidents—Wei Jingsheng, for example, who is jailed in China—who believe that the United States should extend MFN. Why? Because the consequences of revoking MFN will wreak greater economic havoc in China, take away more jobs in China, cause more misery for the average Chinese people. Not less misery, but more misery for Chinese people, a point that has not been addressed very much in the past.

In addition, we have to fundamentally engage China. China is the world's largest country. It is a country with the world's largest

army. It is a nuclear power. It is the fastest growing and developing country.

China is probably going to be, if not the most important country, one of the most important countries this Nation must work with, deal with, as we finish this century and move into the next century.

We have to be smart, we have to be intelligent, we have to be wise as we deal with China. And we should not use the sledgehammer, the blunderbuss, of revoking MFN. Rather, we should use very targeted, very selected measures as we deal with China on a whole range of issues, whether it is human rights, nuclear proliferation, missile technology transfer, whatever it might be. And we must remember that there are many areas where we can work with China.

The environment, for example.

There are huge environmental problems in China which will affect the world environment. The power plants, for example, scheduled to be built in China. Acid rain problems, which will affect Japan. And, with the prevailing currents going this way, a lot of that could come to the United States.

Social issues like workplace safety. There are a whole host of other areas where we are working with China. The fact is, if we are going to engage China in a positive and constructive way we have to work with China in all kinds of various ways, but at the same time stand firm, stand up for our rights, be sure we vigorously follow up on the intellectual property rights agreement that China signed. There are smarter ways to do that than with the revocation of MFN. So I am very happy, Mr. Chairman, that finally, I think, the Congress is coming to its senses and we are going to put this issue behind us.

The CHAIRMAN. Thank you, Senator Baucus.

Senator Murkowski.

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

Senator MURKOWSKI. Good morning, Mr. Chairman. I think it is appropriate that we note that we are beginning our annual spring rite on the question of Most-Favored-Nation status for China. It seems to occur just shortly after the tulips die, as I recall.

I predict that, once again, Most-Favored-Nation status will be renewed, because I think in the end we must ask ourselves the fundamental question: will isolation or engagement really achieve the goals that we are all striving for, and will it help the people in China that we want to help? The answer is obvious.

We are all concerned with China's treatment of dissidents, Tibet, her attempts to harass Taiwan, her barriers to trade, her involvement in weapons proliferation, but removing Most-Favored-Nation status is not the way to influence these issues. Removing Most-Favored-Nation status hurts America, it hurts reformers, it hurts the people of Taiwan and the people of Hong Kong as well.

I think the question we should really be asking ourselves is, why do we put ourselves through this counterproductive exercise each year? I think it is noteworthy that that question has been raised in just about every statement that has been made here this morn-

ing. This debate really only serves to pit the pro-MFN Americans against the anti-MFN Americans and to cause hand-wringing in the Asian capitals.

I do not believe the annual debate has lowered the trade deficit, freed a single dissident, or prevented the sale of nuclear weapons. So I will put in my optimistic pitch to my colleagues and the Administration witnesses to work towards changing the debate completely next year. Let us get out of this annual renewal process that really seems to serve little purpose.

I know it is difficult to do in Congress, but I think we have to keep our eye on the long-term goal, not necessarily the quick fix. Maintaining normal trade relations, and that is all Most-Favored-Nation status provides, serves our long-term goals.

Americans look for a quick change, quick fix, get it resolved, move on to something else. But in the 5,000-year history of China, things move a little slower. The United States has an important stake in continued relations with the world's emerging economic and military powers as a necessity.

I would like to suggest, as we look ahead to the United States' policy towards China, it might include some four or five components. I will be very brief, Mr. Chairman.

First, MFN, as I indicated before, should be renewed unconditionally. Second, the next administration, I think, should consider permanent MFN status for China. MFN was never intended to serve as a weapon of punishment for every problem that came along, or every problem we have with non-market economies.

Its original purpose of guaranteeing freedom of immigration from the former Soviet Union has been grossly distorted, and we all know it, and I would say, without achieving any positive results. Moreover, this has become a stumbling block to our negotiations over the PRC's World Trade Organization membership.

Third, I think the Administration should continue to work with both China and Taiwan to bring both into the World Trade Organization under sound commercial rules.

Fourth, the Administration, I think, should continue to use selective trade tools to address market access problems. Those are certainly within the realm of their authority.

Finally, the Administration must maintain our security commitments in Asia. I think it is important to note that this is not an effort to contain China, but instead to allow China and the other Asian nations to develop in a stable environment. This must include close consultation with our other Asian allies and continued cooperation with the Chinese military authorities.

The Administration must also meet its commitments under the Taiwan Relations Act to consult with Congress in providing Taiwan with defensive goods sufficient to maintain its self-defense capabilities.

Finally, Mr. Chairman, my support of the Most-Favored-Nation status for China has been a long and consistent one. I have fostered the development of encouraging independence in Taiwan, but those two issues are separate in the sense of the question of Most-Favored-Nation status for China.

MFN was the right policy when President Bush followed it, and I was relieved when President Clinton abandoned what I consid-

ered an ill-fashioned campaign policy of linking MFN to progress on various issues and adopted the same policy of unconditional renewal. I hope that Congress will uphold this policy.

Mr. Chairman, I have an extended statement that I would ask be included in the record at this time.

The CHAIRMAN. Without objection.

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

The CHAIRMAN. Senator Grassley.

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

Senator GRASSLEY. I, too, support the extension of MFN with China. I should, by being reminded by Senator Murkowski, say that this has been a consistent policy, as it has been for him as well.

I think there are a lot of good reasons for doing it, and I hope that our witnesses will be able to, at the end of today's testimony, show that this is not some ideological exercise, but that there are a lot of good reasons—for American business, for the creation of jobs, and even for the benefit of our consumers that comes from Most-Favored-Nation—for keeping our trade relations with China as open as we can.

Now, we all recognize that there are problems with China, some with trade, some with security, and the human rights issue always keeps coming up, and they are well-documented and there is no point of my repeating them here, and I am sure we will be discussing those all day.

So I think the question then comes down to, what is the best way to influence the policy within China or about China? Is it more effective to have a policy of isolationism, where we have virtually no trading relationship with China? That is what would happen, or effectively happen, if we revoked MFN. Or is it more effective to build a closer relationship with China through our trade policy?

Of course, I believe that the United States is clearly better off by building a relationship with China through trade, because I think commercial relations enhance economic freedom within countries and the enhancement of economic freedoms eventually bring more political freedom, not measured by U.S. standards, but by an evolving situation that has been fairly common throughout the history of the last 200 years.

Now, this is not to say that we should not retaliate when China's actions warrant our sanctions. We are doing that. The Administration is doing that, even though they support MFN. I think that targeted and specific retaliation is justified. I fully support the \$2 billion in sanctions announced recently by our USTR for China's breach of intellectual property rights. I will support section 301 sanctions in the future, when appropriate.

It is no secret that we have other avenues to bring these issues up, like China wanting to become a member of the World Trading Organization. If and when this occurs, the United States then could exercise additional means to enforce our disagreements with the policy of China in a whole lot of areas.

Similarly, the President has authority under various statutes to take action against China for issues outside of the trade arena. The Nuclear Proliferation Prevent Act would mandate sanctions, as was the case in the sale of nuclear technology.

Whether the Administration handled that just exactly the way it ought to be handled, I am not prepared to say because I am not on those committees of jurisdiction and not an authority in that area, but at least there are ways to do those things.

So considering these other ways to address our legitimate concerns with China's actions, then repeal of Most-Favored-Nation status simply is not the effective way to address these serious concerns. It would also, as I said, hurt America's workers, businesses, and consumers.

Our nearly \$12 billion in annual exports to China would be jeopardized, obviously hurting American workers. The increase in tariffs on China's exports into this country amount to a stiff tax on American consumers.

For these reasons, I say a third time, I support MFN for China. But I urge the Administration to keep pressure on China. Trade agreements are not worth the paper they are written on without enforcement.

Senator MURKOWSKI. Mr. Chairman, may I make a disclaimer? My staff was very alert in listening to my statement, where I evidently indicated that I fostered independence for Taiwan. I meant to say democracy and a democratic process.

So, in order to ensure that she will not have to respond to a lot of the letters that might come in because of my misquote, I want the record to reflect my intention was not to foster independence for Taiwan, but the advancement of democracy.

Senator MOYNIHAN. Ambassador Lord has arrived. As George Will commented this morning, Taiwan had the first democratic elections in the four millennia of Chinese history just now.

Senator MURKOWSKI. Thank you, Mr. Chairman. I trust the record will so note.

The CHAIRMAN. The record will so reflect the actual position of the Senator.

Senator Bradley.

OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Mr. Chairman, I will not belabor this. I think I will be hitting many of the same points. I will try to do it quickly.

Let me just say that I support MFN for China. I think what we see developing, through the statements we heard this morning and through the fact that this is a policy supported by both President Clinton and Senator Dole, is an emerging consensus on this issue. That would be a great relief if we were able to take this issue out of partisan politics and focus on the long-term interests of the United States.

I think that those long-term interests are clearly served by extending MFN status to China. I also think that we should give consideration to not doing this on an annual basis, but doing it a little bit longer. That requires a change in the law. There are some arguments on each side, so I am not prepared to say that I would like

to do that definitely this year. But this is another form of saying, let us take this out of politics.

I think our objective in China is clear. We would like to have China become a pluralistic society, free market society, respecting basic freedoms and a stabilizing influence in East Asia. We have to clearly see where we have leverage. I mean, our leverage is not without limits. Therefore, we have to make our position clear in those circumstances where we might actually have an impact.

I think that our relationship with China has to be much broader than simply MFN. Like some of the earlier speakers, I would like to see us work to bring China in to the WTO, consistent with the terms of that body, but not with a whole lot of additional conditions attached to our support for their membership in that body.

I would also like to see us engage China in a longer-term strategic dialogue on the future of the Korean peninsula and what happens there. I think that dialogue with the Chinese at the highest levels is not only appropriate, but essential. It sends so many messages in terms of symbolism, as well as substance.

So, I think if we were able to do all those things we could begin to construct an even broader consensus than the one that I think now clearly does exist on the issue of MFN.

At the same time, there is no reason we should not be pressing the Chinese not to spread weapons of mass destruction.

I think we also have to be very clear with both the Chinese and the Taiwanese, that, as Senator Murkowski's correction indicates, this is a part of the world where words matter and slight nuances are viewed as giant declarations. While we do not support the independence of Taiwan, we certainly would support response to the unprovoked attack of China on Taiwan, pursuant to the United States-Taiwan Relations Act.

So I look at this and I say that, in all these cases, economic engagement with China furthers our national interest and it does so by creating more contact, people-to-people contact, it broadens the horizons of those who are engaged in trade in both countries. It also, given our companies' presence in China, introduces issues related to labor reform and environmental practices that might become kind of model examples in China.

I also think that we are seeing the growing power of the Internet, with its possibilities of breaking down barriers. So we are moving into an exciting time in our relations. I do not think anyone doubts that the Chinese economic engine is going to continue to run forward. The question is, how we can engage them on a multi-level basis?

I think the Administration has done a good job. I am glad to see Win Lord here. I think he has done an excellent job. I look forward to working with them, and hope that the message of this hearing can be that there is now a consensus on MFN. That is a tremendous accomplishment.

There will be a few people who are out talking about sanctions on intellectual property and 301 actions, all of which are not the main issue here. The issue is, there is now a consensus, both bipartisan and across different levels of opinion, that extending MFN status to China is in the national interest of the United States.

The CHAIRMAN. Thank you, Senator Bradley. I think, as I listen to the numbers, I, too, am encouraged by the development of a broad bipartisan consensus on this matter.

I have to say, as I listen, it also becomes very apparent that these discussions are sort of a proxy, a substitute, for discussion on overall China policy. I think that is desirable, but actually it is not the appropriate forum.

Senator MOYNIHAN. Yes, of course.

The CHAIRMAN. In any event, we are very pleased to welcome our first two witnesses. We have Ambassador Charlene Barshefsky here, who is the Acting USTR, and of course, Ambassador Winston Lord, who is the Assistant Secretary of State for East Asian and Pacific Affairs.

I would ask, Ambassador, that you keep your comments limited to 10 minutes, and your complete statement, of course, will be included as if read.

As far as the questions are concerned, we will limit those to 5 minutes for each Senator.

It is a pleasure to have you here, Ambassador Barshefsky. Please proceed.

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

Ambassador BARSHEFSKY. Thank you, Mr. Chairman. It is a great pleasure to be here. I listened with great interest and largely with agreement on many of the points made by the committee, and we look forward to working with you.

I am pleased to be here to discuss, very generally, or to touch on United States-China relations, but particularly to discuss the question of intellectual property rights because, as has been pointed out by most members on the committee, this is an area of considerable concern and an area where a targeted proportional response may well be necessary by June 17.

Let me start, though, by saying that it is an understatement to say that United States-China relations are complex, multifaceted and often contentious. America has a wide range of issues with China that, of course, go far beyond trade.

We have a deep and abiding interest in human rights, and we are critical when international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection, as Senator Bradley pointed out. Increasingly, of course, trade plays a central role in our relationship.

China is the world's fastest growing major economy. It already possesses the world's largest population, and it is estimated by the year 2010, it will have the world's largest economy.

On Friday, as you know, the President sent to Congress the formal waiver recommending extension of unconditional MFN to China for another year. U.S. interests in China are best promoted if we maintain MFN as the foundation for our trade relationship.

Mr. Chairman and members of the committee, as you have also said, we will never achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange, they occurred in times of isolation.

President Clinton believes we must remain engaged with China. He believes MFN is an essential component of this engagement. Ambassador Lord, of course, will speak to this point more fully.

Let me be clear, though, by what we mean by engagement. President Clinton came to office with a strong view that engagement with China does not mean ignoring our differences, it means we actively engage China to resolve our differences and it means protecting our interests when consultations are not fruitful. That brings me to the subject of intellectual property rights.

As you know, last month the United States announced the publication of a \$3 billion preliminary retaliation list targeting Chinese exports to the United States for China's failure to satisfactorily implement the 1995 Intellectual Property Rights Accord.

Today and tomorrow, USTR is holding public hearings on the preliminary retaliation list. Senator Breaux, I am pleased to say that the crawfish industry will be appearing at those hearings.

Following this period for public comment, we will prepare a final list, with a value of about \$2 billion, which is a figure commensurate with the damage inflicted on U.S. industries. Barring satisfactory implementation of the IPR agreement by China, the final list will go into effect on June 17.

We do not take the move to retaliation lightly. China has taken certain actions to improve IPR protection, particularly in cleaning up its retail markets and in establishing a nationwide enforcement structure.

Where Chinese officials have demonstrated resolve, as in Shanghai, they have shown that piracy can be brought under some control. Despite these improvements, though, China has not enforced key areas of the agreement, including halting piracy at its source: the factories.

Last year, China exported approximately 50 million pirated CDs, CD ROMs, VCDs, and LDs to the world. Today in Hong Kong and elsewhere, you can buy a \$10,000 software package for \$5. Pirate versions of Microsoft's Windows 95 were on sale in China before it was officially introduced. Motion pictures and sound recordings are often available in China before they are released in the United States.

The effect of this activity on the U.S. economy is clear. U.S. copyright industries alone represent more than 5 percent of the U.S. work force, roughly equal to the size of the U.S. auto industry. But the copyright industries are growing three times the rate as fast as the rest of the economy.

When China pirates American products it denies the ideas, the enterprise, and the jobs of these American companies and the workers they represent.

China must take four key actions to remedy the current IPR situation and implement the IPR agreement. These actions are well-known to China, and have been the subject of very detailed discussion with China now over the course of the last year.

First, China must close or clean up the CD factories. This is absolutely essential. Second, China must intensify enforcement in areas where piracy is rampant, such as Guangdong Province. Manufacturers and distributors here are untouched. Major pirates have not been punished, and prosecutors are reluctant to tackle piracy.

Third, China must take effective action to curb piracy at its borders, and that means they have to begin inspecting and seizing large-scale cargo shipments. Inspecting foot traffic, which, of course, is important in what China does, is only one element, but one does not export 50 million pirated CDs by foot traffic.

Finally, China must permit market access for U.S. computer, sound recording, motion picture products and companies, and, of course, must protect U.S. trademarks.

Actions in these areas, all required by last year's agreement, will establish the foundation for bringing rampant piracy under control. China knows exactly what it must do to get back on the compliance track. The issue now is for China to take concrete action to reduce piracy at its source and at its borders.

Mr. Chairman, let me make two final brief points on this issue. First, the United States has gone the extra mile to help solve this problem. Since the signing of the agreement we have sent eight delegations to China, and the ninth is there now at China's invitation. We have conducted more than 30 senior-level meetings.

We have also provided substantial technical assistance to the Chinese through our FBI, Customs Service, Justice Department, the Commerce Department, the State Department, USTR, the Patent and Trademark Office, and others. Our industries have provided substantial technical assistance and training seminars, and so on, for the Chinese.

The second point I would like to make is that we have not asked China to do anything more—anything more—than it committed to do in the IPR enforcement agreement. We demand that our trading partners fulfill the commitments they make, and China can be no exception.

We look forward to working with China on this issue, and we always stand ready to assist in any way that we can, but it is decisive action by China that is needed now to demonstrate its commitment to the agreement that it entered into last year.

There is no question that the United States-China relationship is one of the most important bilateral relationships in the world. There is no question that the benefits of that relationship for both countries are many and varied, but there is also no question that the benefits of the relationship must always run in two directions.

The United States stands ready to do its part by maintaining MFN, by maintaining strong and open trade ties with China, looking toward a long-term, stable relationship with China. But China must do its part too. This is a two-way street.

That means China must, in the first instance, live up to the commitments it has made, and second, of course, on the economic side, it must act to further open its markets. Only in this way can mutual prosperity and stability be assured.

Thank you very much.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Ambassador Lord, it is a pleasure to have you here. Would you please proceed?

**STATEMENT OF HON. WINSTON LORD, ASSISTANT SECRETARY
FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT
OF STATE, WASHINGTON, DC**

Ambassador LORD. Mr. Chairman, it is good to be here. I have been encouraged by the comments by various Senators leading into this discussion. As you and the committee know, I was on international television and I was committed for many months, so I could not get here sooner. It was live television. But I appreciate the opportunity to testify before this committee on extension of China's MFN trading status.

Since we normalized relations with China in 1979, every U.S. administration, Democratic and Republican, has extended China's MFN trading status, and this Administration, as you well know, supports the continuation of that well-established policy.

Unfortunately, a number of myths and misunderstandings have muddled our discussions on China's MFN status, or, for that matter, United States-Chinese relations. First of all, the term Most-Favored-Nation, in itself, contributes to the confusion, as this committee knows.

It is not a reward for good behavior or any preferential treatment, it is the normal commercial foundation upon which our relations with all but a handful of our international trading partners rests. It is also the basis of multilateral consensus and support for a free and open global economic system.

So, as Senator Grassley was making the point, we rely on instruments already available elsewhere and tailor our responses to China's behavior for maximum effectiveness.

These other instruments of policy, besides the blunt one of MFN, provide both positive and negative inducements for Beijing to address our concerns. In my statement I give some examples. For example, on Taiwan, not only our statements, but the movement of some of our naval assets, NATO points, designed to avert any dangerous miscalculations, we have emphasized to both sides of the Strait the importance of avoiding provocative actions and continue strongly to urge both sides to resume the across-Strait dialogue.

On nonproliferation, we have demonstrated on several occasions our determination to enforce U.S. laws, and we have reached some agreements with China, including recently, with respect to exports to Pakistan that have advanced nonproliferation efforts.

Ambassador Barshefsky has just addressed our approach in the trade and commercial areas, including IPR enforcements. With respect to human rights, we have kept faith with our principles by placing a high priority on every single meeting on bilateral and also multilateral grounds, and in various other ways to advance this high priority.

We believe that the creation of an increasing network of economic, educational, cultural, technical, and legal ties between Chinese citizens and the outside world will help foster a positive climate in China for human rights, and we will keep after this issue.

A second myth that exists in some quarters is that whenever there are difficulties in our relationship with China, that somehow this must be due to U.S. miscues. The reality is, no matter how wise and steady our course, we will continue to encounter prob-

lems, as well as opportunities, in our bilateral relations with China.

Moreover, during this period we are dealing with a complex, difficult, and prickly partner whose power is growing, whose leadership is in transition, and whose government is turning increasingly to a nationalism that is conditioned by thousands of years of experience as a dominant middle kingdom, and more than a century of humiliation by foreigners.

Against this backdrop, I would submit that any administration, any policy, would encounter tensions. It is inevitable that two great nations with different histories, cultures, and stages of development will have differences.

A third myth is against this backdrop that America should respond to our differences with China by seeking to control or contain it. Such a policy would be misguided and, in the end, unsuccessful. It would constitute a self-fulfilling prophecy of turning China into an enemy.

It would require a major shift in our economic, military, and diplomatic resources. We in the global community would risk much if the Chinese were to become isolated and unstable. In practical terms, a containment policy would require the support and cooperation of our friends and allies.

Now, whatever the degree of concern about China's growing power—and there is increasing concern in the Asian Pacific region—not country would be willing to join us in efforts to contain the PRC. We would severely strain our relations with our many friends in Asia and elsewhere, and could potentially destabilize the region.

A fourth myth, then, suggested by some of those who advocate containment, is that the only alternative is appeasement. Consistent with the approach of five previous administrations of both political parties, this Administration's policy of pursuing U.S. interests through engagement with China in no way implies acquiescence in Chinese actions that clash with U.S. interests or international norms. Again, I have given some illustrations of that.

Engagement means being firm wherever necessary and cooperative wherever possible. Wherever China does not comply with international commitments or recognized standards of behavior, we are prepared to use all the instruments at our disposal, including those provided in legislation, that may be required to promote progress.

Our willingness to take a firm stance when necessary is required to protect our interests, maintain domestic support for engagement, and engender respect in Beijing. Let the record show, that has to be 5 minutes, not 10 minutes.

At the same time, engagement allows us to continue to enjoy the substantial benefits of a constructive and cooperative bilateral relationship with China. In the midst of the inevitable frictions and media attention, let us not lose sight of these positive elements. I would cite some of these.

For example, China, in its own self-interest, has cooperated with us in managing dangerous North Korean behavior. It has cut off aid to the Khmer Rouge and supports the elected Cambodian government. At the United Nations, although it exerts its influence

and can be annoying at times, it has not vetoed UN actions of critical importance to the international community.

China has cooperated with us in such areas as narcotics trafficking and alien smuggling, and we are working on the environment together. Despite serious problems in the nonproliferation area, for example, they have come a long way in the last 10 or 15 years, although we have many residual issues to address.

I would like to point out that just today China has announced that it will no longer seek to maintain the principle of peaceful nuclear explosions in a comprehensive test ban treaty, a major step forward, and I think this will mean that we ought to be able to get a treaty negotiated and signed by this fall.

I will condense the rest of my remarks, Mr. Chairman. Let me just say, on the economics side, this is an important market, as has been pointed out. Let me close by saying that MFN withdrawal would not accomplish many of our goals.

It would not promote China's adherence to nonproliferation standards, it would not open China's markets and cause their respect for commercial laws and trade discipline, it would not help to protect the rights and freedoms of Chinese citizens or ease repression in Tibet, it would not enhance the security and stability of Taiwan and Hong Kong, in fact, just the opposite, as Governor Patten and Martin Lee made clear a couple of weeks ago.

On the other hand, MFN withdrawal would inflict great damage on a range of important U.S. interests. It would deny tens of thousands of jobs to American workers that would go to our competitors.

It would set back the process of openness and reform in China, and it would strain our relations with our Asian partners. It would severely hamper our ability to work constructively with one of the world's most powerful nations on a broad range of U.S. foreign policy interests.

So, as Ambassador Barshefsky has said, we seen engagement, but it is going to take effort by the Chinese as well in order to forge a constructive relationship for the next century.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Thank you, Ambassador Lord.

Ambassador Barshefsky, you heard the comments of the Senators at the beginning of this hearing. I think it is pretty clear that many of them do not look upon this annual debate on revoking China's MFN as being a constructive option.

Now, a number of people have suggested that we end this so-called charade and just give China permanent MFN. What is your reaction to this proposal; does it make sense to give China permanent MFN?

Ambassador BARSHEFSKY. Mr. Chairman, certainly the first order of business must be to secure MFN for China in the current year. We believe that the statutory process that now exists holds the best chance for doing that this year.

With respect to notions of permanent MFN, legislative action would be needed. Certainly the Administration would want to be in a position to consult with Congress on that, and we would cer-

tainly do that. But right now we are looking at this year and what is achievable for this year, and that is, I think, following the statutory guidelines as they are currently written.

The CHAIRMAN. Ambassador Lord, do you look upon these annual debates as a constructive contribution to our relationship?

Ambassador LORD. On a personal basis, not really. Although, to the extent that we discuss broader China policy, that is always useful. We have got to try to restore the domestic consensus that we have had for two decades. But with respect to this issue, it goes beyond China, of course, with Jackson-Vanik. I have nothing to add to Ambassador Barshefsky's statement.

Frankly, this came up yesterday in my hearings elsewhere in the Senate, and many Senators expressed the same sentiment. So we have got to carefully coordinate a position, as of today. We do want to get this renewed this year. We think this is the best way to do it. But on this broader question, we ought to talk together between the two branches.

The CHAIRMAN. There is a lot of criticism, as I am sure you are very well aware, about the Administration lacking an overall coordinated China policy. Critics say that our relationship seems to be driven pretty much by addressing a series of crises, economic or otherwise, rather than a carefully thought out strategy.

These critics also say that part of the problem is we no longer have a working relationship at the highest levels of the United States and Chinese government, where officials can meet periodically and are able to discuss issues in an environment that permits some constructive steps to be taken. Certainly, our relationship with China contrasts sharply with the situation in Russia where the President, as well as other high level U.S. officials, routinely meet and discuss these kinds of issues with their Russian counterparts.

What is your response to these critics, and what can be done to create an environment where there can be closer discussions and cooperation than seems to be existing now?

Ambassador LORD. I think it is a very fair point, Mr. Chairman, and I think there is a gathering consensus, whatever one's views of China's behavior or problems, that a more sustained, high-level dialogue would be constructive. Secretary Christopher addressed this very directly in his speech of May 17, where he called for regular summit meetings and regular cabinet-level consultations.

I do not think we have done as good a job as we should have in this Administration of articulating our policy at the highest levels. Frankly, it is a comprehensive engagement. We do have a strategic approach, but until recently we have not had authoritative, high-level statements that I think we now have provided.

I would point out, however, that we have paid a great deal of attention to China, including at high levels. This is somewhat lost sight of. The President has met three times with President Jiang Zemin, albeit not in each other's capitals. However, the President invited President Jiang last fall to come to Washington, and he declined that invitation.

Secretary Christopher, who is sometimes accused of not paying enough attention to China, spends a great deal of time on this

issue. He has met 13 times with his counterpart, and will meet again this coming July.

It has already been disclosed in the papers that there are chances of other high-level visits coming up in the near future. But your basic point, I think, is well-taken. I think a more systematic high-level dialogue would be useful. But it is going to require efforts by both sides, including China, to make mutual compromise and efforts so that these summit meetings can be productive.

The CHAIRMAN. Let me follow up with just one further question. In a way, we have had a laundry list of difficulties with China. But it is not clear that we have set any priorities with respect to these issues. What does engagement, as the Administration uses this term, really mean, and what are our priorities under a policy of engagement?

For example, are intellectual property rights more important than the proliferation of weapons of mass destruction? Sometimes one gets that impression. At least, the Administration seems to exhibit more concern about economic problems, than some of these other issues, in United States-China relations, such as proliferation.

Ambassador LORD. It is a very fair question, but it is extremely difficult to answer, very frankly. Let me give you, first, a conceptual answer, then a more concrete one. Our overall approach is to, working with others, integrate China into the international and regional community. This is a growing power and it has got to adjust to that. It has to help shape international institutions, but it also must abide by their disciplines and their obligations.

So the question is not whether China is going to be a major power in the next century. It certainly will be. The question is, is it going to be relatively benign or relatively disruptive?

We believe the best way to move it toward a benign course is to give it both the obligations and the benefits of international participation and, if you will, tame any potential instincts towards adventurism through interdependence.

So that is our broad priority, working with others. In the short term, that spells out to this engagement policy. You are absolutely right, we have a balancing of interests.

I am not prepared, and I suspect it would be difficult for anyone here to say nonproliferation is more important than human rights, or strategic cooperation in Korea, or intellectual property rights. These all are very important; they do not have to be mutually exclusive.

Certainly, working with China on the Korea nuclear problem is one of our highest objectives, as is nonproliferation generally. But American jobs, such as intellectual property rights, is crucial. I do not agree that we have put economic above nonproliferation.

We have worked hard, and we have invoked sanctions in the nonproliferation area where necessary, but as a means to an end, namely to produce progress. We have produced progress with China in this area, most recently with this announcement today on foregoing peaceful nuclear explosions in the future.

So I am sorry I cannot give you a rank order, Mr. Chairman. I do think one could make the case for overall peace and security and geopolitical balance as still being at the very top in working

such issues as the Korean nuclear question, but these other ones are obviously very important as well.

Ambassador BARSHEFSKY. Mr. Chairman, if I may add to that for a moment, if we think of this in its broadest sense when we look at nonproliferation, or trade matters, or human rights issues, and others, the goal ultimately is adherence by China to the rule of law and to international norms that are well-established. In the trade context, of course, that means ultimately adherence to WTO disciplines, which presently China is not either willing, or perhaps able, to do. But ultimately it would mean adherence to WTO disciplines.

With respect to intellectual property rights, the rule of law issues are clear. It is not only a matter that China has signed onto an agreement, it is also that we are asking nothing of China that other Asian nations do not already do, or that the world community does not already do, or that the WTO does not already recognize as necessary.

Similarly, with respect to market access issues, generally, in agriculture and industrial goods or with respect to services, the goal has been to move China as best we can toward acceptance of international norms and the rule of law, likewise, in nonproliferation and other areas.

So the goal, broadly, is integration of China into the world community, specifically under that, implementation by China of the rule of law and of international norms. In that context, it is very difficult to prioritize because each of these issues plays into another.

If China will not live up to an intellectual property rights agreement, what confidence could we possibly have it would live up to more massive commitments for WTO accession? If it will not live up to economic commitments generally, what guarantee do we have that they will view other kinds of commitments as necessary and obligatory?

So these issues all interplay one with another, and it is important for the United States to always keep its eye on the broader goal, which is the rule of law and adherence to international norms.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I think we are getting into a useful discussion of foreign policy and trade is foreign policy, and has been this committee's prerogative for two centuries.

I would ask two questions of our distinguished witnesses. The first, is Ambassador Barshefsky made the point that the United States accepts one-third of China's exports, but China accounts for less than 2 percent of U.S. exports. Now, is that 2 percent of U.S. exports in the universe, or what proportion of Chinese imports are from the United States?

Ambassador BARSHEFSKY. It is very difficult to determine, but most of Chinese imports into the United States have not originated in the United States, if that's what you're asking. In other words, this isn't a situation where U.S. multinationals set up shop in China and reimport product into the United States. In terms of total U.S. exports to China, we are looking at roughly \$12 billion

last year. In terms of total Chinese exports to the United States, we are looking roughly at \$46 billion, \$47 billion, \$48 billion.

Senator MOYNIHAN. Of that, what portion would involve American firms, would you say?

Ambassador BARSHEFSKY. It's very difficult to determine. The bulk of Chinese exports tends to be in toys, as to which we are not really talking any particular U.S. content. Other categories include textiles and apparel, where there is very limited U.S. content, as well as some consumer electronics, which tend to be of other Asian content rather than U.S. content. There are some other medium-tech goods, of which some may be of U.S. content, but the percentage is relatively small. This is quite different from our relationship, for example, with Europe or with Canada.

Senator MOYNIHAN. Do other nations have trade arguments with China at the intensity with which we tend to do?

Ambassador BARSHEFSKY. They certainly have trade discussions with China. Among Asian nations I think there is a general reluctance to be overly-aggressive with China for reasons related to trade, and also for reasons unrelated to trade.

Our European counterparts have serious concerns with respect to market access issues of a broad nature, as well as with respect to intellectual property rights. We and the European Union have rather close positions on WTO accession for China, and we have worked very closely together on that.

Senator MOYNIHAN. Which is coming next year as an issue, I think, the WTO.

Ambassador BARSHEFSKY. Yes, I assume it will.

Senator MOYNIHAN. Can I ask Ambassador Lord about the particular issue of Tibet. This is an international one, troubled, and somewhat avoided by American policy, if I am not wrong. Would you want to tell us what our position on Tibet is at this point?

Ambassador LORD. Certainly. It is an important issue, it is a depressing one. I would not agree that it has been avoided by American policy. I would say that we have, unfortunately, not much leverage on it. That is the problem.

We recognize Tibet, as does every other country in the world, as part of China, but we also recognize that there is an awful lot of repression there, an awful lot of abuse of human rights, a distinct threat to the cultural identity of Tibet. Therefore, in the context of acknowledging Chinese sovereignty we have pressed the Chinese very hard, and it comes up at almost every meeting, to allow greater human rights observance there, and, above all, to have direct dialogue with the Dalai Lama.

Our basic position has been that the Dalai Lama and the authorities in Beijing should have direct dialogue. There were some attempts toward that a few years ago. That has been pretty much frozen in place.

The Dalai Lama, with great courage, has dropped, as an additional agenda item in any discussions with the Chinese, the issue of independence. He said, I am willing to sit down and not talk about that with the Chinese and talk about other aspects. That used to be the only Chinese precondition for dialogue with the Dalai Lama. They have now moved the goal post, to use an American expression.

Recently, the situation, if anything, has gotten worse. We have reports of increased repression. We have reports that you cannot even have the Dalai Lama's picture up in your house. So, we are very concerned about it.

We do press it, Senator, but I have to tell you, we do not have an awful lot of leverage, unless one wants to hold hostage the entire United States-Chinese relationship. Some could argue that, but, as we have already discussed, we have other interests with China.

Senator MOYNIHAN. There is a systematic overwhelming of Tibetan society. If you look at an aerial photograph of Lhasa, its center is a small Tibetan island surrounded by a large Shanghai-like settlement of Chinese. That is obviously deliberate.

I thank you for that answer, and I appreciate it. You will not forget the International Labor Organization and the responsibilities China has under treaties still in effect with the ILO conventions.

Ambassador LORD. We certainly will not. Ambassador Barshefsky made the very important point about the rule of law that I know you are very dedicated to, Senator, and that is another way of expressing this general theme of helping integrate them in a community where they help respect, as well as participate in, international disciplines. I think, in all fairness, they have to have a role in helping to shape those and not just inherit everything, but that is a matter of hard bargaining, not a matter of direction.

Senator MOYNIHAN. Thank you.

The CHAIRMAN. Senator Chafee.

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

Ambassador Lord, it seems to me—and you can correct me if I am wrong here—that you have been somewhat on both sides of this issue over the years. You came up here to testify on Senator Mitchell's legislation, S. 2808, in 1992 when the Bush administration was resisting very strongly efforts to curb MFN. Today you have testified that MFN withdrawal would inflict great damage on a range of important U.S. interests, yet in 1992 when you were, in effect, opposing the Bush position and supporting the Mitchell bill, which as you recall, was a conditional one. You said then: "We are not talking about revocation, at least in my view. I want to extend MFN, and I hope it can be done. We are talking about using it for leverage, for reasonable conditions."

You continued: "In my reading of the Chinese, if you have this threat hanging over them for a year and you have reasonable conditions, you can make concrete progress, which is what I am interested in." Where do you stand now on all that?

Ambassador LORD. I stand where I justified today. I think it is very fair to read the historical record, and you are absolutely right. I have testified at different times in history, and with different experiences, with different perspectives on this. Without taking undue time here, let me say that I was never for conditioning or revoking MFN before Tiananmen Square.

After Tiananmen Square, I still opposed it for a couple of years, thinking it was a blunt instrument and hoping the Bush administration would take more forceful actions on human rights. But with secret trips to Beijing and toasting, and so on, I felt that we were giving the Chinese the wrong impression.

With great reluctance, by 1992 I had evolved into a personal position, in a private capacity, not to revoke MFN, but with modest conditions to try to use it as leverage, and your quotes are very accurate on that. As we came into the Administration, this was the Administration's view in the first year or two. In fact, we did make some modest progress.

The situation looked better with these modest conditions, which were not immediately invoked, we were pointing to a year later. But we did find after a while, not only did we not have domestic support for this, but it was turning out to be a blunt instrument in practice and the Administration shifted its position. So I would just explain that, but what you have said is entirely accurate.

Senator CHAFEE. Well, thank you, because I have really been distressed as I look back on the record, from 1992. President Bush at that time was struggling against MFN revocation, and candidate Clinton was tough on his position on that, but since then has changed.

I think that change was the right thing to do, and there is nothing wrong with changing a position. But some of the tough comments made against President Bush at the time, I felt, were very, very unfortunate.

Ambassador LORD. Well, let me go back again.

Senator CHAFEE. I am not saying you were the sole one in that.

Ambassador LORD. No, no. That is a fair comment. First of all, neither candidate Clinton nor myself were calling for revocation of MFN. That is number one. There is a big difference between modest conditions, and the conditions the Administration suggested in consultations with the Congress in its first year were very modest. Frankly, if we had not worked out these modest conditions we face the real threat of revocation, which we thought was worse.

Second, there is more to China policy and how you treat human rights than just MFN. My concern as a private citizen is that, a few weeks after Tiananmen Square, you do not send secret envoys to Beijing, I am sorry. So, therefore, there were some criticisms of that. But I would agree with you that there has been a shift in a tactical approach. One learns by experience.

I think the important thing now is to try to restore a bipartisan consensus, as we were saying earlier, because the combination of Tiananmen Square, the disappearance of the Soviet threat, and growing Chinese assertiveness have fractured our domestic consensus. I think it is beginning to evolve again, however, and I hope this hearing and other efforts will contribute to that.

Senator CHAFEE. Let me ask the two of you in succession, Ambassador Barshefsky first, why not get rid of the whole MFN process; why even deal with it? In other words, give it to China and the handful of other nations that undergo annual review, and no longer in the future discuss withdrawal of MFN. Would that keep us from achieving any goals we might want on, say, nonproliferation matters?

The trade matters can be handled through the 301 and other processes like that, can they not? Is there any reason why we should deny China MFN in connection with its actions in, say, Tibet, or whatever the issue might be?

Ambassador BARSHEFSKY. Senator, I think you are asking a question that, first off, has a legal response, which is that the annual debate arises because Congress has a statute on the books which directs that an annual debate be held. So the underlying threshold legal question is whether Congress wishes to amend or change Jackson-Vanik in a fairly fundamental way.

Secondarily, of course, there is the effect of any such change with respect to China on other countries. There are 13 others—there is a total of 14—who are subject to an annual MFN debate and review, not to mention the three or four countries who have more permanent MFN status, but as to which the Administration must make reports to Congress twice a year. So there is, secondarily then, the question of the effect on all of these other countries of a change in policy with respect to China.

In their broadest sense, in terms of question, I think that the President's delinkage decision of two years ago underscores the Administration's view that MFN revocation, the threat of it, is too blunt an instrument, either to be used by the United States, or to be taken seriously by China as leverage on the part of the United States.

So the President's delinkage decision was predicated on the notion that there are, in fact, as you are saying, other very effective tools to be used with respect to trade, with respect to nonproliferation, and so on, and that a more targeted proportional response, where necessary, would have a much better chance of success with respect to Chinese actions than MFN revocation.

Senator CHAFEE. My time is up. Thank you.

The CHAIRMAN. Next, is Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I must be very brief, because I have another appointment.

Ambassador Barshefsky and Ambassador Lord, I compliment you very, very much. You are very good public servants, working very, very hard in the public interest. I know how hard you are working, I know how effective you are, and I appreciate it personally. I know a lot of other Americans do, too.

With respect to IPR, Ambassador Barshefsky, what happens if you reach an agreement with China and, say, next month suddenly, here we are again; factories reopened, we are back in the same bowl of soup?

Ambassador BARSHEFSKY. Let me say that the goal here is effective IPR enforcement, the goal is not to reach an agreement with China. We have an agreement with China. What we have said to the Chinese, is that we need to see concrete action taken before June 17 in the form of a number of factory closures.

Our industry has worked together to help identify for the Chinese the worst offenders with respect to IPR because of their size, because of their export potential. We have indicated to the Chinese that these must be immediately closed. There is no hope of cleaning them up, they must be immediately closed. We have given the Chinese time to do that, but the deadline is June 17.

We then have indicated, as the agreement calls for, that China must come forward with a much more comprehensive clean-up plan for any factories that remain open, and of course the issue of market access for our companies with respect to possible licensing, or

royalty arrangements, or joint venture arrangements with these plants would also need to be looked at carefully.

Senator BAUCUS. I appreciate that. One other matter, of particular importance to the Pacific Northwest. For many years—about 20 years—China claims incorrectly—it is a bogus issue—that northwest wheat is contaminated with something called TCK smut.

Ambassador BARSHEFSKY. Yes.

Senator BAUCUS. It is an entirely bogus issue. Do you not think that it would be improper for China to be a member of the WTO so long as it does not allow northwest wheat to be imported into China?

Ambassador BARSHEFSKY. Senator, WTO requirements would compel China to utilize sound science for making sanitary and phytosanitary determinations. The science used by China with respect to TCK is a science not used by any other nation in the world, so that China has decided that this wheat cannot enter China, even though other countries have indicated that TCK is not any particular threat or problem.

We have raised this issue with China on numerous occasions. I was there perhaps 5 or 6 weeks ago, and I raised it then. One of my people who is there now is an agricultural expert, again, bringing up this issue. This must be resolved.

Senator BAUCUS. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Breaux.

Senator BREAU. Thank you, Mr. Chairman. I am sorry, I had to step out.

Madam Ambassador, you heard my comments earlier about trying to avoid a "crawfish war", because I think that would be a very ineffective and very expensive and long, drawn-out problem and process to try and resolve what I think is, indeed, a problem with China. We have met, as I indicated, with Ambassador Li yesterday, and I am encouraged by that meeting.

I guess my question to you is, the USTR tomorrow, I guess, is having hearings on the sanctions.

Ambassador BARSHEFSKY. Today and tomorrow.

Senator BREAU. Today and tomorrow. Our industry will be testifying.

Can you tell me a little bit about the process of what items are selected when you use this method to invoke sanctions on certain products that would be coming into the country? Are there criteria? I mean, apparently the products are not related to the intellectual property, necessarily. How are the products selected?

Ambassador BARSHEFSKY. The products are selected with two goals in mind: maximize the incentive for China, or for any country subject to possible sanctions, maximize the incentive for that country to live up to its commitments, and minimize any potential adverse impact on the United States' economy or disruption to United States' importers or producers. Those are the two broad criteria that are looked at.

With respect to the list, the \$3 billion list that was put together, it was viewed that, in the main, utilizing textiles and apparel as a principal focus of the list was important, first off, because that sector is heavily concentrated in the south of China, where piracy

is most rampant; second, because that industry sector is heavily government controlled and the piracy problem is one that must be assisted and cured by government; and, third, because China cannot readily ship textile and apparel products to other countries. It is to divert their sales to other countries, because all major textile importing countries other than Japan have very restrictive quotas on Chinese apparel and textiles. That is on the incentivizing side.

On the side of the U.S. economy, there are ample alternative sources of supply for textiles and apparel, including by U.S. producers, but we also import textiles and apparel from over 180 countries. We felt that that means there would be minimal disruption to the U.S. market.

There are other items on the list that have somewhat similar criteria. There are consumer electronics of certain types, as well as certain other miscellaneous—

Senator BREAUX. So there is a great deal of flexibility from your office in selecting whatever products may be utilized in this effort.

Ambassador BARSHEFSKY. There is flexibility, and we have encouraged companies or industries that have concerned to come forward in these hearings so that we could evaluate all of the submissions made and all of the evidence presented.

Senator BREAUX. As I have said, I am very concerned about what I think is very close to, if not in effect, legally a dumping situation with regard to nearly a 500 percent increase in a product in a very relatively short period of time which has displaced a substantial portion of the Louisiana market.

I am hopeful that our private negotiations and the meetings we have been having will produce some positive results, but I would urge you to look carefully at the testimony our industry is going to be giving today or tomorrow and to consider whether crawfish products can be added to that list. I think the need is very, very clear.

I think it fits the categories which you just outlined as to the type of products and how they are considered. They are both from the south China area, where many of the piracy acts of intellectual property have been occurring, and there is only one area in the United States, and it happens to be in only one State that is affected by it. So I think it fits the criteria for inclusion, and would urge you to be of assistance to us in trying to resolve this problem. It is very, very important.

Thank you, Madam Ambassador.

Ambassador BARSHEFSKY. Thank you.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Ambassador Lord, I think you correct stated that probably your boss, Mr. Christopher, does not get proper credit for the time he spends on China, I suppose, if there is a criticism whether or not he does things that have high enough visibility that actually shows that he is very concerned and working very hard. But we are not always able, in public life, to get our story out the way we want it.

I also sense that you expressed some consternation because higher up in the Administration—and you did not say how high up—that there is not a clear voice of following up on some of the things

that Secretary Christopher does, or speaking out on China loudly enough.

You mentioned the Secretary advising to have a summit every year and to have closer relationships at the cabinet level with people in China. An example of where I think your consternation—and this is not probably what you were referring to, but where it is legitimate, is that the President had an opportunity in his meeting with the Pacific Basin Economic Council when he spoke there to pick up on Secretary Christopher's suggestion and vocalize his support for it and intention to do that. He said nothing.

I think there is a lot of concern that comes from that from business interests in the United States, workers' interests that are related to foreign trade, even our relationships with other countries in Asia.

Now, you cannot comment on this, but I think that this is an example that we have in foreign policy like we have in a lot of domestic policy, where politics in the White House—political aides went out over policy makers. It is not as dangerous in domestic policy as it is in foreign policy.

I think that the President misses a wonderful opportunity, particularly when he is 18 or 20 points ahead in the poll, of really establishing a firm and consistent policy on China when he does not pick up on Christopher's suggestion, as he could have in that speech or a lot of other speeches I am sure he will be giving on foreign relations.

Now, I do not expect you to comment on that. If you want to, you can.

Ambassador LORD. Well, I would like to comment.

Senator GRASSLEY. Well, I presume you are supposed to be non-political and you cannot.

Ambassador LORD. But I want to comment, both to correct the record and also perhaps save my job, because I certainly did not, I believe, mean to leave the suggestion that the Secretary is the good guy and even higher level people are not the good guys. That is not accurate. The Secretary would be the first to deny that.

Senator GRASSLEY. Well, I am not sure I said that, either.

Ambassador LORD. Well, I know it is a suggestion that the President was less enthusiastic for high-level meetings now than the Secretary. That is not correct.

Senator GRASSLEY. Well, it is true he did not comment when he had an opportunity to.

Ambassador LORD. Well, first of all, his speech was an Asia-wide speech. There is no significance to his not commenting, is what I want to say. The President stands fully behind the Secretary's suggestion. The Secretary's speech was closely cleared in the White House, and vice versa, of course. So the President was covering the entire region, the Secretary was devoting to one subject.

More significantly, I was making a collective judgment that over the last 3 years I do think—and I have said this to my superiors—that the President, the Secretary of State, and others should have spoken out more comprehensively on this subject. I have been going around talking about it, but at my lowly level it does not get much attention.

We have had a comprehensive approach. The President deserves credit for it. But we have not articulated that approach, and that is true of the President and the Secretary until recently. Now both of them have, and Secretary Perry has on several occasions. I just wish this had been done sooner, I will be very honest.

Furthermore, the President, as I said before, has been heavily involved in China policy at high levels. He communicates, for example, by correspondence—obviously private—with President Jiang Zemin quite regularly. He has met with him three times. He invited him to Washington. So even though we can do more in this area and the Secretary and the President now suggest that, the record is not as bleak as one would suggest.

So this is a matter of personal collective judgment on how I think our policy has been better than the articulation of it, and there is unity in the Administration on how we ought to go in the future.

Senator GRASSLEY. Well, I will just leave my bottom line then, that there is concern in the country and within our government of whether or not the President always does have a consistent, coherent policy in regard to China, and I think that that is part of our problem. There may be honest differences agreement on it.

Could I ask you one question, Ambassador Barshefsky. On the point of, if we do not renew MFN with China, any detrimental impact on friends that we have in Asia or around the world that we would be unintentionally hurting as a result of removal of MFN with China?

Ambassador BARSHEFSKY. Certainly there would be an adverse impact on Hong Kong. That is quite clear. Hong Kong is a major transshipment point for Chinese goods. It earns very substantial revenue from serving that function.

Denial of MFN would have a fairly devastating impact on Hong Kong. The impact on Taiwan would be somewhat more difficult to measure. It is not nearly the transshipment point Hong Kong is, but it seems fairly clear there would be some adverse impact on Taiwan as well.

I think, more fundamentally, in Asia this would be viewed as a shift in U.S. policy of a magnitude that is sufficiently large so as to be worrisome, and I cannot quantify that level of concern except to say that I am quite certain it would be there and that the concern would be very substantial.

May I respond, though, to the comment that you made earlier?

Senator GRASSLEY. I am not sure I intended to be that controversial, but go ahead.

Ambassador BARSHEFSKY. I think this Administration has had a very consistent policy with respect to China. That is, the notion of integration into the world community, that is adherence to the rule of law. These are difficult issues for China, very difficult issues for China. We are fundamentally different countries, not only culturally, but I think in our very fiber. We are fundamentally very, very different.

China has a long history. It is a history drastically different from that of the United States, not only with respect to social issues, but also with respect to legal issues, the role of law in society, the role of freedoms or democracy in society.

I think the comment was made by one of our colleagues. It is very difficult to look graceful when you are dancing with an elephant. It is not that the Administration position or policy has been inconsistent, it is that the range of issues and the differences between the countries are so great that, inevitably, there will be a certain lack of grace about the way in which issues are handled. But, underlying the policy, I think, is a very sensible notion of working with China to better integrate them and to seek adherence to international norms.

Ambassador LORD. Could I underline that, Mr. Chairman?

The CHAIRMAN. Please keep it very brief, because time is running out.

Ambassador LORD. All right. The Chinese are geniuses at making barbarians feel guilty. We want good relations, but it is not the United States' fault when the Chinese export dangerous technology, close their market, abuse human rights, fire missiles near Taiwan, stir concerns throughout the Asia Pacific community.

There are some objective problems here caused by growing nationalism and a succession period where they are not flexible. We are going to work constructively, but let us stop this masochism where, if we have problems with China, somehow it is America's fault all the time.

The CHAIRMAN. Senator Bradley is next.

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

Ambassador Lord, let me ask you, the issue, basically, is leverage. What leverage do we have over the Chinese when it really comes down to it?

The question is, could you give me an example, or two, or three, of where we were able to produce a result in China because of leverage, and could you tell us, what was that leverage and what was the dynamic of the process that produced the result, if there was a result?

Ambassador LORD. All right. I am sure Ambassador Barshefsky would also want to give you a couple of examples in her area.

First, at the most fundamental level, our leverage with China resides in the fact that, despite our problems and their annoyances with us sometimes, that they want and need a good relationship with the United States in the next century, for two basic reasons.

This is what gives us leverage, because they do need good relations. Economic is obvious, a third of their exports, technology, investment, and the fact they do not want to be dominated by anyone else, including Japan. So they have tremendous economic interests with us.

But they also have a geopolitical interest. Whatever their differences with us and suspicions, as they look to the long view—and they do look to the long view—they are concerned about the revival of Russian nationalism, they are concerned about a remilitarized Japan, or a united Korea, perhaps, with nuclear weapons.

They have troubled relations, historically, with many of their neighbors. So our ultimate leverage, and I will get more concrete, is this fact that they need good relations with us and they do not want to antagonize us, despite the differences.

Now, this is a good example of leverage. We have leverage in IPR because we have selective sanctions that will hurt them and not

just ourselves. We do not want to do that—we would rather have an agreement—but it is a means to an end.

Indeed, this very process was gone through by Ambassador Barshefsky and others about 16 months ago and produced a very good agreement. Now we have got to get it enforced by virtue of leverage of possible retaliation.

In the nonproliferation area, we invoked sanctions in 1993 because of exports to Pakistan. After months of negotiations, with the help of that leverage, they agreed to cut off all ground-to-ground missile exports and to adhere to the annexes of the MTCR.

Most recently on ring magnets, we did not have good leverage. It is a good example of not having good leverage. It is a terrible system to say, we are going to try to influence the Chinese—for example, when they export \$70,000 worth of ring magnets—by threatening to cut off billions of dollars of our exports, when none of our partners will follow suit, and just pick up the contracts while they hold our coat.

So, these are some examples, but the Ambassador may wish to add others.

Ambassador BARSHEFSKY. I would simply add that the question, I think, properly is, what leverage do we have? The underlying question, first off, is why China often refuses to take action in its own interest, as requested by the United States.

Let me give you three examples. First, market access generally. The 1992 market access memorandum of understanding, which was, as you know, done by a different administration, was the product of 2 years of negotiation. But that negotiation could not be brought to conclusion without the United States having threatened at that time very substantial sanctions against China.

The result of that agreement has been, in many sectors of industrial goods, increases in U.S. exports between 200 and 400 percent. We are just now beginning to see, some 4 years later, the genuine impact of that very important agreement. Was it productive for the United States to threaten sanctions at that point? Yes. Is it, though, a destructive cycle over time? Yes.

Should China have moved in its own interest? Yes. Why didn't China? It is very unclear, except to say that their general view on trade matters seems to be to take maximum advantage and to give as little as possible. That is not necessarily the American way, but that is the Chinese ethic with respect to the economic issues.

A second example is textiles. We had a bilateral textiles agreement with China which was going to expire. China refused to negotiate a meaningful new bilateral agreement because we wanted certain protections due to fraudulent Chinese transshipment.

It was in China's own interest to have a bilateral textile agreement with us. Without it, we could set whatever quota level we wanted. Yet, were we able to bring them to the table meaningfully without the threat of sanctions? No.

Third, the Intellectual Property Rights Agreement of last year. It was plainly in their own interest to do this. I do not think the agreement would have been done had they not viewed it in their own interests to do it. They have indigenous enterprise and industry concerned about piracy. Their scientific community is very concerned about piracy.

Will China conclude any meaningful agreement with us without the threat of sanctions? No. Again, the cycle itself is a destructive one. It is an unfortunate one, but it is not precipitated by the United States.

Ambassador LORD. Could I give one other example, and that is maintaining 100,000 forces in Asia, the occasional movement of aircraft carriers gives us some leverage also, although we do not mean to be provocative.

Senator MOYNIHAN. Mr. Chairman, could I just interject one thing, just to record some continuities. In 1826, British Prime Minister George Canning sent a coded message to his trade negotiators in The Hague which read, when decoded, "In matters of commerce the fault of the Dutch is offering too little and asking too much." So it is not the first time we have come upon this.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. This would be a question for both of our witnesses. I constantly think, when I think about China and how people—incidentally, I am for continuing MFN and want to make that very clear—often speak of China as if they speak of other nations, that if you can do it to Belize you can do it to China, if you can do it to Japan you can do it to China, if you can do it to the Philippines you can do it to China. I agree with you, Charlene, that it is a totally different culture.

The thing I always think about is 1937, when the Japanese, obviously at the height of their military powers, invaded China and were just going like gangbusters, province by province, until they got about half-way across China, and then everything stopped. And there was no specific reason, it is just that China is so huge and it just swallowed them up and they just never got any further.

I think there is a parallel there which makes me want to ask this question. It is a continuation of the leverage question by Senator Bradley. I have always felt that the Japanese, at the end of the day, if we were to be consistent, will come across on trade issues, reluctantly at the last moment, but only if we show that we are consistent a number of times and, if not, they will not.

I was very happy about the President's trip to Japan, somewhat less happy about what I perceived to be less of a concentration on trade issues during and since that time, but that could be another matter.

On the other hand, the question of leverage with Japan, which is an enormous society economically and in terms of population and import in the world. And on the question of leverage in China and Japan, I would be very interested if you would compare culturally, to the extent that you know Confucianism remains in the business of order, the interplay of private enterprise as it exists, to whatever extent it exists in China, et cetera, the Chinese ability to control the central government far out in the provinces, all of those kinds of things. What does leverage mean in China? How effective can it be, really, on anything as opposed to Japan?

Ambassador BARSHEFSKY. I think I have responded, in part, by using the three examples that I have used. I do think that China and Japan are quite different, and I think that the U.S. response to each may also need to be different, but there is one element that

the United States, I think, has to have in common with both, and that is consistency in our own policy.

Senator ROCKEFELLER. I am not asking that question. The question I am asking was sort of a deeper cultural explanation of the difference between what leverage can do on China as a society and Japan. I will ask the same question of the Secretary.

Ambassador BARSHEFSKY. Let me just say, the reason I am hesitating is that, in our modern day, we have such a different relationship with China than with Japan that I am not necessarily persuaded that we have to have policies so radically different as opposed to nuanced somewhat differently. That is, Japan is more western, at least in effect. They are a longstanding ally. The level of working relationship between the United States and Japan is as close as among any two countries in the world.

We have a very different situation in terms of the modern relationship between the United States and China where, in many respects, we are just getting to know each other in some more fundamental way.

At the end of the day, this is why I believe that the United States must be consistent in its policy. No country can be responsive if they do not know what you want. With respect to Japan, we know that leverage may work in certain ways.

With respect to China, we are still feeling our way somewhat. But the starting point for the analysis must be an identification by the United States of its priorities and articulation of those priorities in a consistent and coherent way. Then with China I think there is going to be, unlike with Japan, a learning curve. I do not think we have reached the top of it yet.

Senator ROCKEFELLER. All right. My time is almost out, so I need to turn to the Secretary.

Again, my question was not so much as to what our policy ought to be, but as to the cultural differences, a more academic response.

Ambassador LORD. It is a very good question, and a very complex one. First, part of the difference of China versus almost any other country is that they have had very little experience in dealing with the outside world as equals.

For 4,000 years they were number one, everyone else was irrelevant, barbarians, distant, did not exist, then for 150 years they are humiliated. So in terms of leverage and dealing with them, it is very complicated, because there is a mixture of arrogance and xenophobia and insecurity, which you do not have with Japan.

Second, of course, right now in terms of leverage you are dealing in the case of Japan with a democracy and the play of diet, and public opinion, and coalition parties, and you are dealing with China essentially still of a Leninist political system.

In some ways you could argue that is easier, because if China wants to make a decision it does not have to worry about the press and public opinion and it can move, whereas in Japan it takes longer and you have got to build a consensus.

The bottom line is, I think we have, frankly, more leverage with Japan than we have with China at this point in history because we have such clear, overriding positive stakes with Japan that both countries try to negotiate in a way that will solve problems so that the overall relationship is not strained.

Whereas, with China, which we would like to have a good relationship with, the mutual suspicion and historical baggage is such that each issue can take on added difficulty because you do not have this sense of shared strategic perspectives which we are trying to create, but which is going to take more time.

Now, that is an inadequate response to your question, but I would like to think about it further and talk to you about it further.

Senator ROCKEFELLER. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Ambassador Barshefsky and Ambassador Lord. We appreciate your being here today and staying for an extended period of time.

Ambassador LORD. Our pleasure. Thank you.

Ambassador BARSHEFSKY. Thank you.

The CHAIRMAN. Next on the schedule of witnesses is General Scowcroft. Unfortunately, due to illness, a virus, he is unable to join us this morning.

So we will move to our next panel of witnesses, which includes Mr. Richard Trumka, who is Secretary General of the AFL-CIO; Donald Staheli, chairman and CEO of Continental Grain Company, who also represents the United States-China Business Council; and finally Mr. Harry Pearce, chief financial officer and vice chairman of the board of Tyco Toys.

Gentlemen, please come forward. We will start with Mr. Trumka, and then proceed with Mr. Staheli, and finally Mr. Pearce. Welcome, gentlemen.

Mr. Trumka, please proceed.

Mr. TRUMKA. Thank you, Mr. Chairman.

The CHAIRMAN. Again, your full statements will be included. The hour is late. We do have a vote, I know, at noon, so we appreciate you abbreviating your statement.

Mr. Trumka.

STATEMENT OF RICHARD L. TRUMKA, SECRETARY-TREASURER, AFL-CIO, WASHINGTON, DC

Mr. TRUMKA. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, the AFL-CIO appreciates this opportunity to present its views on U.S. trade policy—

The CHAIRMAN. There will be order, please, in the committee room. All right. Please proceed.

Mr. TRUMKA. Thank you again, Mr. Chairman.

Mr. Chairman, the AFL-CIO appreciates this opportunity to present its views on U.S. trade policy towards China and its opposition to granting Most-Favored-Nation trading status.

This opposition, expressed for years to both Republican and Democratic administrations, is based on China's continued denial of basic worker and human rights, and a non-reciprocal, unfair trading relationship that is harmful to U.S. workers.

Despite 15 years of accommodation exemplified by the uninterrupted granting of MFN status, there is nothing today that suggests that China is willing to act in accordance with international trading rules or basic democratic principles.

Access to the Chinese market for U.S. goods and services remains severely and unfairly restricted, while the U.S. market is

open to an ever-growing volume of Chinese exports. Investment in China is conditioned on harmful export and technology transfer requirements. Intellectual property rights continue to be violated. Textile agreements are not honored.

These practices, together with the unwillingness of the United States to address them, has resulted in a massive shift in the balance of trade, with our country now suffering under trade deficits that reached \$34 billion last year.

I would point out that China's leading export to the United States, and a product category in which we have the largest deficit, is high value-added electrical machinery.

Unfair Chinese policies and the U.S. acceptance of them are hurting American workers. In 1994, for example, China violated a bilateral agreement by requiring production of domestic automobiles and parts as substitutes for imports with strict local content rules.

Before enacting this auto policy, China officially imported more than 300,000 vehicles. Two years later, imports had been reduced to tens of thousands. This policy has resulted in a significant worsening of the U.S. trade balance with China, with U.S. exports to China falling, and U.S. imports rising.

In 1993, just before the policy went into effect, the United States had a surplus in auto trade with China of \$521 million. In 1995, the United States ran a deficit of \$454 million, a reversal of \$1 billion in just 2 years.

The greatest concern the United States should have is the nature of the massive amount of U.S. investment in China, which I have illustrated in my submitted statement. The deficit could mushroom in a short time as this type of investment competes with U.S. production in both domestic and export markets.

While the public debate on MFN tends to focus on imports and exports, much of the passion in this discussion is a result of corporate decisions to use China as a low-cost production location.

They fear that real action on the part of the U.S. Government to combat China's unfair practices might jeopardize existing or planned investment, which some estimate to be as high as \$25 billion.

China has masterfully exploited this fear by conditioning access to the world's largest potential market on a whole series of investment performance requirements that include import substitution, export performance, trade balancing, technology transfer, local content, and domestic sales restrictions.

We should be clear that U.S. multinational companies, one of the major forces behind MFN extension, have adapted to these policies and invested billions of dollars in China, transferring not only capital, but valuable technology and jobs as well.

Using low-cost, oppressed Chinese labor, they are establishing or contracting with manufacturing export centers that compete directly with U.S. production. Their support for MFN extension is principally about protecting those investments and not about expanding U.S. exports, and employment, or promoting democracy in China. We have reached the point where the most ardent defenders of Chinese communism are U.S. capitalists.

Finally, no progress has been made in the area of human rights. Chinese prisons are filled with political and religious dissidents. Independent unions are banned. China continues to produce and export goods made in their forced labor system, Laogai, despite the bilateral agreement that was negotiated to end that practice.

As a former president of the United Mineworkers, Mr. Chairman, I am particularly incensed about the use of forced labor in China. There are literally dozens of coal mines where prisoners are forced to labor under inhumane conditions.

The largest asbestos mine in China is a forced labor camp. There are bauxite mines, magnesium mines, uranium mines, among others, where prisoners are used. Last year, the AFL-CIO helped Harry Wu expose a forced labor mine exporting graphite to the United States.

I am about to conclude Mr. Chairman.

The CHAIRMAN. Very good. Have you completed?

Mr. TRUMKA. I have just a summary of what we are asking for, 30 seconds.

The CHAIRMAN. Please proceed.

Mr. TRUMKA. Thank you.

We may not be able to change Chinese behavior, but certainly we should not be supporting it. Mr. Chairman, the AFL-CIO does not seek the isolation of China or the elimination of trade and investment.

We seek a relationship that will benefit working Americans, a relationship that puts the United States on the side of the oppressed, not the oppressors, a relationship where rules of trade are fair and equitable, a relationship that understands that this country has interests that are more important than the balance sheet of any individual company, and merely maintaining the status quo will accomplish none of those goals. Therefore, we urge and we support the disapproval resolution and the withdrawal of MFN status to China. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Staheli, please.

STATEMENT OF DONALD L. STAHELI, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CONTINENTAL GRAIN COMPANY, AND CHAIRMAN-DESIGNATE, UNITED STATES-CHINA BUSINESS COUNCIL, NEW YORK, NEW YORK

Mr. STAHELI. Thank you, Mr. Chairman, for the opportunity to meet with you and members of your committee here today.

In addition to being chairman and CEO of Continental Grain Company, I am the new chairman of the United States-China Business Council. That council is the principal organization of some 300 American firms engaged in trade and investment in the People's Republic of China.

Just a word about Continental Grain. It is a private global food company that serves customers in more than 100 nations around the world through 55 countries of facilities.

Continental has been active with China since making our first sale of U.S. grain in 1972, and over the past 15 years we have in-

vested in some 25 joint ventures in the PRC, mostly food-related, dedicated to improving the diets of the Chinese people.

Mr. Chairman, the United States-China Business Council's position in supporting renewal of MFN tariff status for China has not changed over the many years that Congress has debated that issue, and it is very much in line with your opening statement this morning.

In fact, if I could briefly state the position, we feel the need for the United States to maintain bipartisan support for a clear and consistent long-term policy toward China, and we think it is only through that consistent long-term policy that we can achieve a stable commercial framework that opens up markets to American exports and creates more jobs for American workers.

We believe the U.S. business community, with all of its diverse involvement in China, is one of the forces that can help to work more effectively toward that long-term liberalization that many of us seek.

The importance of our trade with China is reflected by the fact that each of the American presidents faced with this decision since 1980 has granted MFN trade status to China, even where there might have been some misgivings about individual issues.

Let me just make two or three brief observations and recommendations. First, the United States-China Trade Agreement of 1979 is a basic agreement on which United States-China economic relations have grown and flourished. The central commitment of that agreement is the reciprocal granting of MFN status.

Because of the growth in trade between our two countries since that agreement was signed, economic ties have become the keystone of United States-China relations. Members of our council have acted on the belief that the U.S. Government would honor that agreement.

Second, like many of you, we believe that the term "MFN" is misunderstood by a great many people. Mr. Chairman, you have noted earlier today that MFN is not a preferential or a specially favorable trade status, or a gift that has been bestowed by the United States on China or any other country.

In fact, the U.S. accords MFN to all but six of nearly 200 nations of the world. To deny MFN to China would put China in the category, from a U.S. point of view, of North Korea, Cuba, Afghanistan, and three others of similar economic stature.

Third, as you are aware, U.S. exports to China rose 27 percent last year alone, to approximately \$12 billion. Another \$5 billion in U.S. exports went to Hong Kong for re-export to China. These exports have produced an estimated 200,000 jobs for Americans.

Over the past decade, many U.S. companies have worked at all levels within China in perhaps a way that no other segment of the American society has done in recent years. The combined experiences and observations of these American businessmen can offer some perspective for policy makers. Let me cite just a few examples.

First, the emerging relationship between the United States and China requires a foundation of stability. Disagreements and disputes between the two nations will occur, but individual disputes

should not be the cause of a comprehensive breakdown of those relations.

Putting MFN up for review each year is counterproductive. It has become an annual crisis that tends to overshadow the longer term relationships that need to be developed between our two countries.

Second, American businesses investing in China have taken the longer view rather than the year-to-year basis on which MFN is renewed, with its constant threat of sudden economic disruption. I am sure that anyone can realize that investing in China is not a 12-month proposition. The paybacks are much longer term, and the risks are much higher.

Third, the recurring crisis over MFN enhances the competitive advantages of other nations, and I can imagine how our competitors abroad are feeling about these kinds of discussions today and otherwise.

My final, and perhaps most important point, is this. Revocation of normal economic and trade relations will do nothing to remedy the conditions and the forms of China's behavior that are often criticized in this country.

In saying that, we are not minimizing the differences or the frictions that exist, but we do believe it is time to commit to the cooperative trend that had been taking place in the 1980's.

It is not realistic to imagine that China is going to change its ways to suit the tastes of the U.S. Congress. It is far more likely that revoking MFN will lead to a further hardening of their position, both domestically and internationally. This will only deepen China's hostility to American influence on any issue.

In closing, Mr. Chairman, permit me to restate our view that good trade relations between United States and China will help our country achieve its overall objectives in the important areas of trade and human rights. Continued trade, along with continued dialogue between our government and that of China, will be much more effective in the long run than stopping MFN. We urge the Congress to support the President's position on MFN for China in the coming year.

Mr. Chairman, we heartily endorse your comments and the comments of other Senators, that we not only change the name of MFN, but that we not continue this annual ritual and debate, replacing it with normal trade relations supported by an aggressive policy of engagement between our two governments.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Staheli.

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

The CHAIRMAN. Mr. Pearce.

STATEMENT OF HARRY J. PEARCE, CHIEF FINANCIAL OFFICER AND VICE CHAIRMAN OF THE BOARD, TYCO TOYS, INC., MOUNT LAUREL, NEW JERSEY

Mr. PEARCE. Thank you, Mr. Chairman. My name is Harry Pearce, and I am vice chairman of Tyco Toys. I appear before you to speak on behalf of Tyco, as well as our industry association, the Toy Manufacturers of America.

Tyco is the third-largest toy manufacturer in the United States, with worldwide sales of over \$700 million. We employ 2,200 people

worldwide, about 1,200 in the United States, mostly in New Jersey and Oregon. Many of you, no doubt, are familiar with our Matchbox cars, our Viewmaster viewers, and our Sesame Street toys, among other products.

TMA, on whose board of directors I serve, represents 265 U.S. manufacturers and importers of toys, and these companies account for approximately 85 percent of all toy sales in the U.S. Toys are a \$50 billion global industry, and American toy companies are the leaders in inventing, producing, and selling toys around the world.

I am here to explain the tremendous stakes that Tyco and our industry have in trade with China, and the huge costs that revocation of normal trading status for China would have on our industry and American families.

Let me first tell you a little bit about Tyco. Thirty-five percent of our sales are outside the United States. We produce 25 percent of our toys in Portland, Oregon, and more than 50 percent in China.

Tyco's story is typical of our industry, which employs over 40,000 Americans, combining high value-added design, engineering, and sophisticated production processes at home with low-cost, labor-intensive production overseas.

This strategy was the only way we could remain competitive and sell toys to families in the United States and around the world at affordable prices, while minimizing the inevitable loss of low-skilled jobs in the United States. It has been a highly successful strategy. Today, American toy companies hold a global market share of over 50 percent.

Preserving that success is contingent upon maintaining MFN trading status for China. Before 1979 when the United States and China agreed to extend MFN status to one another, China produced no toys for the U.S. market. That is because the non-MFN tariff rate for toys was a prohibitively high 70 percent.

MFN brought U.S. tariffs on toy imports down to between 4 and 12 percent, and the Uruguay Round further reduced them to zero.

Over the past dozen years, American firms have invested heavily in China, building plants and teaching manufacturing skills. As a result, China has emerged to become the world's leading supplier of high-quality, low-cost toys. The United States imported \$5.4 billion of toys from China in 1995, accounting for more than half of all the toys American families purchased last year.

Were Congress to revoke MFN, our industry would suddenly confront 70 percent tariffs on most toy imports from our most important supplier. The impact would be severe. Prices would soar and toy sales would plummet, and many companies would go out of business. The burden of sanctions would be felt most acutely by families with low disposable incomes.

Our industry is not a special case. Other U.S. consumer goods producers and importers, including footwear, textiles and apparel, consumer electronics, and others, would face similar consequences if China's MFN status were to be revoked.

Next Monday, the Business Coalition for United States-China Trade will release a new study that estimates that the total cost to American families of revoking MFN for China would be \$27-29

billion per year. That is equivalent to an annual tax of about \$300 on each of America's 96 million households.

The jobs of many American toy industry workers, which are supported by trade with China (we estimate as many as 20,000), particularly in the States of Rhode Island, New Jersey, Oregon, California, New York, Massachusetts, Ohio, and Texas, would be put in serious jeopardy. Many more jobs in the importing, distribution, and retailing of toys from China would likewise be put at risk.

We want to impress upon you two final points. First, denying or conditioning MFN is a totally inappropriate tool with which to address our concerns with China. It is simply too blunt and devastating a weapon with which to pursue U.S. objectives.

Second, our industry's many years of experience in China have convinced us that America's interests will best be served by persevering in a policy of comprehensive engagement that every administration has pursued with bipartisan Congressional support since 1979. Through their presence in China, American firms have an important role to play in support of that policy.

MFN is the foundation for comprehensive engagement, and Congress should support the President's decision and the recommendation of Majority Leader Dole to renew unconditional MFN for China.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Pearce.

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

The CHAIRMAN. Mr. Trumka, China is seen as the fastest growing economy in the world. It has something like 20-25 percent of the world's people. Do you feel that we can afford to cut ourselves off from this expanding market, a result which many people believe will occur if the United States were to terminate Most-Favored-Nation treatment?

Mr. TRUMKA. No, Mr. Chairman. We do not think, and we have not advocated, that we cut off all relationships with China. In fact, we would look favorably and be interested in working with Congress on conditions of trade that we think would make trade with China more constructive and more fair to the American worker.

However, we are not presented with that opportunity with MFN. It is either a yes or a no vote. We would look for some of those conditions; we think it could be helpful.

However, the American worker fails to see how it benefits an American worker when a U.S. company shuts down a U.S. plant and invests that same plant in China, creates productive capacity over there, transfers technology and knowledge over there, and lays American workers off. We do not see how that, in fact, benefits the American worker.

What we would like to see, is a trade that is really beneficial to all of America; not the bottom line of Tyco, or any of the other companies that are doing business over there, but the American worker as well.

We have heard about jobs being created. Well, the deficit has also caused the loss of jobs. Nearly 600,000 jobs are lost with a \$34 billion trade deficit, Mr. Chairman.

The CHAIRMAN. Mr. Pearce, what is your answer to what Mr. Trumka just said?

Mr. PEARCE. Well, I certainly do not agree with him, for several reasons. First, ours is a global industry. We are one of the few industries where American companies have a leading global position. We hold that position because we are able to provide the high-skill content in this country.

We are the leaders in the marketing, design, and development of toys. That is where the high value-added emanates from, and we produce our products in the lowest manufacturing cost location in the world, which is China. As a result of that, we are able to increase the skill base in this country.

As I indicated, the majority of our people with the high-skill positions are in the United States. Were MFN to be eliminated, the more than 40,000 people that work in the U.S. toy industry would be sharply reduced.

The CHAIRMAN. What would happen if you no longer could secure the toys from China. Would that manufacturing currently done in China be brought home?

Mr. PEARCE. Well, Mr. Chairman, the majority of the low-skilled jobs left this country in the 1960's and went to Japan and Korea. Some of them went in the 1970's. In our company, for example, those low-skilled jobs were transferred to the Orient in the early 1970's. In the 1980's, those jobs migrated from Hong Kong and Taiwan to China.

Eliminating MFN from China would cause an immediate disruption to U.S. toy companies. Ultimately, those jobs, however, would transfer from China back to Taiwan, back to Korea, back to Malaysia, back to Singapore, back to Thailand. They would not come back to this country.

What it would do, however, is cause American companies to be at a complete competitive disadvantage, since all of Europe, all of Japan, and the rest of the world would continue to produce toys in China.

So the only thing that would result is the 40,000 toy industry jobs in this country would be significantly reduced. None of those jobs in China would come back to this country, they would simply migrate to other Asian countries.

The CHAIRMAN. Mr. Staheli, supporters of MFN for China argue that normal United States-China commercial ties helps create an environment in which political freedoms may take root. Yet in the last year China's human rights practices have arguably worsened. How do you respond to critics who say that normal United States-China commercial ties have not led to an increase in political freedoms is a misconception?

Mr. STAHELI. Mr. Chairman, if I may, let me go back to personal experience. I first entered China in 1979 in Shenzhen. At that time, there was nothing but dirt roads, no accommodations. I stayed in the general's barracks. I ate in a tin shack.

And, as we walked through the streets that evening at sundown, we suddenly realized that 25 or 30 Chinese were trailing us. As they came up and tapped the interpreter on the shoulder they said, "Could we talk to this big man?" and they were referring to me. And in their dialect they said, "Are you an American?" Yes. "Can you tell us what you eat in order that you have grown so big and so tall?"

That was their first acquaintance. If you take that compared to what has happened to China through the ensuing 17 years, I believe there have been mammoth, mammoth changes.

As a company we went into China, found that it was taking them 16 weeks to raise a chicken and it took 20 pounds of feed. We brought in new breeding stock. We raise a bird there now in 8 weeks for less than 10 pounds of feed. We have doubled the efficiency in half the time, and we are using completely Chinese laborers to do these jobs. We have some 20 joint ventures across China.

I think that through this relationship there has been such a tremendous improvement in the understanding in the economic vitality of the people which alone is tending to make people understand each other better. Sure, there are still some issues with regard to human rights, but I think it's through those understandings that we will improve over the long term.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Well, thank you, Mr. Chairman. I found each witness unusually informative. I have to say, Mr. Staheli, that I am sure there are still some issues regarding human rights. Now, sir, this is the last Stalinist state on earth, apart from North Korea. There are virtually no human rights in China. We can clear our minds of that.

We have a trading relationship we value and we make money out of. Fine. But let us not deny the reality of that society, nor the possibility that it will change. We are waiting for an election in Russia, that the AFL-CIO, in a long and persistent effort, helped to bring about.

I would say to Mr. Pearce, I was struck by the dynamic of international trade. In 1979, there were no toys exported from China. On the other hand, the phrase, "Because of China's industrious, quality-conscious, and low-cost labor force," well, I do not know how quality-conscious it is. It sure is low-cost, if you look at their wages. It may not stay that way, and Hong Kong and Taiwan indicate that it need not.

But I think, Mr. Chairman, when the AFL-CIO comes and speaks to us on these matters, they deserve respect and attention. Through the whole of this hideous century, they have been an implacable opponent of totalitarianism, of the Stalinist state, the fascist state.

They helped bring about the dissolution of Communism in Central Europe and in Russia, and business did not. It is not in the nature of business to do. But in the record of George Meany, Lane Kirkland, and now John Sweeney, is something we should be singularly proud of.

Also, I would wish we would not make it quite so mysterious, this place called China. It is not that mysterious. I remember being in Beijing Square in Peking, as it then was, as a guest, a representative of George Bush.

There were in Tiananmen Square three or four enormous flag poles, and on top of them a picture of Mao, a picture of Stalin, and then two hirsute Victorian gentlemen, Mr. Marx and Mr. Engels. They thought they knew everything about German romantic philosophy of the 19th century. If we do not, they did.

I would just simply make the point that I was struck by the table you gave us, Mr. Trumka. It is a fact that the first trade relations between the United States and China were the product of the Empress of China which cleared New York Harbor in 1790.

Its cargo was entirely ginseng, just wild roots, greatly prized then, and there still is a market in ginseng. We sent over roots and they brought back manufactured product called china. If you look at that on page seven, Mr. Trumka, that is pretty striking. What we sell them is fertilizers, cereal, cotton, fats, oils, pulp or wood. The one exception is aircraft.

What they sell us is electrical machinery, toys, footwear, articles of apparel, manufacturing goods. Now, mind you, we should not describe our agricultural products as simple. They are the result of extraordinarily sophisticated science and technology.

But, still, there is a pattern going on here which I think we ought to pay attention to. Mr. Trumka, I am sure you agree.

Mr. TRUMKA. I do, indeed, Senator. If you look at that table, it shows that we give them agrarian type things. We give them a lot of the exports that normally you would expect to come from a Third World country. They give us back manufacturing goods.

For instance, we give them slag and ash, and they send back articles of iron and steel. We give them hides, they send us back saddles and harnesses, those type of things. That is the exact type of thing that we talk about. There is a massive transfer of technology. My two colleagues here told you about that. They teach them how to grow chickens more efficiently and with less grain so they will obviously import less grain out into the future.

We are giving them all of the technology, we are building the capacity to manufacture there, and they are conditioning trade, in violation of all free trade agreements, on those type of things. They substitute things for us. Instead of imports, we have to build there. They have local content requirements. All of that is being ignored.

One thing that I did not say, Senator, that really should be said, is American consumers inadvertently subsidize the People's Liberation Army. They do business here.

Senator MOYNIHAN. Your testimony.

Mr. TRUMKA. Yes, it is.

Senator MOYNIHAN. You could not read it, but it is part of your text. Yes.

Mr. TRUMKA. It is. I was with Harry Wu in Las Vegas the other day, and he pulled out a pair of Bushnell binoculars and a Bushnell scope and said, these were made by the Chinese Liberation Army, and they are being bought here in the United States by consumers who are subsidizing that army unknowingly, and we have given them greater technology to build better optics for their military.

Senator MOYNIHAN. Thank you. I think, might I say, Mr. Chairman, that is a question that should be looked into, the manufacture and export of goods by prison labor or by the military.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Trumka, I am not sure how to solve this particular problem that you point out, if, indeed, it is a problem. We can discuss that a little bit. You have an extensive list, starting on page 12 of your

testimony, which includes Pfizer, Hewlett-Packard, Motorola, Archer Daniels, and McDonnal Douglas, and on and on, of American companies who are manufacturing in China.

Now, let us set aside, if we could, the slave labor part. You say that is a big jump to set it aside, but I do not think that that is directly involved with, say, U.S. manufacturers like AT&T, General Electric, or Hughes.

You voice considerable concern about the fact that Duracell is constructing a factory to produce batteries over there in China. But what is the difference between Hewlett-Packard producing a printer in China than Hewlett-Packard having a factory in Scotland? I have seen their factory in England, for example. Presumably they have got one in Australia, and all over the world, France, Italy, and so forth.

Now, we accept that. We believe that that can be a good thing for Hewlett-Packard to be producing over there. The development is done here and they sell over there, so it is all part of expansion of American industry. But somehow, you suggest, it is not right to do it in China. Could you briefly tell me what is wrong with that?

Mr. TRUMKA. Well, first of all, let me correct you just a tad. We do not necessarily agree that American corporations should be laying American workers off and producing anywhere else in the world. We would rather see them investing in workers here at home and doing what we do best.

Senator CHAFEE. So is it your position that General Electric should not have a plant overseas anywhere?

Mr. TRUMKA. Well, that would be the optimal solution, if we could produce them here. That would be what we would like. That is obviously not going to happen.

You asked me what is different about China and Scotland. There are several things that are different about the two of them. One, is the markets in Scotland are totally open to us. That is not true in China. Anything that you go in or out of is conditioned there. Try to sell them a pound of coal in China. I would ask you to do that.

The second thing is, the standards of living in Scotland—

Senator CHAFEE. In other words, the Chinese markets are not open. That is your first point.

Mr. TRUMKA. Second, the standard of living or the standard of wages is much different in Scotland than it is in China. There are numerous cases, instances where the minimum wage standard that is on the book in China, is not being complied with. That puts everybody, I think, at an unfair disadvantage around the world that also is unfair to the Chinese workers.

Now, we have negotiated a tremendous number of agreements with the Chinese, and you heard the Under Secretary say, well, the next problem we have is compliance.

I have negotiated with some employers like that in the United States; they agree to anything. Getting them to comply with it is a totally different matter, and we spend years doing that. In the meantime, we are disadvantaged.

Senator CHAFEE. It seems to me the point you are making, however, about the Chinese market being open, is an issue we are working on. The same argument is made about the Japanese mar-

ket, for example. Sure, it may ostensibly be an open market, but there is licensing and other requirements. You tick off those things yourself in your own testimony.

Mr. TRUMKA. Yes.

Senator CHAFEE. Licensing, and standards, and testing, and all those tests that prevent or hinder imports are, what we call non-tariff trade barriers.

Now, everything you say about low wages would presumably apply not just to China, but to Korea, to Taiwan, to Hong Kong, India, Ceylon, and so forth.

Mr. TRUMKA. Well, they are violating their own minimum wage rules in China. One other thing I intended to add. If you look at my testimony, on page 13 and 14 of the written testimony, you will see that McDonnal Douglas, for instance, who has transferred a number of jobs from St. Louis, Missouri over to China just the last couple of years, actually had their engineers working on military and air force projects in China.

Chinese officials sought Douglas' help in acquiring dual-use machine tools to further missile and special aircraft development. We think that is also a difference between Scotland and China, and that practice should not only be investigated, it should be eliminated.

Senator CHAFEE. All right.

One quick question of Mr. Pearce. If Hasbro were forbidden in some fashion by us to build toys in China, then either Hasbro would have to build them elsewhere, or Hasbro's European competitors would build them in China and sell them in the United States, presumably. Is that correct?

Mr. PEARCE. That is absolutely correct, Senator. If I may, if I may just take the opportunity for Senator Moynihan's benefit, I would like to explain, Senator, the statement that the U.S. toy industry produces the highest quality products in the world. There is a reason for that.

First of all, this is not just our opinion, it is supported by the Consumer Product Safety Commission statistics, and I would refer you to them.

Senator MOYNIHAN. No problem.

Mr. PEARCE. There is a reason for that. These toys are designed by U.S. engineers, U.S. marketers, and that is the reason that these toys are safe.

Senator MOYNIHAN. No problem.

Senator CHAFEE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, just permit me one off-the-subject observation to President Trumka. Your successor, President Roberts, I, and several others were at the White House yesterday with the President to celebrate the 50th anniversary of the agreement between President Truman, the U.S. Government, and the United Mineworkers in exchange for mechanization of the mines, et cetera, and other aspects, that there would be health benefits and pension benefits for miners, which is the very Coal Act which we have dealt with in this committee. The President reaffirmed his commitment to making sure that that is not changed.

That was just a little quiet propaganda, Senator Moynihan, that I thought that I would get out. [Laughter.]

I would say to the good Senator from New York, if you are looking for good ginseng, come to West Virginia, sir. We have the best.

Senator MOYNIHAN. There are arguments. Delaware County, New York is a preference among the Chinese elite, no doubt about it. [Laughter.]

Chairman Mao smoked only ginseng cigarettes from Delaware County. West Virginia is good. South Korean is terrible.

Senator ROCKEFELLER. I would say this to Mr. Trumka. There is no way to describe the human rights problems in China. I could go even further to say that if you had a central government in China which was effective—you do not now. There is this transition between waiting for the death of one man and for the rise of so-called more pragmatic bureaucrats. But it has not taken place. Power resides basically, many think, in the new emerging leaders in the military, and hence the whole Taiwan instance, and all of that.

But the evolution of Asian countries is odd and strange. I think in the case of China it is going to be very, very long, because it is very, very big and word from 500 years ago or today, word from central headquarters, is months, years getting out into some of the distant provinces.

But things can change in Asia. I can remember just a few years ago, the Japanese were saying, we will never allow the import of rice from America. It is almost spiritual and sacred to our meaning, the way we kept ourselves going during the war, and all the rest of it.

They are now importing Filipino workers in Japan to grow rice in Japan, because Japanese do not want to do it, because women do not want to live in the farm areas anymore, therefore young men do not want to live there. That is not a whole statement, but it is a true statement for part of that industry.

I can remember South Korea, under Sigmund Rhee and those who followed, was brutal in terms of human rights and dictatorship which was allied with us because of North Korea, et cetera.

But then all of a sudden there was a rise of entrepreneurial excitement in South Korea. Even, again, 5, 6, 7 years ago they had no unions. Then all of a sudden there were something like either 340 or 3,400 unions. There were unions everywhere. That was because people were getting a taste of prosperity, and, hence, what that meant in terms of the rights that went along with that prosperity.

Another issue. The Japanese talk about the keiretsu. They always take care of their own. They never fire workers, they always in-source from their own keiretsu systems. That is no longer true. The Japanese are now outsourcing to Southeast Asia. If it is a camera, it will be the original grinding of their lenses will not now be done in Japan, but will be done in other countries.

In Taiwan, when General Issimo came over from the mainland, that was a dictatorship with brutal human rights, and the Taiwanese were clobbered and kept out of sight, and people were killed. It was a horrible, horrible human rights debacle.

But, as their prosperity grew, gradually it became clear that there were a lot of Taiwanese and relatively few mainland Chinese,

and recently, as you know, they are not particular fond of unions, but they recently put into West Virginia 800 jobs for West Virginians in the contract, which, by definition in the contract, have to be union.

So I am just saying that there is the possibility and a certain experience in Asia with evolution, and that is the reason, plus the fact that it does not occur to me—and I am not being fair to you, because I am not giving you a chance to respond, and I hope the Chairman will allow that—how it is that by denying MFN, looking at evolution possibilities in Asia and the way business is done, that a country which has, in fact, treated, as Winston Lord said, other countries as barbarians, and generally thinks that way, China written in Chinese, is Middle Kingdom, Jung Wa. It means they are the center of the world, everybody else is irrelevant.

The evolution can happen. It will take a long, long time in China. There will be many sessions and accurate presentations of testimony on the lack of human rights, lack of access over the next decade or two decades. But by denying MFN, it is not clear to me that we speed up the process.

Mr. TRUMKA. Mr. Chairman, may I respond to that? I would very much like to, and make what I think is a very important point. My organization, the United Mineworkers, the union that I came out of, was an ardent opponent of apartheid, going back to the precursors of petit-apartheid in the 1940's. We adamantly opposed it.

We heard the notion of constructive engagement all along with South Africa and how it would move us to end apartheid. It was not until that action, that constructive engagement, was coupled with real action, real sanctions, that apartheid started to move at any rapid pace.

Now, I would urge you, you heard the Under Secretary say that we need leverage, we are looking for leverage. Do not give up one of the major bits of leverage you have and make MFN status permanent instead of going through "annual ritual and debate" of talking about this. This annual ritual and debate is a significant piece of leverage and will cause progress at a far greater rate than if you permanently make MFN status.

The other thing I might add is, Senator, we would welcome the opportunity to work with Congress to try to work on conditions for trade with China. We have said we do not want to isolate China. However, under the current system either MFN is granted or it is not granted.

Now, they put all kinds of conditions on us. All kinds of conditions on every company that does business over there. We do not. That is not a smart way to do it. The EC does it. They have quotas on China. It is the same China. They want to be engaged with them. They understand the potential of the China market. Yet they do it smarter than we do it. So if nothing else is heard, I say, please do not give up the leverage you do have by making MFN permanent.

The other thing I might add is, and this is a digression and it may be unfair because it is not in response to Senator Rockefeller's question, but in response to something one of my colleagues said, and if that is inappropriate, Mr. Chairman, I will just stop where I am. If it is not, then I will.

The CHAIRMAN. I think the time has expired, and we do have one more panel.

Mr. TRUMKA. Thank you, Mr. Chairman.

The CHAIRMAN. I want to thank all three of you gentlemen for being here today and contributing to the discussion, a most important discussion. Thank you very much.

Senator MOYNIHAN. Thank you very much.

The CHAIRMAN. Our last panel of witnesses includes Dr. Hungdah Chiu, who is professor of law and director of the East Asian Legal Studies Program at the University of Maryland; and Lodi Gyari, president of the International Campaign for Tibet; Mike Jendrzeczyk, Washington director of Human Rights Watch/Asia; and Henry Ma, who is a visiting professor of English at the International Technological University in Santa Clara, CA.

By way of introduction, I should add that from 1993 to 1995 Dr. Chiu served on the board of directors of the Straits Exchange Foundation, the key body in Taiwan that coordinates with China on common issues involving the Straits of Taiwan. From 1993 to 1994, Dr. Chiu was also minister of state in the Executive Yuan, which is the president of Taiwan's cabinet. Since 1991, Dr. Chiu has been a member of the Presidential National Unification Council of the Republic of China.

Professor Henry Ma was a participant in the June 4th movement at Tiananmen Square. It was the crushing of this movement for a freer and more democratic China by the Beijing government in 1989 that began the annual debates we have had on China MFN status over the last several years.

Welcome, gentlemen. We will, first, proceed with Dr. Chiu, and then go on with Mr. Gyari, then Mr. Jendrzeczyk, and finally Professor Ma.

Gentlemen, please proceed. Dr. Chiu.

**STATEMENT OF HUNGDAH CHIU, S.J.D. PROFESSOR OF LAW,
AND DIRECTOR, EAST ASIAN LEGAL STUDIES PROGRAM,
UNIVERSITY OF MARYLAND, BALTIMORE, MARYLAND**

Dr. CHIU. Thank you very much for inviting me to testify. I have been working on this China problem, especially international law issues, for many years.

In the first place, I must point out that in the 1975 agreement on trade relations between the United States and China, which provide the basis for reciprocal granting of Most-Favored-Nation status to each other, is provided that the agreement is for a 3-year duration and automatic renewal. This is provided in Article 10, Paragraph 2 of the trade agreement.

The trade agreement said this agreement should be extended for successive terms of 3 years if neither contracting party notifies the other of its intent to terminate this agreement at least 30 days before the end of a term.

However, since then the United States has put this trade Most-Favored-Nation status on an annual review basis and has created tensions in Sino-American relations. Whether this is a wise policy or not is subject to inquiry.

Since the granting of Most-Favored-Nation status to China, the trade between the United States and China increased very rapidly, as indicated in the table in my written testimony.

Now, although the United States' exports to China did not increase so rapidly as the Chinese exports to the United States, trade is still increasing. So the United States seems to continue to urge China to have greater market access.

Also, the problem recently is on whether to review China's Most-Favored-Nation status on the grounds that China has not improved its human rights situation and also continues violating the intellectual property rights and the United States' policy on nonproliferation of nuclear-related exports, and others.

However, the Clinton Administration has decided, according to a report on May 20, 1996, to extend the Most-Favored-Nation status for China. President Clinton said that, "Revoking MFN, in effect severing our economic ties to China, would drive us back into a period of mutual isolation and recrimination that will harm American interests, not advance them." He further stated that, "Our engagement policy means using the best tools we have, incentives and disincentives alike, to advance American interests. Engagement does not mean closing our eyes to the policies in China that we oppose."

On the human rights issue, Secretary of State Warren Christopher, in a recent speech, stated, "Trade and investment is helping to create a more open China, but we will not rely solely on the beneficial impact of increasing economic development to bring about progress on human rights."

Recent economic and legal reform have somewhat diminished the arbitrary power of the Chinese government over the daily life of its citizens, but grave human rights abuses continue, including the arrest of those who peacefully voice their opinions.

For a number of reasons to be stated, I support this policy of continuing MFN for China. First, the United States has no question to continue the MFN status for Russia. The basis for Russia's Most-Favored-Nation status is based on a 1990 agreement on trade with Russia, which is similar to that with China, despite the ruthless suppression of the Chechnya separatist forces and its human right abuses towards civilians in Chechen.

The human rights situation remains far from satisfactory in Russia, despite democratic political reform in Russia. This is indicated in the country report of the State Department on human rights.

While China remains an authoritarian state, its human rights situation remains unsatisfactory, but the government has taken some steps to raise the possibility of positive human rights development over the long term. This is, again, stated in the country report on human rights.

For that report, I would like to call particular attention to the recent local election at the village level in China. In China, there are more than one million villages, but at least they are beginning general elections in that area. I will quote from the country report on human rights.

It says, "The direct election for basic level or village government is legally sanctioned for all of China's one million villages."

Second, denying Most-Favored-Nation status for China will hurt Taiwan's economy, and also Hong Kong's. Taiwan is a full-fledged

democracy that recently experienced its first direct, popular, presidential election. But 17.5 percent of Taiwan's exports are to China.

So denying China Most-Favored-Nation status will hurt Taiwan, especially since Taiwan has about \$20-30 billion worth of investment in the mainland, somewhere around 25,000-50,000 enterprises. Most of those are company manufactured goods for export to the United States. Therefore, continued MFN status for China will also benefit Taiwan.

Finally, Secretary of State Christopher, in his May 17th speech, said, "Revoking or conditioning MFN will not advance human rights in China, but would damage our economy and jeopardize more than 200,000 American jobs. It will also harm Hong Kong, which is why legislative leader Martin Lee, and Christopher Patton, Governor of Hong Kong, have recently supported Most-Favored-Nation status for China."

Finally, I would like to quote a brief passage from a Taiwan business leader, Jeffrey Koo. He wrote in the Wall Street Journal, "No country has a larger interest that Taiwan in seeing prosperity take hold on the mainland. For prosperity will help push mainland China into becoming a responsible member of the international community, abiding by international laws, including protection of human rights."

MFN is a useful tool in steering the PRC on the path to prosperity, and eventually democracy. That is a long-term outcome that would benefit everyone, Taiwan, the United States, the Asian Pacific region, and most of all, the Chinese people on the mainland."

Thank you.

The CHAIRMAN. Thank you very much, Dr. Chiu.

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

The CHAIRMAN. Mr. Gyari.

STATEMENT OF LODI G. GYARI, PRESIDENT, INTERNATIONAL CAMPAIGN FOR TIBET, WASHINGTON, DC

Mr. GYARI. Chairman Roth, Senator Moynihan, once again I am very grateful to have this opportunity to testify before your committee. As I testify today, the situation in my country is very bad. In fact, we are going into a period almost like the period of the cultural revolution.

Once again, there is denial of freedom of religion to the Tibetan people, monasteries have been shut down, monks are being shot. In fact, even the rhetoric that is coming out is one that you heard during the cultural revolution.

In my belief, this could have been avoided if the U.S. Government was wise to use MFN as leverage. This happened, I think, because of President Clinton's decision to delink human rights with MFN.

Again, I want to make it very clear that I am not here to urge you to isolate China. Certainly not. In fact, His Holiness the Dalai Lama, long before many of the western nations have even had relations with China, was urging that such an important nation as China cannot be left out, that it should be included in the family of nations. We continue to do that.

But I think the way that is being done day is not, in the long run, even helpful to China. I think it was Senator Rockefeller who

said that the Chinese believe that they are the center of the universe. They certainly do. I think what we all do, including the acts by the U.S. Government, is make the Chinese believe that they are the center of the universe.

The fact is, today there are many centers. Each one of us is center. For us to make anyone believe it, in the long run, is not going to even help that person or the nation who thinks they are the center of the universe.

So I think that is the policy of the U.S. Government with regard to China. On the whole, I think it is one policy that is always in confusion, that is always ad hoc. I really want to urge that the United States should use its leverage wisely, with long-term interests.

Also, I quite often hear that by denying MFN—first of all, we are not in favor of revoking MFN. We have never in the past urged this, and I am also not here today to urge that it be revoked. But it must definitely be used as leverage. This is important leverage which must be used.

One of the earlier panelists also talked about South Africa, and I want to echo what he has said. Even in South Africa, there was that school of thought of constructive engagement. In the end, when the western nations, including your great Nation, started using economics as leverage, then fundamental changes in South Africa happened. I think this certainly could be applied with regard to China.

Yes, it is true that by opening up economically, China is changing. I do not deny that. That should happen. But is that enough? I do not think so, because some people give the example of Singapore, a small island nation, and say, look at what happened to Singapore, so, therefore, something can happen in to China. Well, there are some similarities, but you cannot compare the tiny state of Singapore with the vastness of China. There are many complexities which I think are different.

So I do feel that is very important, and we do look to the Congress, since once again I think President Clinton, by announcing extension of MFN unconditionally, is being directed towards the wrong policy.

So, therefore, I am here to urge that now that Congress wishes the other part of the government should be farsighted, should be wise, should be able to use this most important leverage to help the Chinese people, to help Tibet.

One of the things that the Chairman and Senator Moynihan know very well is that we have always been urging for negotiations with the Chinese government to solve the issue of Tibet.

Historically, Tibet has always been an independent nation, which even the Chinese historians do not deny. But the Dalai Lama, in his wisdom, has even agreed not to insist on total independence for Tibet, provided the Chinese government is willing to allow the Tibetan people to maintain its own identity, maintain its culture, maintain its religious rights, because we do believe that our culture has something to share with everyone. But even that is not being reciprocated simply because the leverage is not being applied correctly by the U.S. Government.

So I have my written statement, which I will submit for your consideration. But I want to be brief in my remarks, because I

think the Chairman and Senator Moynihan, I am sure, will have specific things they would like to learn from us, which I think will be much more enriching for the committee, as well as for those of us who are here on this panel.

So, since the Administration has once again failed, I am here to urge that the Congress take the lead in making a wise decision which will help the Chinese people.

I want to remind you, the Chinese people are governed by a few people in the politburo today. Just the other night, once again, I was watching PBS and I am sure some of you may have seen this long program about Tiananmen Square. I am convinced that, in the heart of the Chinese people, there is the same yearning that I have for freedom and democracy.

And I think that is the way the United States should stand, not with the dictators, not with a few handful of people who today have the power. Do not make a mistake, because I think the United States has put its eggs in the wrong basket in China in the past many times. I do hope that you will not make the same mistake again, which I think will be a big mistake for everyone.

Thank you very much, sirs. Thank you.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Now, Mr. Jendrzejczyk.

**STATEMENT OF MIKE JENDRZEJCZYK, WASHINGTON
DIRECTOR, HUMAN RIGHTS WATCH/ASIA, WASHINGTON, DC**

- Mr. JENDRZEJCZYK. Yes. Thank you, Senator, both for inviting us to testify, and for pronouncing my name correctly. I very much appreciate it.

My name is Mike Jendrzejczyk. I am the Washington director of Human Rights Watch/Asia. This week, Mr. Chairman, marks the seventh anniversary of the massacre in Tiananmen Square in 1989, and the subsequent crackdown of pro-democracy students and workers across China.

Most of the sanctions imposed against Beijing since that brutal event have been lifted, and I think it is fair to say that China's leaders have made rather rapid progress in shaking off the stigma of Tiananmen Square.

They have aggressively sought China's acceptance and full integration into the international community as a great power, despite China's dismal human rights record. Using access to China's markets and investment opportunities, the Chinese government has largely insulated itself from effective international pressure to improve human rights.

The United States and the other G-7 countries, lacking a coherent multilateral approach for promoting human rights and the rule of law in China, have been subject to lobbying and manipulation as Beijing plays off one major trading partner against another.

Though President Clinton has delinked trade and human rights, China clearly has not. Beijing successfully used, for example, the prospect of a huge Airbus jet deal to silence the French government on human rights when Premier Li Peng visited Paris in April.

During months of lobbying worldwide, China used trade and aid deals to line up votes at the U.N. Human Rights Commission in

Geneva, where a procedural motion was adopted by the commission, preventing a resolution on China and Tibet from even being debated or voted upon.

I believe the Clinton administration and the European Union deserve credit for co-sponsoring that resolution, but its defeat clearly underlines the need for a coherent, multilateral strategy among all of China's chief trade and aiding partners to promote human rights that Beijing cannot so easily undercut with its economic clout.

Mr. Chairman, we have all said today that no one wants to isolate China, and certainly we share the broad objectives the President outlined in his speech to the Pacific Basin Economic Council.

However, we do not agree with the President's assertion that its engagement policy, whatever its other merits, offers a viable strategy for helping to bring about improvement in China's human rights practices.

We do believe that the annual MFN renewal process does provide a useful opportunity for Congress to scrutinize United States-China policy and to focus attention on China's horrendous human rights record.

Change the name, Senator Moynihan, of Most-Favored-Nation trading status, but please maintain the law and the process.

We also believe that it is premature to do away with this annual renewal, since nobody knows what is coming around the corner, that is, after Deng is gone. We need this renewal process, I believe at a minimum, as an insurance policy for the future.

We have consistently taken the position that various forms of economic and political pressure are needed to promote human rights in China and Tibet, and that the United States should exert that pressure, both on a bilateral and a multilateral basis.

Unfortunately, the Clinton administration has virtually nullified the impact of any direct linkage between MFN and human rights, such as by attaching conditions. It did so by undermining and then repudiating its own previous policy of linkage, with the President's Executive order of 1993.

However, Mr. Chairman, we would like to briefly make a few recommendations for the kinds of strategies we think the United States can and should pursue.

First, we think the United States should seek to limit the flow of World Bank loans to China for non-basic human needs projects by exerting the kind of informal leverage we have used in the case of Iran, and previously the case of Vietnam. As of this June, the World Bank will give \$2.9 billion for the past fiscal year to China, more than any other government in the world.

We also think the Administration should try to channel World Bank funds towards constructive solutions to solve serious social and human rights problems in China, such as those affecting millions of migrant laborers.

Second, we think Congress should insist on having a vote on U.S. support for China's bid to join the World Trade Organization. We believe Congress should require the President to certify that China has implemented certain specific human rights and trade reforms, demonstrating Beijing's willingness to comply with global rules and standards.

It is simply impossible, Mr. Chairman, to separate China's behavior as a reliable trading partner from its willingness to comply with human rights norms. A government that routinely violates its own laws to crack down on dissidents is equally willing and able to cheat on an IPR agreement, not to honor a contract with a foreign investor, or to restrict information through business services or the Internet coming into China from outside the country.

Third, Mr. Chairman, we propose that relations with China be on the agenda for the G-7 meeting coming up later this month in France. We understand this is now actively under discussion.

As China goes through this critical transition process, this is a strategic time to send coordinated signals. In addition, the future of the rule of law and democratic government in Hong Kong is at stake next year.

We hope the G-7 final communique or chairman's statement will include strong language calling for significant improvements in human rights in China and Tibet, and full compliance with the 1984 Joint Declaration in Hong Kong. In addition, we hope the G-7 will use this as an opportunity to privately devise benchmarks and a cooperative strategy for promoting human rights.

Finally, Mr. Chairman, we are in favor of greater dialogue with the government of China. However, we do not believe the Administration should be offering at this point a summit meeting between President Clinton and President Jiang Zemin unless China first makes serious improvements in human rights. We hope this will be part of the agenda next month when Secretary Christopher meets with the Chinese foreign minister, and when Anthony Lake travels to Beijing in the next few weeks.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Ma.

STATEMENT OF HENRY MA, VISITING PROFESSOR OF ENGLISH, INTERNATIONAL TECHNOLOGICAL UNIVERSITY, SANTA CLARA, CALIFORNIA

Professor MA. Mr. Chairman, it is a great honor for me to have this opportunity to share my opinions with you and the members of the Finance Committee on why renewing China MFN unconditionally is so important.

My name is Henry Ma. I am a visiting professor at the International Technological University in Santa Clara, CA. I am completing my Ph.D. in computer software engineering at ITU, and I also work there as a head of the Administration office and a number of training programs.

Before I came to the United States, I taught English in Ili Teachers' College in Xinjiang, China. In 1989, I lived in Beijing from January to June. During that time, I participated in what has come to be called the June Fourth Movement at Tiananmen Square.

From its very start until its tragic end on June 4, all of us who took part in the June Fourth Movement were there to fight for a

freer, more democratic China. We were also there to fight against corruption and degeneracy for the Chinese government.

I believe we had the support of the majority of the Chinese people. In fact, on May 18, 1989, almost one million Chinese people participated in one of the Movement demonstrations. Even with a demonstration of that size, the government, at that time, did not intervene at this Movement.

Within a few short weeks, however, some participants in the Movement took actions which the Chinese government felt went too far. The government then believed it had an excuse to take severe measures, including using the army, to putting a violent stop to the movement.

Since that terrible day of June 4, 1989, people such as myself have had the chance to reflect on the Movement, its aims and its achievements, and what we were fighting for. Faster development of democracy and human rights, and an end to state corruption were our worthy goals.

Unfortunately, the violent end to the Movement, so tragic itself, has resulted in too many people in this country mistakenly believing that our goals of improving human rights and encouraging greater democracy can only be achieved by revoking China's Most-Favored-Nation trade status.

Certainly, the government in Beijing will take notice if the United States revokes China's MFN. However, the consequences of revocation will not further aims of the June Fourth Movement. In my opinion, in fact, revocation would work against evolution of democracy and human rights in China.

To understand why this is, it is important to understand a little bit about Chinese culture. Revoking China's MFN will make Beijing close its door to the United States. If this happened, the Chinese people would no longer be able to know about the United States, and the United States no longer would be able to influence China directly.

The Chinese government often declares that the human rights of the Chinese people have improved greatly. This claim is true, if the standard of the comparison is the time of the cultural revolution in 1966, or even the economic opening in 1978. However, these standards provide a dated measure of the human rights situation in China.

The fact is that the Chinese people do not enjoy many of the most basic human rights that any nation should give to its citizens. The United States has to let the Chinese people and the Chinese government know this. The only way the United States can send that message is to keep the door to China open and to expose the Chinese people and the Chinese government to what freedom, democracy and human rights really mean.

Once the Chinese people and the Chinese officials have a better understanding of these things, it will be much easier to help China improve its record in these areas.

In my own experience leading some training programs at my university, I have sometimes worked with business executives and officials from the Chinese government. After they have been exposed to the United States, they always tell me how much they have

learned from the experience and how much better they understand the meaning of democracy and human rights.

If the United States revokes MFN, the Chinese government will shut the door to the United States. Then America's ability to help China make progress toward democracy and the improvements in human rights will end. I do not want to see this happen.

MFN is a basic element for economic relations among the countries. In fact, I believe MFN is related to the basic interests of the people of any country, even to what I consider basic human rights for economic opportunity.

Revoking China's MFN will hurt the interests of both Chinese people and the American people. I must state here again that I am not happy with any violations of human rights of Chinese people, and I am also opposed to the violation of intellectual property rights, and the illegal and corrupt behavior so widespread in China. But MFN is a separate, independent issue from human rights, intellectual property, and corruption.

The U.S. Government should extend China's MFN without any conditions. In doing so, no one should think the United States is not serious about violations of human rights, intellectual property, and any other actions by China.

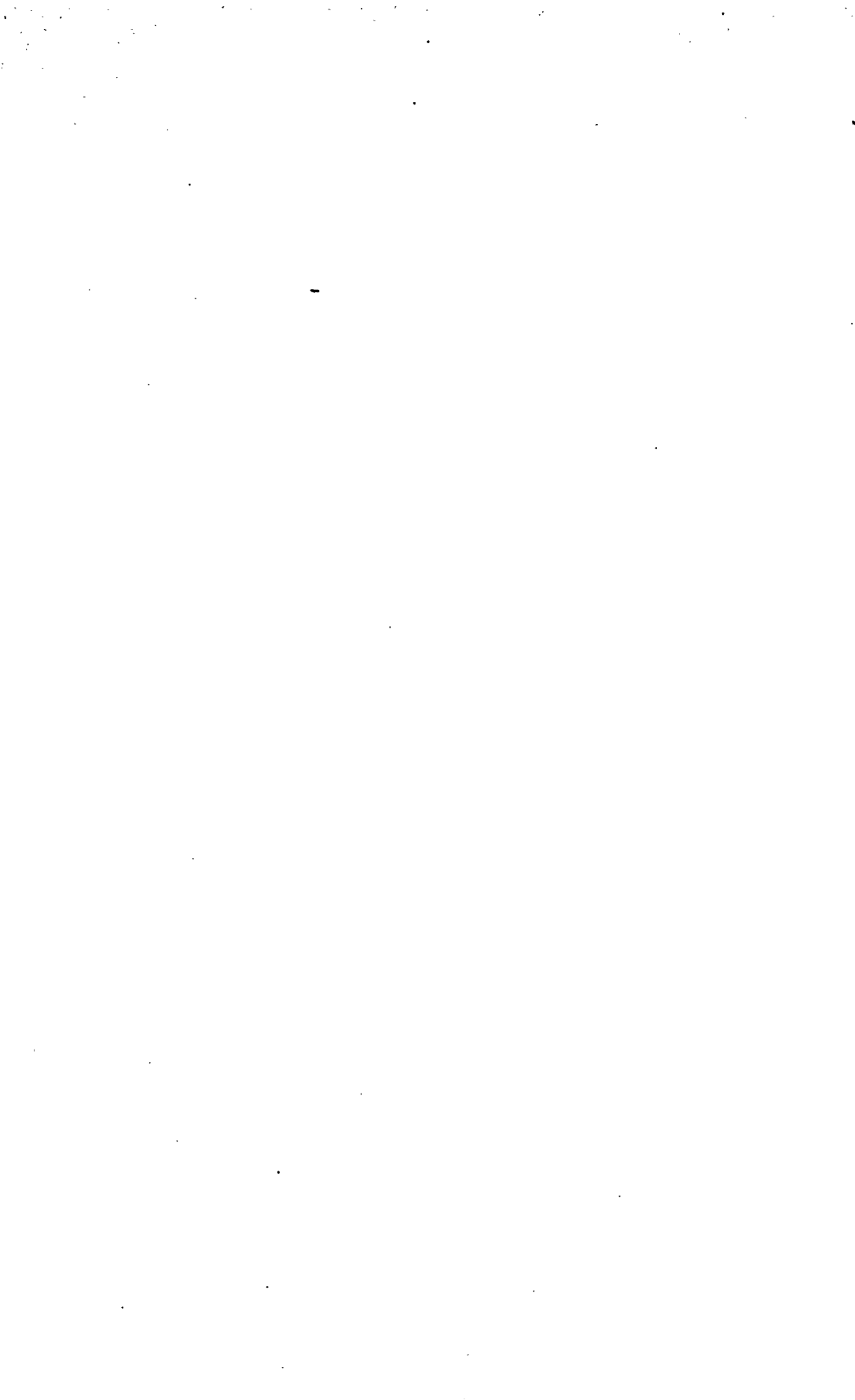
Senator MOYNIHAN. Mr. Chairman, Mr. Ma is making a brilliant point, but I fear that we are 15 minutes into a roll call vote on a constitutional amendment. I cannot but suppose that you would want to make that vote, and indeed, that Senator Dole would be disappointed in the extreme if you did not. But this is wonderful testimony.

The CHAIRMAN. I apologize. Your full statement will be included, and I wanted to say that your testimony has been most helpful. I regretfully say that we have to go and vote.

Thank you very much, gentlemen.

[The prepared statement of Professor Ma appears in the appendix.]

[Whereupon, at 12:15 p.m., the hearing was concluded.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY

Mr. Chairman, it is a pleasure to appear before this Committee today to discuss the U.S.-China relationship and the question of intellectual property rights enforcement.

It is an understatement to say that the U.S.-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, and are critical when basic international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection. And increasingly, trade plays a central role in our relationship.

Make no mistake about it. Americans have a commercial stake in China. At least 160,000 Americans owe their jobs to U.S. exports to China. Just as we should not make apologies for China, we should not apologize for our economic interest in China.

China is the world's fastest growing major economy, with annual growth rates of more than 10 percent for each of the past four years—and average growth rates of greater than 7 percent for each of the past fourteen years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

On Friday, the President sent to Congress the formal waiver recommending extension of unconditional MFN to China for another year. The United States' interests in China are best promoted if we maintain MFN as the foundation for our trade relationship.

Mr. Chairman, we will never achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange—they occurred in times of isolation. President Clinton believes we must remain engaged with China.

But let me be clear about what we mean by engagement. President Clinton came to office with the strong view that engagement with China does not mean ignoring our differences. It means we actively engage China to resolve our differences and it means protecting our interests when consultations are not fruitful.

When the President decided to delink human rights and MFN two years ago, he said that we were prepared to use a whole array of legislative and administrative methods to address specific issues with China. With respect to trade, as the President has repeatedly said, we welcome foreign products, but insist that our products be treated fairly overseas. When other countries do not live up to their obligations, we will take action. More than three years ago the President affirmed that, "We must enforce our trade laws and our trade agreements with all the tools and energy at our disposal." We have used all of the tools at our disposal to open China's market.

One area of immediate difficulty, of course, is China's lack of satisfactory implementation of the 1995 Intellectual Property Rights Enforcement Agreement.

Mr. Chairman, as you are well aware, last month the United States announced the publication of a \$3 billion preliminary retaliation list targeting Chinese exports to the United States. This action set in motion a 30 day clock before final action occurs. Today and tomorrow, USTR is holding public hearings on the retaliation list. Following this period for public comment, we will prepare a final list with a value of approximately \$2 billion—a figure commensurate with the damage inflicted on

U.S. industries. Barring satisfactory implementation of the IPR Enforcement Agreement by China, the final list will go into effect on June 17.

We do not take the move toward retaliation lightly. China has taken certain actions to improve IPR protection particularly in the retail sector. Over the past year, China has carried out more than 4000 raids and destroyed approximately 2 million pirated CDs, and hundreds of thousands of pirated books, audio cassettes, and trademarks. Some IPR court cases involving foreign rightholders have also been resolved successfully over the past year.

China has also established a nationwide IPR enforcement structure as required under the Agreement—a system of more than 30 provincial and municipal level task forces comprised of enforcement agencies and the police. The system—designed to target piracy, levy stiff fines, and remand infringers for criminal prosecution—is working in some localities. In Shanghai, for example, officials have made IPR protection a priority and have taken effective action to clean-up the city's markets. Clearly, where Chinese officials have demonstrated resolve, they have shown that piracy can be brought under control.

Despite these measures, China has not enforced key areas of the agreement, including halting piracy at its source. As a result, important American industries and broader American and international interests are getting hurt. Last year, China exported approximately 50 million pirated CDs, CD ROMS, VCDs, and LDs to the world. Today in Hong Kong and elsewhere, \$10,000 software packages can be purchased for as little as \$5. Pirate versions of Microsoft's Windows 95 were on sale in China before it was officially introduced. Motion pictures are often pirated and available on VCD disks before they are released in the United States.

The affect of this activity on the U.S. economy is clear. U.S. copyright industries alone represent more than 5 percent of the U.S. work force—roughly equal to the U.S. auto industry—and are growing three times as fast as the rest of the economy. The copyright industries contribute more than \$350 billion a year to the U.S. economy, accounting for more than 6% of GDP. The U.S. computer software industry alone maintains a 75% market share worldwide and created almost 60,000 jobs last year. When China pirates American products, it denies the ideas, the enterprise, and the jobs of these American companies and the workers they represent.

China must take four key actions to remedy the current IPR situation and implement the IPR Agreement:

First, action against the factories involved in the production of pirate CDs and CD-ROMS. We have an aggressive strategy with China to ensure—to the best of our ability—that all CD factories in China are producing legitimate CDs, LDs, CD-ROMs, and Video CDs. The IPR Agreement that we have in place with China calls for the clean-up all factories producing pirated products. We have targeted the worst offenders and have asked the Chinese to close down these factories immediately. In addition, we are working with the Chinese Government to ensure that the remaining factories are cleaned-up or closed down. The point is that we need to see a comprehensive system in place to crackdown on piracy in China.

Second, intensify enforcement in areas of China where piracy continues to be rampant, such as Guangdong Province. While China has raided retail establishments extensively, regions such as Guangdong continue to engage in rampant piracy. Manufacturers and distributors have remained untouched. Major pirates have not been punished, and prosecutors remain reluctant to tackle copyright infringement cases. Penalties are rarely sufficient to deter piracy—for pirates they are now simply a part of the cost of doing business.

Third, take effective action to protect intellectual property at China's borders—particularly seizures of bulk cargo shipments. Exports of pirated products—mainly from Southern China through Hong Kong—result in huge losses for U.S. companies in third country markets. China's Customs Service has conducted more than 1000 seizures, but mainly against foot traffic at the border. China has yet to target cargo shipments—the primary export method for pirated CDs.

Finally, permit market access for U.S. computer software, sound recording and motion picture products and companies. China has not yet fulfilled any of the major elements of the market access commitments that it undertook in the IPR Enforcement Agreement. Although China has entered into some revenue-sharing arrangements, U.S. filmmakers still face de facto quotas in China's markets. China has yet to issue regulations allowing the establishment of joint ventures for production of audiovisual products, including the signing and promotion of local artists, as well as other market access steps.

Actions in these areas, all required by last year's agreement, will establish the foundation for bringing the rampant piracy under control. China knows exactly what it must do to get back on the compliance track. The issue now is for China

to take concrete and verifiable action to reduce piracy at its source and at its borders.

Let me make two final points on this issue. First, the United States has gone the extra mile to help solve this problem. Since the signing of the agreement last year, we have sent eight delegations to China and its provinces and conducted more than thirty senior level meetings. At the request of the Chinese government, we have a team in China this week for consultations. The United States has also provided technical assistance in support of this effort. Key U.S. law enforcement agencies have provided assistance to the Chinese including the Department of Justice, the FBI, the Customs Service, the Patent and Trademark Office, the U.S. Information Agency, and USTR. Additionally, the U.S. private sector has hosted literally dozens of training seminars throughout China. In fact, our companies have gone so far as to donate computer equipment and software to the Chinese customs service.

Second, the IPR issue has significance beyond bilateral relations between the United States and China. As the world's fastest growing market, whether China enforces its trade obligations matters for everyone. We are not the only nation for which the protection of intellectual property rights is important and this is well known to China. We have not asked China to do anything more than what other Asian nations are already doing—indeed what China has already agreed to do. The vitality and success of the global trading system depends on everyone living up to their obligations.

We urge China to take the concrete actions necessary to demonstrate its firm commitment to the Agreement and ensure its implementation. There is time for this to happen before sanctions go into effect. We are prepared to work with the Chinese toward that end. But it is decisive action against piracy that China must now take.

Mr. Chairman, the U.S.-China relationship is as important as any bilateral relationship in the world. But the opportunities in our relationship with China must run in both directions. For China, the potential of the U.S. market is matched by a tangible reality. Roughly one third of China's exports go to the United States, including tens of billions of dollars worth of electronic machinery, textiles, footwear and an ever increasing volume of higher value added products. In addition, Chinese companies—like all foreign companies—are allowed to establish freely in the United States. No one restricts their right to do business with American customers.

For the United States, it is certainly true that China offers unmatched potential. Unfortunately, while progress has been made, for the United States, the potential of the China market remains unfulfilled in many respects. While the United States accepts one third of China's exports, China accounts for less than 2 percent of U.S. exports and maintains highly restrictive import policies. China must further open its markets. The first step is to ensure compliance with commitments already made.

We have an opportunity to bridge important gaps in our relationship, so that benefits travel in both directions. To make this potential a reality, the United States stands ready to do its share. Renewing MFN, along with a broader engagement strategy, is critical to building a long term, stable relationship with China. But China, too, must bear its share. It must respect international norms, open its markets, and fulfill the commitments it makes. Mutual prosperity depends on this.

RESPONSES TO QUESTIONS FROM SENATOR MURKOWSKI

Q. Ms. Barshefsky, I am interested in the status of both the Republic of China's (ROC) and the People's Republic of China (PRC) bids to join the World Trade Organization (WTO). Could you please tell me where both bids presently stand in the accession process?

A. China and Taiwan are among 30 countries and customs territories seeking accession to the World Trade Organization (WTO) at this time. The WTO accession process does not operate under fixed deadlines. The only standard for completion is when WTO Members collectively agree with the applicant on a commercially viable package, including an assessment of the applicant's conformity with WTO rules. Efforts continue, both in bilateral discussions and in the multilateral Working Parties established to conduct these accessions, to achieve agreed terms for both accessions.

China: The United States and other major WTO Members have taken the position that China's membership in the WTO must be on the basis of a commercially viable accession agreement and on terms that are consistent with WTO provisions. The United States will continue to work with other WTO Members and with China to achieve an accession that meets those objectives. China's GATT Working Party first met in early 1988. In 1995, China formally applied for membership in the WTO. A draft framework for a Protocol of Accession was first introduced by the Working Party Chairman in 1994, and China has made offers on Goods and Services Market Access. On this basis, the negotiations are well underway. The United

States and other WTO Members negotiating China's accession have indicated there must be better offers from China on market access in goods, services and agriculture. In addition, a number of important protocol issues, including but not limited to, the right to trade, national treatment of imports in the Chinese market, the removal of nontariff measures, conditions of agricultural trade, and China's industrial policies, remain unresolved. Completion of China's accession process requires that these and other important issues be addressed.

Taiwan: The United States strongly supports Taiwan's accession to the WTO on the basis of a commercially viable accession agreement and on terms that are consistent with WTO provisions, i.e., on the same basis as all accessions. Since the initiation of substantive negotiations in April 1993, we and other delegations have made significant progress. There have been seven Working Party meetings where the issues related to Taiwan's accession, first to GATT and now to WTO, have been discussed. In addition, the United States and twenty other WTO Members have engaged in bilateral negotiations with Taiwan on protocol issues and for commitments for Goods and Services Market Access. Bilateral contacts with the United States and other interested WTO Members continue, and our own negotiations are well advanced. There are, however, a number of key issues that remain unresolved in Taiwan's accession, involving not only the United States but other WTO Members. These include, but are not limited to, issues relating to tariff and nontariff barriers to market access for agricultural products, reform of Taiwan's trade regime in the area of alcohol and tobacco products, Taiwan's membership in WTO Agreements concerning Civil Aircraft and Government Procurement, services market access (including the status of foreign lawyers) and protection of intellectual property under the WTO Agreement.

Q. It is my understanding that the Administration has supported the ROC bid to join the WTO on its own merits, *without specific linkage to progress on the PRC bid*. I would like your assurance that this remains the case. We should not hold one of our strongest allies and trading partners in Asia hostage to China's entry.

A. The U.S. believes all WTO accessions should be conducted and approved on their merits. Taiwan has, so far, done a good job of demonstrating its ability to meet WTO obligations and progress on a number of issues has been achieved as a result. We remain committed to completing Taiwan's accession negotiations on commercial terms and seeing them a Member of the WTO as soon as possible. The timing of Taiwan's accession depends on a number of factors, including agreement on outstanding issues noted earlier. Beyond that, it should be understood that the timing of Taiwan's WTO accession cannot be resolved by the United States alone. WTO approval of accessions is a multilateral process, and requires that all current Members agree to the terms of accession negotiated.

GRANTING MOST-FAVORED-NATION STATUS TO CHINA IN 1979

A few months after the United States established diplomatic relations with the People's Republic of China on January 1, 1979, both countries signed an agreement on July 7, 1979 regarding trade relations.¹ Article 2, paragraph 1 of the Agreement provides for the mutual granting of most-favored-nation (MFN) treatment in trade as follows:

1. With a view to establishing their trade relations on a nondiscriminatory basis, the Contracting Parties shall accord each other most-favored-nation treatment with respect to products originating in or destined for the other Contracting Party, i.e., any advantage, favor, privilege, or immunity they grant to like products originating in or destined for any other country or region, in all matters regarding:

(A) Customs duties and charges of all kinds applied to the import, export, re-export or transit of products, including the rules, formalities and procedures for collection of such duties and charges;

(B) Rules, formalities and procedures concerning customs clearance, transit, warehousing and transshipment of imported and exported products;

(C) Taxes and other internal charges levied directly or indirectly on imported or exported products or services;

(D) All laws, regulations and requirements affecting all aspects of internal sale, purchase, transportation, distribution or use of imported products; and

(E) Administrative formalities for the issuance of import and export licenses.

¹31 UST 4651 Part 6, at 4651-4661 (English text), 4662-4668 (Chinese text); TIAS 9630; 1202 UNTS 179.

The agreement provides in Article X for a three year duration and automatic renewal as follows:

1. This Agreement shall come into force on the date on which the Contracting Parties have exchanged notifications that each has completed the legal procedures necessary for this purpose, and shall remain in force for three years.

2. This Agreement shall be extended for successive terms of three years if neither Contracting Party notifies the other of its intent to terminate this Agreement at least 30 days before the end of a term.

3. If either Contracting Party does not have domestic legal authority to carry out its obligations under this Agreement, either Contracting Party may suspend application of this Agreement, or, with the agreement of the other Contracting Party, any part of this Agreement. In that event, the Parties will seek, to the fullest extent practicable in accordance with domestic law, to minimize unfavorable effects on existing trade relations between the two countries.

4. The Contracting Parties agree to consult at the request of either Contracting Party to review the operation of this Agreement and other relevant aspects of the relations between the two Parties.

JACKSON-VANIK AMENDMENT AND CHINA'S MFN STATUS

Despite the entry into force of the U.S.-China Agreement on Trade Relations on February 1, 1980,² the Agreement was concluded pursuant to the Trade Act of 1974³ which includes the so-called Jackson-Vanik

²*Treaties in Force*, A List of Treaties and Other International Agreements of United States in Force on January 1, 1995, Washington, D.C.: U.S. Government Printing Office, 1995, p. 51.

³Public Law 93-618, Approved January 3, 1975, 19 U.S.C. § 2101-2487; 88 Stat. 1978.

Amendment. Under Title IV, section 402 of the Act, in order for a country, not receiving MFN treatment as of the effective date of the 1974 Act, to receive such treatment and to benefit from certain other U.S. credit and guarantee programs, it must comply with the freedom of emigration requirement of section 402 and enter into a trade agreement with the United States under section 405 of the Act. Section 402, however, permits the waiver of these strict requirements in the event that the President determines that a waiver will substantially promote the objectives of section 402 and receives assurances that emigration practices of the country concerned will henceforth lead substantially to the achievement of the objectives of section 402. There are specific procedures set out for Congress to take action to override the President's action and deny MFN treatment.⁴ Finally, it should be noted that although section 402 is concerned specifically with emigration, the introductory sentence of Section 402(a) refers to "the continued dedication of the United States to fundamental human rights."⁵

⁴Cf. John H. Jackson, William J. Davey and Alan O. Sykes, Jr., *Legal Problems of International Economic Relations*, 3rd ed., St. Paul, Minn.: West Publishing Co., 1995, pp. 997-998.

⁵*Ibid.*, p. 398.

GROWING U.S-CHINA TRADE

Since the granting of MFN status, trade between the United States and China has increased rapidly as shown in the following tables.

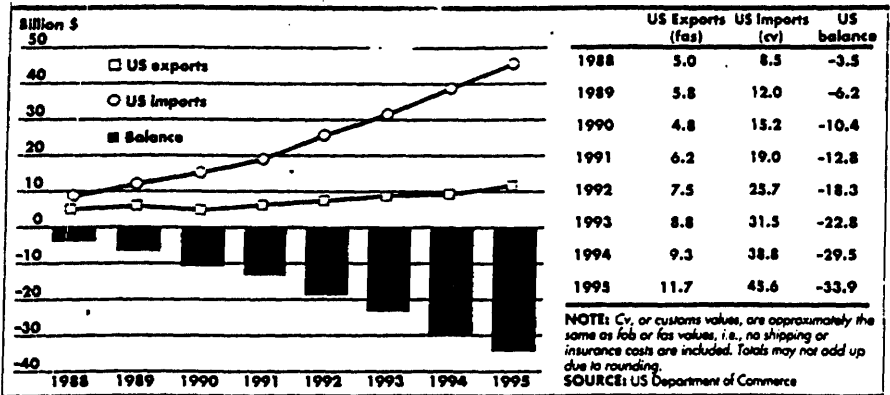
U.S.-China Trade (in millions of U.S. dollars)

(1980-1987)

	U.S. Export	U.S. Import	U.S. Balance
1980	3,745	1,058	2,696
1981	3,603	1,895	1,707
1982	2,912	2,284	628
1983	2,173	2,244	-71
1984	3,004	3,065	-61
1985	3,852	3,862	-10
1986	3,105	4,771	-1,666
1987	3,488	6,293	-2,805

Source: U.S. Department of Commerce, from Wayne Morrison, *China-U.S. Trade Issue*, Economics Division, Congressional Research Service, The Library of Congress, June 8, 1992, p. 4, quoted from Jaw-Ling Joanne Chang, "The U.S. Congress v. the White House: A Case Study of Most-Favored-Nation Status for the PRC, 1990-1992," *Ou-mei Yen-chiu* (EuroAmerica, A Journal of European and American Studies), Vol. 23, No. 2 (June 1993), p. 14.

(1988-1995)



Source: The China Business Review, Vol. 23, No. 3
(May-June 1996), p. 4.

In bilateral trade, the United States carried a favorable balance between 1980 and 1982. However, with the rapid liberalization of the Chinese economy, Chinese exports to the United States rapidly increased and the U.S. bilateral trade deficit with China increased significantly. Moreover, trade frictions between China and the United States grew more serious. Some people believed that the United States should revoke MFN status for China on the grounds, *inter alia*, that China has not improved its human rights, and has continued to violate intellectual property rights and the U.S. policy on

exports and other nuclear-related issues.

PRESIDENT CLINTON'S DECISION TO MAINTAIN CHINA'S MFN STATUS

President Bill Clinton stated on May 20, 1996 that he would recommend unconditional renewal of China's MFN trade status. He said: "Revoking MFN, and in effect, severing our economic ties to China [would] drive us back into a period of mutual isolation and recrimination that would harm America's interests, not advance them." He further stated that "our engagement policy means using the best tools we have, incentives and disincentives alike, to advance core American interests . . . [and] engagement does not mean closing our eyes to the policies in China we oppose."⁶

THE HUMAN RIGHTS FACTOR

With respect to the human rights issue and its effect on MFN, Secretary of State Warren Christopher said in an address entitled "American Interests and the U.S.-China Relationship" to the Asia Society, the Council on Foreign Relations and the National Committee on U.S.-China Relations on May 17, 1996:

Trade and investment is helping to create a more open

⁶BNA Management Briefing, May 21, 1996.

China. But we will not rely solely on the beneficial impact of increasing economic development to bring about progress on human rights. Recent economic and legal reforms have somewhat diminished the arbitrary power of the Chinese government over the daily lives of its citizens. But grave human rights abuses continue, including the arrest of those who peacefully voice their opinions, restrictions on religious freedom, and repression in Tibet.

The American people have a deep and abiding interest in the promotion of human rights in China and around the world. We will continue to speak out on behalf of those in China who defend universally recognized rights, as we did together with the European Union at the UN Human Rights Commission last month. We will continue to work with China to strengthen its judiciary. We know that change in China will take time, and that the most repressive periods in recent Chinese history have occurred when China was isolated from the world. That is why we pursue engagement.

Our support for continuing Most Favored Nation trading status for China should be seen in the context of the three elements of our policy. The MFN debate should not be a referendum on China's current political system, or on whether we approve of the policies of the Chinese leadership. The issue at stake is whether renewing MFN unconditionally is the best way to advance American interests. The President and I are convinced that the answer is a resounding yes--a conclusion reached by every American president since 1979.⁷

For a number of reasons, I support the policy of continuing MFN for China and the bases for doing so that have been advanced by President Clinton and Secretary Christopher.

First, the United States has not questioned the continued MFN

⁷Text distributed by U.S. Department of State, Office of the Spokesman, May 17, 1996, p. 6.

status for Russia,⁸ despite its ruthless suppression of the Chechen separatist forces and its human rights abuses toward civilians in Chechen. The human rights situation remains far from satisfactory in Russia despite democratic political reform in Russia.⁹

While China remains an authoritarian state, its human rights situation remains unsatisfactory, but the government has taken some steps that raise the possibility of positive human rights development over the long term. The human rights situation in China is improving as described by the State Department's *Report on Human Rights Practices for 1995*:

The Government . . . moved forward with legislation designed to make political and judicial processes more transparent. In February the National Peoples' Congress (NPC) passed three new laws designed to hold judges, prosecutors, and policemen to higher standards; the new laws came into effect July 1. In October the Ministry of Justice promulgated implementing regulations for 1994 legislation that allows

⁸U.S.-USSR [now Russian Federation] Agreement on Trade Relations, with related exchange of letters signed at Washington, D.C. on June 1, 1990 and entered into force on June 17, 1992. *Treaties in Force, supra* note 2, p. 225. Text in *International Legal Materials*, Vol. XXIX [29], No. 4 (July 1990), pp. 949-968. Exchange of Notes Concerning Entry into Force of the Agreement on Trade Relations, *ibid.*, Vol. XXXI [31], No. 4 (July 1992), pp. 790-791. At the time of entry into force, the USSR has been renamed "Russian Federation."

⁹See *Country Reports on Human Rights Practices for 1995* (Report submitted to House Committee on International Relations and Senate Committee on Foreign Relations by the Department of State, April 1996), Washington, D.C.: U.S. Government Printing Office, 1996, pp. 989-1002. It is reported that by the time a peace pact was signed on May 27, 1996, as many as 40,000 of Chechen people were killed. See Michael Specter, "Chechen's Leader Signed Peace Pact with the Kremlin," *The New York Times*, May 28, 1996, p. A1.

citizens to sue government agencies for malfeasance and to collect damages. The Government has also drafted a lawyer's law that would clarify the nature of the attorney-client relationship, improve professional standards, separate most lawyers from state employment, and improve the ability of citizens to defend their legal interests; the legislature had not passed this law by year's end. In many respects, Chinese society continued to open up: greater disposable income, looser ideological controls, and freer access to outside sources of information have led to greater room for individual choice, more diversity in cultural life, and increased media reporting. Although the sale and use of satellite dishes are tightly regulated, satellite television broadcasts are widely available, particularly in coastal areas. Telephone and facsimile communication is also extensively used. In many cities, the introduction of commercial Internet service promoted access to international sources of information. At year's end, however, new government limits on Internet access threatened to halt the growth of Internet use. In addition, new controls on reporting economic information introduced doubts about the Government's commitment to freedom of information. Government control of news media generally continues to depend on self-censorship to regulate political and social content, but the authorities also consistently penalize those who exceed the [permissible]. China continued a human rights dialog with some foreign interlocutors in the first half of 1995. Although no formal dialogs were held in the second half of the year, the Government agreed in late 1995 to schedule some bilateral dialogs in early 1996. The Government is increasingly willing to acknowledge openly certain human rights problems, especially official abuse of citizens' rights; some of these abuses are documented in the press.¹⁰

[Election in Village Level]

Direct election for basic level or village government is legally sanctioned for all of China's 1 million villages. Foreign observers estimate that more than one-third of China's 900 million rural residents have already participated in elections for

¹⁰*Country Report*, *supra* note 9, p. 575.

local leaders. Although many villages have yet to hold truly competitive elections, central government officials appeared intent on further popularizing the competitive election process. Successful village elections have included campaigning, platforms, and the use of secret ballots. The Ministry of Civil Affairs, which administers the village election program, plans to set up an election training center in Beijing that will train local and provincial officials how to teach others the basic techniques of running democratic elections. There were credible reports that candidates most favored by the authorities were defeated in some local, village elections. In early 1995, a local Communist Party secretary in eastern China reportedly attempted to fire an elected Village Chief, but the Chief retained his position after suing and winning a judgment in local court. Elections have reportedly reduced corruption and brought better management to some villages. Political controls, however, remain tight, and village elections do not threaten implementation of unpopular central policies or endanger the "leading role" of the Communist Party.¹¹

Though the human rights situation in China is still repressive, but is improving, the United States should not have a double standard for its human rights policy toward Russia and China.

TAIWAN AND CHINA'S MFN STATUS

Second, the denial of MFN status for China would hurt Taiwan's economy--Taiwan is now a full-fledged democracy that recently experienced its first direct, popular, presidential election. Approximately 17.5% of Taiwan's exports are to China, while 3.05% of its imports are

¹¹*ibid.*, pp. 586-587.

from China. Moreover, by Taiwan's official statistics, there is at least \$5.3 billion of Taiwanese investment in China.¹² Unofficial statistics indicate that the amount of investment is actually U.S. \$25 to \$30 billion, sprinkled among 25,000 to 50,000 enterprises.¹³ Many of those are companies that manufacture goods for export to the United States. Therefore, continuing MFN status for China also benefits Taiwan.¹⁴ The same is true for Hong Kong, and, under the United States-Hong Kong Policy Act of 1992, the United States has committed itself to maintaining the prosperity of Hong Kong after its reversion to China on July 1, 1997.¹⁵

Third, as pointed out by Secretary of State Christopher in his May 17 speech:

Revoking or conditioning MFN would not advance human rights in China. But it would damage our economy and

¹²See *Liang-an ching-chi t'ung-chi yueh-pao* (Statistical Monthly of Bi-coastal Economy), No. 38, October 1995, edited by the Mainland Council of the Executive Yuan, Taipei, pp. 26, 27.

¹³See USA-ROC Economic Council, Press Release, May 10, 1996.

¹⁴*Ibid.*

¹⁵Public Law 102-383 106 STAT. 1449; 22 U.S.C. § 5702-5732; reprinted in *International Legal Materials*, Vol. 32, No. 2 (March 1993), pp. 547-550. The Act provides in section 101 that the United States "should play an active role, before, on, and after July 1, 1997, in maintaining Hong Kong's confidence and prosperity, Hong Kong's role as an international financial center, and the mutually beneficial ties between the people of the United States and the people of Hong Kong."

jeopardize more than 200,000 American jobs. It would harm Hong Kong, which is why legislative leader Martin Lee and Governor Chris Patten support MFN's unconditional renewal. It would hurt Taiwan, whose economy depends heavily on its commercial ties with the PRC and U.S.-China trade. It could undermine our ability to work with China on regional security issues such as North Korea, and on any of the other important interests we share, from nonproliferation [of nuclear weapons] to the global environment. And it would weaken our influence throughout a region that still looks to America as a force for stability and security.¹⁶

Finally, a well-known Taiwan business leader, Mr. Jeffrey Koo, recently explained the reason for Taiwan's support for continuing MFN status for the PRC as follows:

No country has a larger interest than Taiwan in seeing prosperity take hold on the mainland. For prosperity will help push mainland China into becoming a responsible member of the international community, abiding by international laws, including protection of human rights. MFN is a useful tool in steering the PRC on the path to prosperity and, eventually, democracy. That's a long-term outcome that would benefit everyone--Taiwan, the U.S., the Asian-Pacific region, and most of all the Chinese people on the mainland.¹⁷

¹⁶*Supra*, note 7.

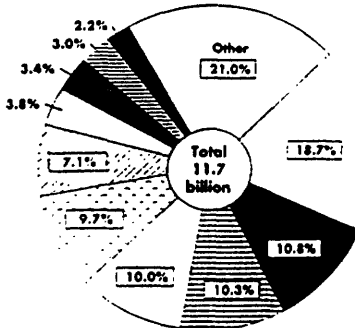
¹⁷"MFN for China is Also Good for Taiwan," *The Wall Street Journal*, May 7, 1996, p. A22. Mr. Koo is chairman and CEO of China-trust Commercial Bank and chairman of the Chinese National Association of Industry and Commerce.

APPENDIX

U.S.-China Trade by Products and China's Top Trading Partners

Top US Exports to the PRC, 1995

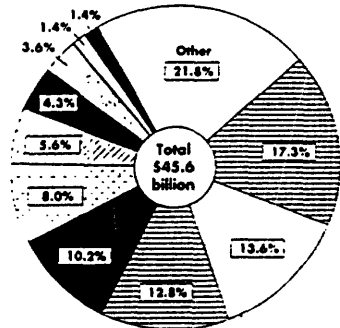
HTS #		Million \$
84	Power generating equipment	2,190.2
85	Electrical machinery	1,270.1
31	Fertilizer	1,204.2
88	Aircraft	1,175.8
10	Cereals	1,144.8
52	Cotton yarn & fabric	833.6
90	Medical & surgical equipment	449.9
15	Soybean & other edible oils	396.4
39	Plastics & articles thereof	350.7
29	Organic chemicals	263.4



SOURCE: US Department of Commerce

Top US Imports from the PRC, 1995

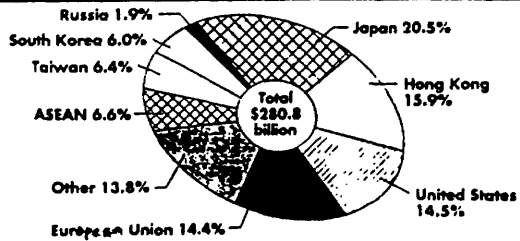
HTS #		Million \$
85	Electrical machinery	7,885.6
95	Toys	6,222.0
64	Footwear	5,823.7
61, 62	Apparel	4,653.1
84	Power generating equipment	3,624.0
42	Leather & travel goods	2,536.4
94	Furniture	1,979.1
39	Plastics & articles thereof	1,623.1
90	Medical & surgical equipment	645.4
63	Textiles	642.9



SOURCE: US Department of Commerce

China's Top Trading Partners, 1995

Nation	Total Trade Billion \$
Japan	57.5
Hong Kong	44.6
United States	40.8
European Union	40.3
ASEAN	18.4
Taiwan	17.9
South Korea	17.0
Russia	5.5



SOURCE: China's Customs Statistics

Source: The Chinese Business Review, Vol. 23, No. 3
(May-June 1996), p. 41.



**Testimony of Lodi G. Gyari
President, International Campaign for Tibet**

**before the Senate Finance Committee
Hearing on China's Most Favored Nation Trading Status**

Thursday, June 6th, 1996

Thank you, Chairman Roth, Senator Moynihan and other distinguished Members of this Committee for providing me an opportunity to testify before you on the situation in Tibet and on Most Favored Nation (MFN) trading status for China.

My name is Lodi Gyari and I was born in Nyarong in the Tibetan province of Kham. I am President of the International Campaign for Tibet, a Washington-based, non-governmental organization dedicated to the promotion of human rights and democratic freedoms for the people of Tibet. I am also Special Envoy of His Holiness the Dalai Lama and have served in both the Tibetan Parliament and Cabinet in Exile in Dharamsala, India.

I would like to once again express my deep appreciation to the U.S. Congress for its tremendous leadership on the issue of Tibet. The numerous resolutions passed by you and your colleagues condemning human rights violations in Tibet and providing financial and other assistance to Tibetan refugees have given significant encouragement to the Tibetan people. It is fair to say that the Tibetan people owe a great debt of gratitude to the U.S. Congress for supporting their ongoing struggle for basic rights and for recognizing that the plight of the six million Tibetans is an important American interest.

Mr. Chairman, given that this Committee will be considering the President's request for a MFN waiver for China, I regretfully must report to you that there have been no positive developments in China's repressive policies towards Tibet over the past year and that the human rights situation in Tibet has in fact deteriorated.

Recent Crackdown

The most severe wave of repression since martial law was imposed in 1989 is now occurring in Lhasa, Tibet's capital, as a result of a drive by Chinese authorities to remove all photographs of the Dalai Lama from monasteries, schools, businesses and private homes. This campaign against His Holiness began in April of this year when an announcement was made that monasteries and temples would be banned from displaying photos of the Dalai Lama. Pictures of the Dalai Lama had been allowed since 1979 as part of a Chinese decision to allow religious freedom in Tibet.

According to news reports and human rights organizations, over 80 Tibetans, including monks and nuns were injured, some seriously after presumably resisting the imposition of the photo ban. In another incident earlier last month at Ganden Monastery, located near



Lhasa, at least three monks were shot and wounded and another monk was severely beaten by police sent to enforce the ban. The number of monks arrested during this incident is said to vary from 7 to 70. There are reportedly only a few monks left at the monastery and Chinese officials have announced that they plan to keep it sealed for at least 2 to 3 months.

Chinese officials have also begun sweeps of hotels, restaurants and shops in Lhasa, ordering that photos of the Dalai Lama be taken down. Reports indicate that house to house searches have also occurred in some parts of Lhasa to make certain that pictures of the Dalai Lama were no longer on display. This crackdown is part of an ongoing campaign by the Chinese government to restrict religious expression in Tibet and to discredit the Dalai Lama, not only as the political leader but also as the spiritual leader of the Tibetan people.

Panchen Lama

Just last week, the Chinese government admitted for the first time that they are holding Gedhun Choekyi Nyima, the 7 year old boy named by the Dalai Lama as the 11th Panchen Lama, the second highest ranking religious figure. The young boy, believed to be the "world's youngest political prisoner", and his family have been held in a secret location in China for over a year. In total disregard of the Tibetan people's traditions and beliefs, the Chinese Government announced in November 1995 that they had found the "real" Panchen Lama and have since attempted to impose their selection on the Tibetan people.

Restrictions on Religious Practice

In addition to China's abduction of the Panchen Lama, there has been a heightened campaign by the Chinese Government to repress the spread and practice of Buddhism in Tibet. Authorities have set a limit on the number of monks and nuns in all monasteries and have halted the unauthorized rebuilding of monasteries destroyed during the Cultural Revolution. Beijing has also vowed to close problematic monasteries and jail "separatist" monks and nuns. New restrictions have also been imposed on youths joining monasteries and government officials have been prohibited from practicing religion.

Political Prisoners

There are close to 700 documented political prisoners in Tibet today. This does not account for the hundreds, maybe thousands, of prisoners whose names have not been determined. These political prisoners include hundreds of monks and nuns who have been detained solely for expressing their religious and political beliefs. One political prisoner, Ngawang Choephel, was arrested last year while making a documentary video about traditional Tibetan music. Ngawang did not live in Tibet and was visiting from India in order to conduct his study. In 1992-93, he studied at Middlebury College in Vermont as a Fulbright scholar.

Population Transfer

The greatest concern of the Tibetan people continues to be the tremendous influx of Chinese settlers into Tibet. Many of the settlers come to Tibet as a result of economic and other incentives provided to them by the Chinese Government. In addition, the prospect of economic opportunity is luring Chinese entrepreneurs to Tibet's towns and cities. As a result of this influx, the number and influence of Chinese in Tibet is marginalizing the Tibetan people politically, economically and culturally.

Negotiations

His Holiness the Dalai Lama has stated that the only way to bring about a peaceful resolution to the situation in Tibet is through a mutually-acceptable negotiated settlement between the Chinese and Tibetan people. To this end, he has issued several forward looking proposals, including the Five Point Peace Plan and the Strasbourg Proposal, in which he has agreed not to raise the issue of independence during negotiations. However, the Chinese Government has refused to respond positively to his proposals and continues to disregard the Tibetan people's fundamental rights.

At this time, I would like to submit for the record the testimony of His Holiness who recently appeared before the Foreign Affairs Committee of the Danish Parliament to express his views about the current situation in Tibet and about the process of change which is occurring in China.

Clinton Administration Policy on MFN for China

Mr. Chairman, when President Clinton decided in May 1994 to abandon his policy of linking human rights conditions to renewal of China's MFN status, he threw away a powerful tool in the United States' arsenal to press for significant improvements in human rights in China and Tibet. We at the International Campaign for Tibet were greatly disappointed by the President's decision to back down from a policy which could have produced results, had he stuck with it. If any one country has the ability to influence China's policies towards Tibet, it is the United States.

Prior to the President's decision two years ago to delink human rights and trade, we had been informed that a very high level Chinese delegation made a low profile visit to Washington, headed by a former Chinese Ambassador to the U.S. During their visit, this delegation expressed its concern about the condition in the President's Executive Order of 1993 which called for the Chinese to "preserve Tibet's distinct religious and cultural heritage" in order to continue to receive MFN from the US. The delegation reportedly sought suggestions on how they could meet the minimum requirement of this condition regarding Tibet in order to not jeopardize their MFN status. This episode demonstrates that until the President blinked and it became clear that he would continue to provide MFN status to China whether or not they met the conditions in his Executive Order, the Chinese were prepared to make the necessary improvements in Tibet. Perhaps the situation in Tibet would not be as bleak as it is today if the President had stuck to his policy. This lost opportunity has had dire consequences in Tibet where over the past two year the Chinese have felt more emboldened that ever to repress the Tibetan people.

It is imperative that we not forget that today it is China who is benefiting from its trade relationship with the U.S. and that they would still go to great lengths to ensure the continuation of their MFN status. As Members of this Committee know, the Chinese enjoy a \$33 billion trade surplus with the U.S. While we have never advocated revocation of MFN for China, we do believe that trade leverage can be used as an effective instrument for bringing about human rights progress in China and Tibet. Therefore, we have in the past supported the efforts of Congress to use the annual renewal of China's MFN status to attach conditions on this renewal, such as calling for the preservation of Tibet's unique culture and religion and supporting negotiations between the Tibetan Government in Exile and the Chinese government on the status of Tibet.

In terms of this year, we favor using renewal of China's MFN status and other means of leverage, such as China's entry into the World Trade Organization, to press for significant improvements in human rights conditions in China and Tibet. Given the fact that the MFN issue has not been handled well by the Administration, we look to the Congress to put forward a trade policy with China that will achieve results. The U.S. has enormous economic leverage with China by which to promote one its most fundamental interests -- namely the observance of human rights and the spread of democratic freedoms -- and we strongly believe that the U.S. should use this leverage.

In addition, without the rule of law, China cannot be counted on as a stable trading partner for the U.S. and therefore it is in the U.S. economic interest to encourage democratic growth in China. I have always urged the leadership of corporate America to, rather than lobby on behalf of the Chinese Government, work with us, with the Congress and with the Administration so that together we can bring about fundamental change in China. Our vision of China is one that is governed by the rule of law and which will not only guarantee human rights for the Tibetan people but also the protection of American business interests. And it is my belief that a China that is governed by a rule of law -- with copyrights and human rights respected -- is in everyone's interest.

The Chinese Government understands what the Clinton Administration has failed to appreciate -- that trade can be used to promote a country's interest. For example, during this year's session of the United Nations Commission on Human Rights in Geneva, the Chinese not only succeeded in blocking consideration of a mildly-worded resolution on human rights conditions in China but they also put pressure on African and Asian delegations to vote in their favor, by using access to its market as bait. So while the Administration has failed to use trade as means to advocate human rights, the Chinese have demonstrated that you can link economic and human rights considerations for sinister purposes.

In 1994, after the President reversed his China MFN policy, we were given assurances that the Administration remained committed to helping the Tibetan people and to supporting negotiations between the Dalai Lama and Chinese leaders. However, since that time, the Administration has yet to develop and maintain a policy that will pressure the Chinese to respect the rights of Tibetans. In fact, when President Clinton announced his intention to grant unconditional renewal of MFN for China on May 20th of this year, he failed to even mention Tibet or his concerns over a recent crackdown there in his speech. He also gave no indication of how their policy of "comprehensive engagement" with China, which includes granting unconditional renewal of MFN, is helping to improve the situation in Tibet today. This is deeply disappointing to the Tibetan people and to the many supporters of the Tibetan cause in this country and in substance it differs very little from President Bush's policy of "constructive engagement".

Conclusion

Mr. Chairman, the United States' policy of constructive and comprehensive engagement with China has not brought any relief to the Tibetan people.

It is clearly a difficult time in U.S. - China relations as a result of disagreements over Taiwan, intellectual property rights, weapons proliferation and human rights. In addition, Deng Xiaoping's impending death has added an element of uncertainty in China's internal political situation. But it is precisely because of this delicate time that the United States must remain firm in its commitment to human rights. To bend now on this critical issue would indicate a weakness on all fronts. Furthermore, as a result of the increasing number of Chinese settlers moving into Tibet and the worsening human rights situation in Tibet, the Tibetan cause cannot wait long for the U.S. and the international community to take a strong and principled stand on human rights.

We remain convinced that the United States is the country that can have the greatest impact on bringing about a positive change in China's treatment of the Chinese and Tibetan people. A strong showing of support for human rights and the rule of law will help strengthen the hands of the more liberal elements in China's leadership and could play a critical role in assisting a peaceful transition to a more democratic China. If the Chinese Government is made to understand that it cannot have the relationship it wants with the United States until there is clear improvement in its human rights policies, we are convinced that it will take the necessary steps.

In order to help bring an end to the egregious human rights violations perpetrated by the Chinese Government against the Tibetan people, we recommend that the United States should adopt the following course of action:

- raise at the highest levels in the Chinese Government your strong concern about the recent crackdown in Tibet. We have kept the Administration fully informed about the deteriorating situation in Tibet and I can say from my personal experience that there are many people in the Administration who are deeply concerned about Tibet. Despite this, the Administration has yet to issue a public statement of concern about the recent escalation of repression in Tibet. We are very concerned that the Administration is dragging its heels while the suffering in Tibet intensifies and we would be very grateful if Senators could put pressure on the State Department to make public what they plan to do about the current situation in Tibet. We also ask Senators to express their outrage over recent events in Tibet during debate about China's MFN status on the Senate floor;
- use economic leverage; whether it be China's Most Favored Nation trading status or China's entry into the World Trade Organization, to pressure China to improve its human rights record in China and Tibet;
- support multilateral efforts calling on the Chinese to allow access for human rights monitors and the press into Tibet, for example by including Tibet on the agenda of the upcoming G7 Summit in Lyon, France;
- establish a Special Envoy on Tibet within the Administration to help streamline U.S. policy towards Tibet, and in particular to help push for a negotiated settlement between His Holiness the Dalai Lama and the Chinese Government;
- raise concerns about the status of and the human right situation in Tibet at every opportunity with the Chinese leadership.

Thank you again, Mr. Chairman, for this opportunity to testify before you today.

**STATEMENT BY HIS HOLINESS THE DALAI LAMA TO
THE FOREIGN AFFAIRS COMMITTEE
OF THE FOLKLETINGETS UDENRIGSUDALG,
DENMARK**

Hearing on Tibet
Copenhagen, May 13, 1996

Mr. Chairman, Honourable Members of Parliament,

It gives me great pleasure to address you today, at the opening of this hearing on Tibet. This hearing comes at a crucial time. Since the lifting of martial law in May 1990, repression and political persecution have continued in Tibet and have lately reached a new peak. Observance of human rights in Tibet has, sadly, not improved. On the contrary the Chinese government has intensified repression. This has also been documented in reports by international human rights organisations. I am confident that other informed experts invited to this hearing will also corroborate the grim developments in Tibet.

Violations of human rights in Tibet have a distinct character. Such abuses are aimed at Tibetans as a people asserting their own identity and their wish to preserve it. Thus, human rights violations in Tibet are often the result of institutionalised racial and cultural discrimination. If the human rights situation in Tibet is to be improved, the issue of Tibet should be addressed on its merits. It should be seen as distinct from the overall situation in China. Undoubtedly, the Chinese in China suffer from human rights abuses, but these abuses are of an entirely different nature.

In Tibet my people are being marginalised and discriminated against in the face of creeping Sinicization. The destruction of cultural artefacts and traditions coupled with the mass influx of Chinese into Tibet amount to cultural genocide. The very survival of the Tibetans as a distinct people is under constant threat. Similarly, the issues of environmental destruction and contamination, which have serious ramifications beyond the Tibetan plateau, and economic development must be addressed specifically with regard to Tibet. These problems are also different from those faced in China.

It is encouraging to note the growing concern being shown for the human rights situation in Tibet by many governments and NGOs around the world. But human rights' violations, environmental degradation and social unrest in Tibet are only

the symptoms and consequences of a deeper problem. Fundamentally, the issue of Tibet is political. It is an issue of colonial rule: the oppression of Tibet by the People's Republic of China and resistance to that rule by the people of Tibet. This issue can be resolved only through negotiations and not, as China would have it, through force, intimidation, and population transfer.

This hearing is also significant because of the process of change that is taking place in China. It offers a historic opportunity for Denmark and other members of the international community to reassess their policy towards China, in order both to influence and to respond to the changes that are taking place in that country. With regard to Tibet I am convinced that the next few years will be crucial in bringing about honest negotiations between us and the Chinese government. Such negotiations are the only way to promote a peaceful and comprehensive resolution of the Tibetan question.

It is undoubtedly in the interest of the Chinese people that the present totalitarian one-party state gives way to a democratic system in which fundamental human rights and freedoms are protected and promoted. The people of China have clearly manifested their desire for human rights, democracy and the rule of law in successive movements starting in 1979 with the 'Democracy Wall' and culminating in the great popular movement of the spring of 1989.

China needs human rights, democracy and the rule of law. These values are the foundation of a free and dynamic society. They are also the source of true peace and stability. A society upholding such values will offer far greater potential and security for trade and investment. A democratic China is thus also in the interest of the international community in general and of Asia in particular. Therefore, every effort should be made not only to integrate China into the world economy, but also to encourage her to enter the mainstream of global democracy. Nevertheless, freedom and democracy in China can be brought about only by the Chinese themselves and not by anyone else. This is why the brave and dedicated members of the Chinese democracy movement deserve our encouragement and support.

Democracy in China will have important consequences for Tibet. Many of the leaders of the Chinese democracy movement recognise that Tibetans have been ill treated by Beijing and believe that such injustice should be redressed. Many of them openly state that Tibetans should be granted the opportunity to express and implement their right to self-determination.

In the final analysis it is for the Tibetan and the Chinese peoples themselves to find a just and peaceful resolution to the Tibetan problem. Therefore, in our struggle for freedom and justice I have always tried to pursue a path of

nonviolence in order to ensure that a relationship based on mutual respect, friendship and genuine good neighbourliness can be sustained between our two peoples in the future. For centuries the Tibetan and the Chinese peoples have lived side by side. In future, too, we will have no alternative but to live as neighbours. I have, therefore, always attached great importance to our relationship. In this spirit I have sought to reach out to our Chinese brothers and sisters in the United States, Europe, Asia and Australia.

Furthermore, in my efforts to seek a negotiated solution to our problem, I have refrained from asking for the complete independence of Tibet. Historically and according to international law Tibet is an independent country under Chinese occupation. However, over the past fifteen years I have adopted a "middle-way" approach of reconciliation and compromise in the pursuit of a peaceful and negotiated resolution of the Tibetan issue. While it is the overwhelming desire of the Tibetan people to regain their national independence, I have repeatedly and publicly stated that I am willing to enter into negotiations on the basis of an agenda that does not include the independence. The continued occupation of Tibet poses an increasing threat to the very existence of a distinct Tibetan national and cultural identity. Therefore, I consider that my primary responsibility is to take whatever steps I must to save my people and their unique cultural heritage from total annihilation.

Moreover, I believe that it is more important to look forward to the future than to dwell in the past. Theoretically speaking it is not impossible that the six million Tibetans could benefit from joining the one billion Chinese of their own free will, if a relationship based on equality, mutual benefit and mutual respect could be established. But, if China wants Tibet to stay with her, it is up to China to create the necessary conditions. The reality today is that Tibet is an occupied country under colonial rule. This is the essential issue which must be addressed and resolved through negotiations.

Unfortunately, the Chinese government has yet to accept any of the proposals and initiatives we have made over the years and has yet to enter into any substantive negotiations with us. Meanwhile, they continue to flood Tibet with Chinese immigrants, effectively reducing Tibetans to an insignificant minority in their own land. In fact some of my friends call this China's 'Final Solution' to the Tibetan problem.

Tibet - an ancient nation with a unique culture and civilization - is disappearing fast. In endeavouring to protect my nation from this catastrophe, I have always sought to be guided by realism, moderation and patience. I have tried in every way I know to find some mutually acceptable solution in the spirit of reconciliation and compromise. However, it has now become clear that our

efforts alone are not sufficient to bring the Chinese government to the negotiating table. This sad state of affairs compels me to appeal to your Government and the international community for urgent intervention and action on behalf of my people.

In the first place, the true nature of China's rule over Tibet must be understood. China's leaders have for decades, even before the Communist revolution, propagated a false and self-serving version of the history of Tibet and of Tibet-China relations. Tibet's historical independence and its rich cultural and spiritual tradition have been entirely distorted to justify China's invasion, occupation and suppression of Tibet. The international community, and even the Chinese people, still does not fully comprehend the extent of the destruction, suffering and injustice experienced by the Tibetans under Chinese rule. Today the Chinese people, especially the intellectuals, closely follow what happens outside China. The Chinese authorities are no longer able to isolate the population from outside sources of information. It is therefore immensely important that governments and non-governmental organisations in democratic countries discuss all aspects of the Tibetan issue, from the historical relations between Tibet and China to the current violations of human rights, openly and honestly.

Secondly, China's leaders must be made to realise that the question of Tibet will cause ever increasing problems to China domestically and internationally, unless it is resolved to the satisfaction of both China and Tibet through earnest negotiations, in which all issues can be discussed with honesty and candour.

Thirdly, we need governments of democratic countries to continue to urge the Chinese authorities to respect human rights in Tibet and to enter into serious negotiations with us. We appeal for persistent and concerted efforts by the international community in bringing about direct and meaningful negotiations.

Fourthly, in their contacts with leaders and members of the democratic movement in China and in exile, governments of democratic countries should make clear their expectations with regard to China's future conduct towards Tibet. Now is the time for Chinese democrats to make commitments in this respect.

On our part, we Tibetans will continue our nonviolent struggle for freedom. My people are calling for an intensification of the struggle, and I believe they will put this into effect. But we will resist the use of violence as an expression of the desperation which many Tibetans feel. As long as I lead our freedom struggle, there will be no deviation from the path of nonviolence. However, my people need hope and encouragement. They will find this in the support of the international community, if they can see effective and concerted action on the issue of Tibet.

I remain committed to negotiations with China. I have made proposals in this regard, which are contained in my Five Point Peace Plan (1987) and the proposal I made at the European Parliament in Strasbourg in 1988. These proposals were very well received internationally, and they can still form a rational basis for negotiations. But since China has chosen to reject them, I have stated, and I reiterate today, our willingness to start negotiations with China without any preconditions. I call on all democratic countries of the world to intensify their support for this position. And I extend to China's present and future leaders an invitation to open negotiations as soon as possible in the interests of both the Tibetan and Chinese peoples.

PREPARED STATEMENT OF ORRIN G. HATCH

Mr. Chairman, I do not intend to make a lengthy statement. But I want to add my comments in behalf of my colleagues supporting China MFN.

The U.S. stake in China is simply too great. The diplomatic, other political, trade and economic, and even military parameters of this stake are enormous. To deny MFN is the near-equivalent of diplomatic non-recognition. It is something less than full acknowledgment of the huge market relationship between our countries that is already in place, and which is growing, for the U.S., at a rate faster than with any other country.

Our business sector witnesses today underscored the trade and economic parameters. Secretary Lord has covered the diplomatic and political consequences of denied MFN, as well as touching upon the arms transfer and proliferation issues.

But let me turn my focus to an area where, I believe, all parties in Congress, whether they are pro-MFN or anti-MFN agree. It is a message that needs to be conveyed to China in a way that there can be no question of U.S. intent. Simply stated: sanctions are justified and necessary where China, or any other signatory to foundational trade agreements, like the WTO, or bilateral agreements, like the Intellectual Property Rights Memorandum of Understanding of February 1995 between our two countries, abrogates a covenant.

Although I am fervent supporter of MFN, I am even more committed to asserting the full force of our domestic laws against China for express violations of the IPR MOU. Further, I share with other colleagues, on both sides of the aisle, the sense that China must prove itself a worthy trade partner in the eyes of the world if it is to be admitted to, and play a leading role in, the World Trade Organization.

The list of genuine trade-related concerns that we have with China is not short.

- Software piracy and counterfeiting are out of control and must be stopped. They are costing the U.S. IP sector up to \$10 billion of lost revenues. Sanctions are overdue, in my judgment, and I am even reluctant to trust a Chinese promise of action—we've been there before.

- Market access cannot be conditioned upon a promise to transfer U.S. technology. This is an unsubtle form of extortion.

- Our anti-dumping laws will retain their teeth. There have been more than 60 AD cases against China since 1980. Their record of non-compliance is too great to ignore.

- The trade imbalance, now nearing \$35 billion, will not be tolerated where it is proven that Chinese exports to the U.S. evade international trading norms, such as the use of third country transshipment points to send Chinese textiles to the U.S. in excess of China's textile quota.

The threat of Chinese retaliation against the U.S. is an ugly promise of a trade war. But it is a threat that the United States *will* meet. There should be no question in anyone's mind. Nor should our trade competitors see great market opportunities for themselves if the U.S. is displaced from certain sectors of the Chinese market. As many investors in China have found, their investments are never truly secure in a country that relishes the role of an international trade maverick.

Mr. Chairman, I have always been a friend of China, and in the early 1980's served as co-chairman of the China Trade Caucus. And China does not have many friends in this body. But the time has come for that nation to match its tremendous economic promise with a sense of international responsibility. If it follows that simple rule, it will gain the support of American business and our national policy makers. More importantly, it will take a leading role in world affairs, a role to which it aspires, and which it deserves.

PREPARED STATEMENT OF MIKE JENDRZEJCZYK

Thank you, Mr. Chairman, for inviting us to testify today on Most Favored Nation (MFN) trading status for China and the implications for human rights in China and Tibet. My name is Mike Jendrzejczyk, and I am the Washington director of Human Rights Watch/Asia (formerly Asia Watch), a private, independent human rights monitoring organization. Human Rights Watch has consultative status at the United Nations, and we have long been active in monitoring and reporting on human rights issues in China and Tibet.

In my testimony, I would like to comment on U.S. policy towards China and the current debate over renewal of MFN for another year. I will then present a brief description and analysis of recent human rights developments in China and Tibet. Finally, I will make some specific recommendations for consideration by Congress and the Administration.

This week marks the seventh anniversary of the massacre in Tiananmen Square on June 4, 1989 and the subsequent crackdown on pro-democracy students and workers across China. Most of the sanctions imposed against Beijing since that brutal event have been lifted, and I think it is fair to say that China's leaders have made rather rapid progress in shaking off the stigma of Tiananmen Square. They have aggressively sought China's acceptance and full integration into the international community as a great power—despite an atrocious human-rights record. Using access to China's markets and to investment opportunities, the Chinese government has largely insulated itself from effective international pressure to improve human rights.

The U.S. and other G-7 countries, lacking a coherent, multilateral approach for promoting human rights and the rule of law in China, have been subject to lobbying and manipulation as Beijing plays off one major trading partner against another. Though President Clinton delinked trade and human rights with the MFN decision in May 1994, China clearly has not. Beijing successfully used the prospect of a huge Airbus jet deal to silence the French government when Premier Li Peng visited Paris this past April: all references to human rights were deleted from the official toasts and speeches.

During months of intensive lobbying worldwide, China employed the carrots and sticks of trade and aid deals to line up votes at the U.N. Human Rights Commission in Geneva. In late April, a procedural motion was adopted by the Commission (by a vote of 27-20 with six abstentions), preventing a resolution mildly critical of China's human rights record from even being debated or voted upon. The Clinton Administration and the European Union deserve credit for cosponsoring the resolution, but its defeat underlines the urgent need for the G-7 leading industrial countries to develop a common human rights agenda and strategy that cannot be so easily undercut by Beijing's substantial economic clout.

U.S. POLICY ON CHINA

Mr. Chairman, in his speech on May 20, 1996 to the Pacific Basin Economic Council, President Clinton outlined a set of broad goals and objectives for U.S. China policy. He correctly noted that today, "China stands at a critical crossroads. Will it choose the course of openness and integration, or veer toward isolation and nationalism? . . . Our interests are directly at stake in promoting a secure, stable, open and prosperous China" that embraces and abides by international rules of behavior and "evolves toward greater respect for the basic rights of its own citizens." We certainly would not disagree with those broad goals; isolating China would be in no one's interest. But we would strongly challenge the President's assertion that the administration's "engagement" policy, whatever its other merits, offers a viable strategy for helping to bring about improvement in China's human rights practices. With his decision this week to renew MFN unconditionally, the President has rejected the use of economic pressure to promote human rights. One must question what tools the Administration has left or whether it has simply abandoned any serious attempt to address human rights at all.

The Administration intends to replace pressure with "frank dialogue." But what does that mean in practice? Criticizing the detention of Wei Jingsheng without making any concrete effort to bring about international access to Wei and other prisoners? Asking for information on lists of prisoners without thinking through any mechanism by which the Chinese government's response can be independently verified? There is no meaningful bilateral dialogue on human rights now underway, nor does the Administration seem to be giving much thought to what such a dialogue could or should achieve.

The Administration seeks to downplay human rights as a point of tension in U.S.-Sino relations, while setting the stage for more frequent and higher level contacts between the U.S. It is possible that an improved "atmosphere" may somehow moderate Beijing's abusive treatment of dissidents. It is equally possible that improved relations with the U.S. will convince China that there is no cost to suppression of fundamental rights. We accept the premise that contact and diplomatic discussions can be useful. But again, toward what end? The State Department apparently refuses to use talks about a possible presidential summit—probably the single most important political concession the U.S. can give to China—to clearly define what it expects in terms of concrete human rights improvements by China before any such meeting can take place.

Finally, the Administration plans to increase trade with China and support Beijing's entry into the World Trade Organization (WTO), arguing that in the long term, "freer enterprise (will) fuel the hunger for a more free society." (Quote from the President's Pacific Basin speech.) But the Administration has also said it is op-

posed to any formal linkage between its decision on China's bid to join the WTO and human rights considerations, despite the fact that Beijing's observance of global trading rules is heavily dependent on its ability and willingness to enforce laws and carry out other basic human rights obligations.

Moreover, there is a fundamental contradiction in current U.S. policy. On intellectual property rights, the U.S. is willing to threaten limited, targeted trade sanctions of from \$2-3 billion, including increased tariffs on goods produced by state enterprises. These are the very kind of sanctions the Clinton Administration said in 1994 were legally questionable and practically infeasible to impose in response to severe human rights violations. (Ironically, an editorial in the state-run China Daily accused the U.S. of threatening tariffs over intellectual property rights as a "dirty trick" motivated by the failure of the U.S.-supported resolution on China at the U.N. Human Rights Commission.)

So what are we left with? In terms of human rights, the U.S. will focus on stimulating legal exchanges and legal reform in China—a laudable enterprise, and later in my testimony I will offer an assessment of some recent legal reforms. But the State Department acknowledges that such efforts are in the very early stages of development and may have little impact on ending serious human rights abuses occurring right now.

HUMAN RIGHTS DEVELOPMENTS IN CHINA AND TIBET

In the two years since the President's "delinking" decision, there has been no improvement in human rights in China and Tibet. Quite the contrary: in recent months, Chinese authorities have ordered increased surveillance of so-called "counter-revolutionaries" and "splittists" (Tibetans, Uighurs and other national groups) and given even harsher penalties for thus judged guilty of violating its draconian security laws. Just as China has largely succeeded in muzzling effective human rights criticism abroad, it has silenced most, if not all, of the important dissident communities inside China including political and religious dissidents, labor activists, and national minority populations. Their members have been exiled, put under house arrest, "disappeared," assigned to administrative detention, or subjected to economic sanctions and systematic discrimination in schooling and employment. Dissidents also continue to suffer criminal charges, long prison sentences, beatings and torture.

Without sustained, consistent international pressure on human rights, Beijing has little or no incentive to moderate or restrain its repressive policies.

China's behavior seems related, at least in part, to the government's development strategy that has stimulated inflation, unemployment, and the withdrawal of the social welfare safety net for millions of Chinese citizens. This has led to increasing disparities between income levels and overall economic development in the southern and coastal areas and interior provinces, and between urban and rural areas. Corruption and higher levels of crime have added to the potentially volatile mix. In this environment, large numbers of strikes and labor stoppages, as well as peasant riots, have increased the government's and Communist Party's sense of insecurity and paranoia. Thus Beijing seems determined to crack down hard on any potential sources of instability or open political opposition.

China observers have noted that Deng Xiaoping's policies have created two separate but parallel Chinas. On the one hand, there is the "new China" of entrepreneurs, neon nightclubs, and luxury cars. But behind this bright facade is the "old China" of failing state-owned factories filled with angry workers; poor peasants in poverty-stricken rural areas; prisons where murderers and democracy activists are kept together; and an army and government of veteran revolutionaries can imagine no way to stability except through political repression. Will Deng's strategy of liberating economics while suppressing politics eventually lead to greater prosperity and openness, or will mounting internal pressures lead to a cycle of chaos and repression? This is the underlying question that must be addressed in devising policy towards China.

The Chinese government seems particularly sensitive at this time to the perceived threat posed by dissidents from different constituencies who might band together. It is also fearful of domestic critics building links with "hostile" organizations overseas, and even governments, to obtain support for alleged conspiracies against the government. This might help to explain the incredibly harsh fourteen-year prison sentence given to veteran pro-democracy activist Wei Jingsheng last December. It may also help explain Beijing's recent actions imposing further restrictions on freedom of expression and communications channels, such as access to the Internet and worldwide web.

Examples of recent Chinese government actions:

- Last week, police detained Wang Donghai and Chen Longde. They searched Wang's house and seized various documents and papers in the southern province of Zhejiang. Along with five others, they had signed and circulated a petition to the National People's Congress demanding an end to corruption, a reversal of the verdict against the 1989 student movement, and calling for the release of prominent political prisoners such as Wei Jingsheng and Wang Dan. A former leader of the 1989 movement, Wang Dan was detained in May 1995 in conjunction with a similar petition to the government circulated last spring, and has disappeared since then. Over fifty people were detained in conjunction with the 1995 petition campaign; more than twenty are still imprisoned.
 - On May 27, 1996 Bao Tong, former Communist Party official and top aid to party chief Zhao Ziyang, was released from prison in Beijing after serving a seven-year term for "leaking state secrets" but was immediately taken out of the city where he has been kept under house arrest west of Beijing. It is not yet clear whether and when he can return home, and what restrictions will be imposed upon him; his political rights remain suspended for another two years as part of the original sentence. Bao Tong, in his mid-60s, suffered from serious medical problems while in prison but the authorities refused his family's many requests for his early release on medical parole—as well as quiet appeals from the State Department and White House.
 - Persecution of released dissidents remains intense. One of them, Liu Gang, who served a six year prison sentence in labor camp, was released in June 1995. But he was under constant surveillance, required to give weekly "thought reports" to the police, forbidden to have contact with foreign reporters, and blackballed from both universities and job possibilities. The police told him the only profession open to him was that of a beggar. His family members and friends were also harassed and interrogated. Liu Gang finally escaped from China and came to the U.S. last month. We are delighted that the U.S. Attorney General made it possible for him to obtain emergency residency status here, but we are equally concerned about many formerly imprisoned activities who remain behind, living under unbearable circumstances.
 - In February 1996, Xinhua, the official Chinese news agency, announced new regulations on the Internet that puts the state in charge of "overall planning, unified criteria, classification management and promoting development" of international computer networks. The State Council must approve all interactive networks, and individuals and organizations using them must be registered with the police. Provincial security officials have also issued sweeping rules and restrictions aiming at severely limiting international computer links. In addition, Xinhua has announced it will supervise foreign wire services selling economic information in China, screening their reports for "false economic news and attacks on China."
 - Repression in Tibet has escalated during the last year. In a report we co-published with the Tibet Information Network in March 1996, entitled *Cutting Off the Serpent's Head: Tightening Control in Tibet 1994-1995*, we estimate that there are now more Tibetans in detention for political offenses than anytime in the last six years, a total of at least 600. Torture continues to be widespread and goes unpunished by the Chinese authorities. A new edict published in April 1996 is aimed at discrediting the Dalai Lama as both a religious and political leader, banning his photo both in monasteries and schools and in private residences. Several protests have taken place in recent weeks and Ganden, one of three main monasteries in Lhasa, was sealed off by the police. During an incident there on May 6, 1996 a number of monks were arrested and three were shot and wounded, one seriously. There is an unconfirmed report that two monks may have been killed. Fighting broke out at Ganden and monks threw stones when a group of Communist Party cadres attempted to banned all photos of the Dalai Lama in Buddhist temples. The government had earlier announced that all politically active monasteries would be closed, and that it was imposing restrictions on the number of new monks and nuns that could be ordained.
- In a separate reported incident on May 14, 1996, at least eighty people, including thirty young nuns, were seriously injured by police beatings. Earlier mass arrests occurred in July 1995 in conjunction with the selection of the new Panchen Lama; at least thirty-two monks were arrested and some were severely tortured. Only in the past few days, after repeated denials, have the Chinese authorities admitted that Gendun Choekyi Nyima, the seven-year-old child identified as the reincarnation of the tenth Panchen Lama is, in fact, in official custody.

LEGAL REFORMS

In March 1996, the National People's Congress enacted some limited but potentially important legal reforms, adopting an Administrative Punishment Law and amending the Criminal Procedure Law (CPL) for the first time since 1979. The changes in the CPL, which take effect on January 1, 1997, would shift the presumption of innocence, requiring a verdict of innocence if there is insufficient evidence to convict; it would also impose more stringent limits on time in detention prior to formal arrest. The reforms would also permit a defendant access to a lawyer during investment and indictment. However, access to legal counsel is not allowed until after the "first interrogation"—when the use of torture is commonplace—and in cases where state secrets are involved, the investigating unit must approve a request to retain a lawyer.

But these new legal protections may be eroded by procedural defects, legal loopholes, and police ignorance, and a failure to vigorously press for their full implementation. For example, despite the legal guarantee that no organ or individual may interfere with the independence of the courts, there is nothing to prevent the Communist Party from doing so. Public security bureaux may still hold suspected criminals for up to one month before applying for judicial review and an arrest warrant.

On the positive side, the CPL does limit the power of the police to act without supervision. And the new Administrative Punishment Law, which comes into force on October 1, 1996, offers new protection to those subject to administrative punishment, such as the right to a hearing. It also attempts to rein in "rampant illegal fines and other disorderly penalties" given out by some local government authorities.

Clearly, pressing for further legal reforms, as well as the effective enforcement and implementation of those already adopted, should be a high priority for the U.S., the World Bank, private organizations of jurists, and other governments. But given the track record of Chinese officials for flagrantly violating existing legal protections and safeguards—including those contained in China's constitution—it would be a mistake to assume that steps towards building the rule of law will automatically lead to significant human rights improvements absent other forms of pressure.

HONG KONG

At midnight on June 30, 1997, China will assume sovereignty over Hong Kong. Concern is growing among Hong Kong's citizens, the elected legislative council, and members of the business community about China's willingness to fulfill its commitments under the Sino-British Joint Declaration on Hong Kong of 1984. The Declaration promised that Hong Kong would "enjoy a high degree of autonomy" after 1997. But in recent months, Beijing has threatened or actually taken steps towards overturning each of its obligations under the Joint Declaration. It has, among other things:

- Declared its intention to repeal of key provisions of Hong Kong's Bill of Rights;
- Announced that it will appoint a provisional legislature to replace the Legislative Council (Legco) elected last September, perhaps as early as the beginning of 1997, thus establishing a rival government and triggering a constitutional crisis in Hong Kong;
- Called on the Hong Kong government to "discipline" RTHK (Radio Television Hong Kong) for failing to cooperate with the demands of the China-controlled Preparatory Committee, responsible for matters related to the transition to Chinese rule;
- Stated that top civil servants will be required to take a loyalty test pledging their obedience to the laws enacted by Beijing's hand-picked legislature, although it has since stepped back somewhat from this position;
- Threatened the independence of the courts in Hong Kong by putting in the hands of the appointed legislature power to confirm judges for the Court of Final Appeal that will replace the Privy Council, and limiting the number of foreign judges on the Court.

The U.S. has a direct stake in the future of civil liberties, human rights and democracy in Hong Kong. As stated in the United States-Hong Kong Policy Act of 1992, "The human rights of the people of Hong Kong are of great importance to the U.S. . . . A fully successful transition in the exercise of sovereignty over Hong Kong must safeguard human rights in and of themselves. Human rights also serve as a basis for Hong Kong's continued economic prosperity." Congress has a crucial role in pressing the U.S. to give a higher priority to Hong Kong in the months ahead. We would urge, for example, the Senate to adopt a "sense of Congress" resolution in the coming weeks—one year before the handover—noting the recent ominous trends, especially the threat against Legco, and highlighting Beijing's obligations to-

wards Hong Kong under the Joint Declaration and relevant international human rights conventions.

RECOMMENDATIONS FOR U.S. POLICY ON CHINA

The annual debate over MFN renewal provides a useful opportunity for Congress to scrutinize U.S. China policy, as well as to focus attention on China's horrendous human rights record.

Human Rights Watch/Asia has consistently taken the position that various forms of economic and political pressure are needed to promote human rights in China and Tibet. We believe the U.S. should act both on a bilateral basis—given its unique role as a superpower and as China's largest single export market—and in the context of a long-term, multilateral strategy shared by Beijing's other major trade and aiding partners.

Unfortunately, the Clinton Administration has virtually nullified the impact of any direct linkage between MFN and human rights, such as the attachment of human rights conditions on MFN renewal. It has done so by undermining and then repudiating its own previous policy of linkage; following the President 1993 Executive Order outlining human rights conditions for MFN renewal which China clearly failed to meet. U.S. credibility on human rights, and other matters, was seriously damaged. However, other measures to exert economic and political pressure should be actively explored, including the following:

(1) The U.S. should seek to limit the flow of World Bank funds to China for non-basic human needs projects by exerting its leverage on an informal basis (as it has in the case of Iran and previously, in the case of Vietnam) to prevent large infrastructure or project loans from reaching the Bank's Executive Directors for consideration. Issuing occasional token or abstention votes on human rights grounds is insufficient. China now receives more money from the World Bank than any other country: in the fiscal year ending June 1996, it received approximately \$2.9 billion in Bank funds. We welcomed the decision last week by the U.S. Export-Import Bank not to issue export credits for the Three Gorges dam, in light of both the environmental and human rights impact of the massive infrastructure project.

At the same time, the Administration should try to channel World Bank funds to help support constructive solutions to serious human rights problems with broad social implications in China, such as those affecting millions of exploited migrant laborers and the ill-treatment of children in state-run orphanages urgently in need of additional resources.

(2) The Congress should insist on having a vote on U.S. support for China's bid to join the World Trade Organization. We believe that Congress should require the President to certify that China has implemented certain specific human rights and trade reforms, demonstrating Beijing's willingness to comply with global rules and standards, before he agrees to their WTO membership. Informally, the Administration has told China that its human rights practices are endangering prospects of persuading Congress to agree to WTO entry; it did this at the time Wei Jingsheng was put on trial and sentenced last year. This linkage should be made formal and specific. It is impossible to separate China's behavior as a reliable trading partner from its willingness to comply with universal human rights norms. A government that routinely violates its own laws to crack down on dissidents is equally willing and able to cheat on IPR agreements, fail to live up to contracts with foreign investors, or restrict business information on the internet. It is also possible that parliaments in other countries, for example in Europe, may impose similar conditions on their governments' vote on China's WTO membership, thus adding a crucial multilateral dimension to U.S. policy.

(3) The Administration should propose that relations with China, and the future of Hong Kong, be on the informal agenda for discussion at the G-7 summit meeting in Lyon, France from June 27-29. There has been no consensus on China policy and human rights among the G-7 since the immediate aftermath of the Tianamen Square crackdown. As China goes through a critical political transition process, this is a strategic time to send coordinated signals. In addition, the future of the rule of law and democratic government is at stake in Hong Kong. The G-7 final communique or chairman's statement should include strong language calling for significant improvements in human rights in China and Tibet, and full compliance with the Joint Declaration on Hong Kong.

In addition, we hope the G-7 will issue a joint demarche for the release of Wei Jingsheng, and will use the opportunity of this meeting to agree on a common, private human rights agenda with concrete benchmarks, such as restart-

ing talks with the International Committee of the Red Cross and opening up Tibet to independent human rights monitors. All the G-7 should then agree to promote this agenda, using a combination of bilateral and multilateral tools. It is particularly important that the U.S. urge Japan to use its leverage with Beijing.

(4) During his talks next month in Jakarta with the Chinese foreign minister about a possible summit meeting in the U.S. between President Clinton and President Jiang Zemin, or a potential visit to China by Vice President Al Gore, Secretary of State Christopher should make it absolutely clear that these meetings can take place only if there are meaningful steps taken by Beijing to improve human rights in China and Tibet. This should also be on the agenda for Anthony Lake's upcoming trip to Beijing. We are deeply concerned that in its eagerness to establish greater dialogue between Washington and Beijing, the Administration not trade away the substantial leverage and symbolic value of such high-level visits without receiving human rights concessions in exchange.

PREPARED STATEMENT OF AMBASSADOR WINSTON LORD

Thank you very much for the opportunity to testify before this committee on the extension of China's Most Favored Nation (MFN) trading status. This issue is of critical importance to our relationship with a country that is fast becoming a major regional and global power. It has great significance for our national interests. I would like to use my time this morning to put the MFN decision into the broader context of overall U.S.-China relations.

Since we normalized relations with China in 1979, every U.S. administration—Democratic and Republican—has extended China's MFN trading status. This Administration supports the continuation of that well-established policy.

As President Clinton said when he confirmed his commitment to this policy two weeks ago: "MFN renewal is not a referendum on all China's policies." It does not constitute an endorsement of any specific action or behavior. The decisions of President Carter, President Reagan, and President Bush to extend MFN did not indicate their approval of Chinese repression or behavior. Their decisions were based on a balanced assessment of U.S. interests and the best means of pursuing those interests. The same considerations apply today.

Unfortunately, a number of myths and misunderstandings have muddled our discussions on China's MFN status.

First of all, the term "Most Favored Nation," in itself, contributes to the confusion. Contrary to the way it sounds, MFN does not provide any preferential or special treatment and is clearly not a reward for good behavior. Rather, it is the normal commercial foundation upon which our relations with all but a handful of our international trading partners rest. It is also the basis of multilateral consensus and support for a free and open global economic system.

As Congressman Bereuter recently noted, we have not withdrawn Nigeria's MFN status because its current regime has executed poets and other political dissidents. Products from Syria and the Sudan receive MFN treatment, despite their governments' support for international terrorism.

The extension of this status in these cases, of course, does not mean that we do not consider human rights abuses or support for terrorism to be serious problems. However, MFN withdrawal is clearly not the best way to deal with such issues. In each case, we have more appropriate and more effective foreign policy tools at our disposal.

This is also true in our relations with China. Relying on the instruments already available, we have tailored our responses to China's behavior for maximum effectiveness. These instruments provide both positive and negative inducements for Beijing to address our concerns. For example:

- On Taiwan, our response to Beijing's missile exercises in the Strait this March was clear. Our deployment of naval forces to the region was meant to avert any dangerous miscalculations and signaled to all our friends our intention to maintain our presence in the region. We have emphasized to both sides of the Strait the importance of avoiding provocative actions and we continue to strongly urge both sides to resume the cross-Strait dialogue.
- On non-proliferation, we have demonstrated our determination to enforce U.S. law. In 1994, as a result of the sanctions we had imposed following China's sales of missile equipment to Pakistan, China agreed not to export ground-to-ground MTCR-class missiles, and reaffirmed its commitments to abide by the MTCR Guidelines and Annex.

More recently, this firm stance was critical to our ability to obtain China's commitment that it "will not provide assistance to unsafeguarded nuclear facilities" in third countries, including Pakistan. This is a new and significant public commitment by China. It goes beyond earlier Chinese commitments by accepting responsibility not only to control nuclear items specifically listed on the international trigger lists, but also dual-use items, including ring magnets, and other forms of assistance to unsafeguarded nuclear facilities. It is an important step forward.

- On IPR enforcement and other trade issues, we have left no doubt about the serious consequences of failure to remedy chronic problems and comply with international and bilateral commitments. At the same time, we have worked hard to provide constructive advice and support for China's efforts to integrate its economy into the world trading system.
- With respect to human rights, this Administration has kept faith with our principles by placing a high priority on human rights issues in the conduct of our relationship with China. We have engaged China bilaterally to raise our concerns, we have taken appropriate multilateral actions, and we have kept the focus on what China needs to do to adhere to international human rights standards. Our relationship with China covers a broad array of issues and interests which we must weigh. But we will ensure that Beijing is aware that its behavior on human rights is of great concern and will continue to be a priority for us.

At the same time, Chinese society is opening up, and its increasing integration into the international community will be a long-term process. The creation of an increasing network of economic, educational, cultural, technical, and legal ties between Chinese citizens and the outside world will help foster a positive climate in China for human rights. We are pursuing both governmental and non-governmental dialogue with China on issues related to the rule of law. Over time, this engagement, too, will have a significant effect.

A second myth that exists in some quarters is that whenever there are difficulties in our relationship with China, it must be due to U.S. miscues. Clearly, the U.S. is not responsible for political insecurities that lead Beijing to imprison dissidents. Clearly, our policy did not cause Beijing to launch missiles into the Taiwan Strait, to export dangerous technologies, or to fail to open markets and enforce intellectual property rights.

The reality is that, no matter how wise and steady our course, we will continue to encounter problems as well as opportunities in our bilateral relations with China. Moreover, during this period, we are dealing with a complex, difficult and prickly partner whose power is growing, whose leadership is in transition, and whose government is turning increasingly to a nationalism that is conditioned by thousands of years of experience as the dominant "Middle Kingdom" and more than a century of humiliation by foreigners. Against this backdrop, any Administration, any policy would encounter tensions. It is inevitable that two great nations—with different histories, cultures, and stages of development—will have differences.

A third myth is that America should respond to our differences with China by seeking to control or contain it. Such a policy would be misguided and, in the end, unsuccessful. It would constitute a self-fulfilling prophecy of turning China into an enemy. It would require a major shift in our economic, military and diplomatic resources. We and the global community would risk much if China were to become weak, isolated and unstable. Who could seriously contend that China, in such circumstances, would be more likely to respond positively to our concerns in such areas as regional security, arms control, trade and human rights? As Secretary Christopher said recently, "A more secure China is likely to be more open to reform and a better neighbor."

In practical terms, a containment policy would require the support and cooperation of Europe, Russia, Japan, Korea, and others in the region. Whatever the degree of their concern about China's growing power, no country would be willing to join in efforts to contain the PRC. And if we attempted to pursue such a policy alone, we would not only lose our ability to influence China in ways that promote our interests. We would also lose the benefits of cooperation on trade and other commercial issues, on North Korea, non-proliferation, UN Security Council actions and other international security issues and on global issues like the environment, narcotics trafficking and international crime. We would also severely strain our relations with our many friends and allies in Asia and elsewhere, and could potentially destabilize the entire region.

A fourth myth, suggested by some of those who advocate containment, is that the only alternative is appeasement. Consistent with the approach of five previous administrations of both political parties, this Administration's policy of pursuing U.S.

interests through engagement with China in no way implies acquiescence in Chinese actions that clash with U.S. interests or international norms. As I explained earlier, engagement allows us to tailor our responses to the specific circumstances in each area where we have differences with China. It makes it possible for us to apply a wide range of inducements and pressures on issues where we wish to encourage China to adjust its course. Engagement means being firm whenever necessary, and cooperative whenever possible.

Where China does not comply with its international commitments or with internationally-recognized standards of behavior, we are prepared to use all the instruments at our disposal, including those provided for in existing domestic legislation, that may be required to promote progress. Our willingness to take a firm stance when necessary is required to protect our interests, maintain domestic support for engagement, and engender respect in Beijing. It is an important component of building a stable, productive and mutually-beneficial long-term relationship.

At the same time, engagement allows us to continue to enjoy the substantial benefits of a constructive and cooperative bilateral relationship with China. In the midst of the inevitable frictions and media attention, let us not lose sight of these positive elements.

The benefits of engagement with China are not limited, as is sometimes implied, to the economic and commercial sphere. China, in its own self-interest, has cooperated with us in managing dangerous North Korean behavior. It has cut off aid to the Khmer Rouge and supported the elected government in Cambodia. Though sometimes exerting its influence, China has not vetoed United Nations actions of critical importance to the international community. It has cooperated with us in such areas as narcotics trafficking and alien smuggling.

Despite serious continuing problems, China has come a long way in the last decade on non-proliferation and arms control issues. It has joined the Non-Proliferation Treaty (NPT) and the Chemical Weapons Convention and has supported rapid conclusion of the Comprehensive Test Ban Treaty (CTBT). In 1994, after we had imposed sanctions related to Chinese sales of missile equipment to Pakistan, China agreed not to export ground-to-ground MTCR-class missiles. More recently, we have obtained China's commitment not to assist any unsafeguarded nuclear facilities.

On the economic side, despite some substantial disputes, China has been our fastest growing export market in recent years. Last year alone, our exports increased by more than one-fourth, supporting nearly 170,000 American jobs. Based on sales in the first quarter of this year, we may do nearly as well this year—creating another 35,000 or more new jobs.

With one of the world's highest economic growth rates, China offers enormous commercial opportunities for U.S. business. To take just one example, by the year 2000, China is expected to invest over \$150 billion in electric power production and distribution, transportation, telecommunications and other major commercial and infrastructure projects. If allowed to compete on a level playing field, U.S. companies can expect to win a significant portion of the related international contracts. But if our producers are handicapped in this key market, European, Japanese and other international competitors are ready and able to take their place.

Commercial concerns, of course, are only one of our foreign policy interests. But we must be very sure of the effectiveness of our proposed actions before we put at risk the livelihoods of so many American citizens.

Given the stakes involved, the extension of China's MFN status is a precondition of engagement—both where we seek changes in Chinese behavior and where our interests and policies coincide. An examination of the negative consequences of MFN withdrawal for U.S. interests offers a compelling case for our policy approach.

On the one hand, MFN withdrawal would NOT accomplish our goals:

- It would NOT promote China's adherence to non-proliferation standards. Rather, it would strengthen hardliners and provide a strong incentive to compensate for lost revenues from legitimate trade with exports of dangerous and destabilizing technologies and equipment.
- It would NOT open China's markets and foster respect for commercial laws and trade disciplines. Rather, it would bolster the claims of nationalists that China cannot rely on its international partners and must remain separate, self-reliant and unbound by international norms and standards of behavior.
- It would NOT help to protect the rights and freedoms of Chinese citizens or ease repression in Tibet. Rather, it would restrict access to the outside world and reduce the impact of international values on Chinese society and politics.
- It would NOT enhance the security and stability of Taiwan and Hong Kong. It would deal severe blows to their economic interests and stability, while raising tensions and diminishing the chances for a peaceful cross-Strait relationship and a smooth transition to Chinese sovereignty over Hong Kong.

On the other hand, MFN withdrawal would inflict great damage on a range of important U.S. interests:

- It WOULD deny tens of thousands of jobs to American workers—jobs that would quickly move to the economies of our international competitors.
- It WOULD set back the process of openness and reform in China, doing the greatest harm to those whom we most wish to support and encourage there.
- It WOULD strain our relations with our partners in Asia and elsewhere.
- It WOULD severely hamper our ability to work constructively with one of the world's most powerful nations on the broad range of U.S. foreign policy interests.

This Administration will not downplay or ignore our problems with China's policies or behavior. We support unconditional MFN extension not as a favor for China, but because it is good for America. The stakes are high—for us and for China, for stability and prosperity in Asia and the world. We must manage our differences with China in a way that promotes our interests. China, in turn, must make its own efforts on behalf of a relationship that will be central to both countries' welfare in the twenty-first century.

Mr. Chairman, in the last two weeks, President Clinton and Secretary Christopher have set forth our comprehensive policy toward China. In this context, they have reaffirmed their strong conviction that U.S. national interests require the unconditional extension of China's MFN status. This judgement is consistent with the policies of previous administrations and with the advice of political leaders and foreign policy experts of both parties. As President Clinton has noted, a vote for MFN renewal is a vote for American interests. I look forward to working with you and with the rest of the Congress to build the political consensus that is required for us to steer a steady course during this difficult period in U.S.-China relations.

RESPONSES TO QUESTIONS FROM SENATOR MURKOWSKI

Q: The United States has accepted a private pledge to Secretary Christopher and an ambiguous public statement that "China will not provide assistance to unsafeguarded nuclear facilities." in order to not sanction China for sales of ring magnets to Pakistan. Could you explain how we are to trust these pledges given the fact that similar pledges were made to Secretary Baker but to no avail?

A: We believe that China's public commitment not to assist unsafeguarded nuclear facilities is significant. This commitment goes beyond previous Chinese assurances. The May 11 Chinese public statement was the result of intensive discussions between senior U.S. and Chinese officials regarding the importance of effective nuclear export controls.

In addition, China has agreed to continued consultations in order to assure a common understanding of the export control obligations imposed by the NPT, and with a view to strengthening national export control systems. A delegation led by PM DAS Einhorn had two days of productive in Beijing, July 25-26. We believe that these discussions will serve to advance our common nonproliferation goals and help to avoid future concerns about Chinese nuclear cooperation with other countries.

Q: We have a bewildering array of laws on the books, including the Nuclear Proliferation Prevention Act (NPPA), that require us to impose blunt sanctions for any infraction. This seems to have left the United States in a position of either imposing the sanctions or waiving them—a highly inflexible position which in the recent ring magnet case also caused substantial public angst within the Administration. Could you comment on this observation?

A: Sanctions and the threat of sanctions can play an important role in our effort to persuade other countries to meet U.S. nonproliferation concerns. However, the automatic nature of the sanctions in much of our legislation can limit our diplomatic options.

Some of our laws, such as those on missile proliferation (Arms Export Control Act), allow a waiver only where the waiver is essential to the national security, a very stringent standard.

Allowing the Administration to tailor the type and duration of sanctions to the specific character of each case would increase our leverage to obtain the specific improvements we sought. A more flexible waiver standard would ensure application of sanctions laws in a way that advanced our overall national interest.

In addition, provision for a period of consultation before imposing or waiving sanctions would broaden the range for diplomatic solutions without precluding the threat of sanctions.

Q: Short of sanctions, what are some of the carrots and sticks that the United States can use to ensure that China lives up to its recent pledges? Have these been effective in the past? Why or why not? Why do you expect them to be effective now?

A: China has several incentives to abide by its export control commitments under the NPT, and by the assurances it has given the international community with respect to assisting only safeguarded facilities. It would remove a major irritant in our overall bilateral relationship and in the long term lead to implementing the 1985 U.S.-China Agreement for Cooperation in Nuclear Energy. China has indicated a strong interest in incorporating U.S. nuclear reactor equipment and state-of-the-art technology into its nuclear power program.

China's failure to abide by its May 11 pledge would have a corrosive effect on U.S.-China relations generally and would reverse progress toward implementation of the U.S.-China nuclear cooperation agreement, thus compelling us to continue denying China access to U.S. nuclear reactor equipment and state-of-the-art technology. It could cause third countries to restrict their own nuclear cooperation with China, and would heighten concerns by countries (such as India) adversely affected by PRC assistance to unsafeguarded facilities. China would risk embarrassment and criticism from the international community generally, at a time when China is seeking to expand legitimate peaceful nuclear cooperation.

PREPARED STATEMENT OF HENRY MA

Mr. Chairman, it is a great honor for me to have this opportunity to share my opinions with you and the Members of the Finance Committee on why renewing China's MFN unconditionally is so important.

My name is Henry Ma, and I am a visiting professor at the International Technological University in Santa Clara, California. I am completing my Ph.D. in computer software engineering at ITU, and also work there as head of the administration office and a number of training programs.

Before I came to the United States, I taught English in Ili Teachers' College in Xinjiang, China. In 1989, I lived in Beijing from January to June. During that time I participated in what has come to be called the "June Fourth Movement" at Tien An Men Square from its very start until its tragic end on June 4.

All of us who took part in the June Fourth Movement were there to fight for a freer and more democratic China. We were also there to fight against the corruption and degeneracy of the Chinese government. I believe we had the support of the majority of the Chinese people. In fact, on May 18, 1989, almost one million Chinese people participated in one of the Movement's demonstrations. Even with a demonstration of that size, the government did not intervene at that time.

Within a few short weeks, however, some participants in the Movement took actions which the Chinese regime felt went too far. The government then believed it had an excuse to take severe measures, including using the army to put a violent stop to the Movement.

Since that terrible day of June 4, 1989, people such as myself have had the chance to reflect on the Movement, its aims and its achievements. What we were fighting for—faster development of democracy and human rights and an end to state corruption—were and are worthy goals. Unfortunately, the violent end to the Movement, so tragic in itself, has resulted in too many people in this country mistakenly believing that our goals of improving human rights and encouraging greater democracy can only be achieved by revoking China's most-favored-nation trade status.

Certainly, the government in Beijing would take notice if the United States revoked China's MFN. However, the consequences of revocation would not further the aims of the June Fourth Movement. In my opinion, in fact, revocation would work against the development of democracy and human rights in China.

To understand why I say this, it is important to understand a little bit about Chinese culture. Revoking China's MFN will make Beijing close its door to the United States. If this happened, the Chinese people would no longer be able to know about the United States. And the United States no longer would be able to influence China directly.

The Chinese government often declares that the human rights of the Chinese people have improved greatly. This claim is true if the standard of comparison is the time of the Cultural Revolution in 1966, or even the economic opening of China in 1978. However, these standards provide a dated measure of the human rights situation in China.

The fact is that the Chinese people do not enjoy many of the most basic human rights that any nation should give to its citizens. And the United States has to let the Chinese people and the Chinese government know this. The only way United States can send that message is to keep the door to China open, and to expose the Chinese people and the Chinese government to what freedom, democracy and human rights really mean.

Once the Chinese people and Chinese officials have a better understanding of these things, it will be much easier to help China improve its record in these areas. In my own experience leading training programs at my University, I have sometimes worked with officials from the Chinese government. After they have been exposed to the United States, they always tell me how much they have learned from the experience and how much better they understand the meaning of democracy and human rights.

If the United States revokes MFN, the Chinese government will shut the door to the United States. Then America's ability to help China make progress toward democracy and improvements in human rights will end. I do not want to see this happen.

MFN is a basic element for economic relations among countries. In fact, I believe MFN is related to the basic interests of the people of any country, even to what I consider basic human rights for economic opportunity.

Revoking China's MFN will hurt the interests of both the Chinese people and the American people. I must state here again that Beijing's violations of the human rights of the Chinese people are outrageous and must be stopped. I also oppose the violation of intellectual property rights and the illegal and corrupt behavior so widespread in China. But MFN is a separate and independent issue from human rights, intellectual property and corruption.

The U.S. government should extend China's MFN without any conditions. In doing so, no one should think the United States is not serious about violations of human rights, intellectual property or any other actions by China that are illegal or go against our interests. The question is how can we best address these problems.

Mr. Chairman, if we just want to express our anger at China, we can do anything we want, including revoking MFN, and not care about the results.

But is this the right path to take to reach our goals? Certainly not. We should consider U.S. relations with and interests in China in a comprehensive way, and then find the best way to solve the problems.

In my opinion, we will never have an effective chance to influence China unless we keep the door to Beijing open. Therefore, we must extend MFN unconditionally.

I got involved in the issue of China's MFN in 1991. I was very lucky because I was able to leave for the United States on June 9, 1991, to attend university here. On June 16, 1991, I submitted a letter to former President Bush on behalf of most of the Chinese scholars and students in the United States supporting his wise decision to extend China's MFN without any conditions.

Mr. Bush's decision was correct. It benefitted the peoples of our two countries and allowed China and the United States to maintain contact and continue relations. I cannot imagine what would have happened to the relationship between our two countries if China's MFN had been revoked at that time.

Many speakers today have talked about the importance of extending MFN for economic reasons. I agree with them, and I want to add just one point. If China's MFN is revoked, the United States will lose the important market of China. That will hurt American companies badly. Once the Chinese market is lost, companies from other countries will replace the American firms.

I do not think the lost markets will be easy to get back, and that would be a great loss to the people of the United States. The influence of the United States in China will also be severely weakened. Nobody wants to see this happen.

To conclude my remarks, I would like to quote the last paragraph from the letter that President Bush sent me on June 24, 1991. Mr. Bush said, "It is very important to keep open the channels of commerce and communication between our two countries. I do not want to be the President who isolates China; I want to be the President who facilitates change in China."

Five years ago, I firmly supported Mr. Bush on MFN. Today, I firmly support President Clinton and Senator Dole on MFN. All have made correct and wise decisions on the China MFN issue. They have demonstrated their leadership to the American people, the Chinese people and to the people of the whole world.

Mr. Chairman, thank you for listening to my opinions.

PREPARED STATEMENT OF HON. FRANK H. MURKOWSKI

Mr. Chairman. We are here today for the annual spring ritual of renewing China's most-favored-nation status. And, I predict that once again MFN will be renewed because in the end we must ask ourselves the fundamental question: Will isolation or engagement achieve the goals we want and will it help the people in China we want to help?

I think the answer is obvious. We are all concerned with China's treatment of dissidents and Tibet, her attempts to harass Taiwan, her barriers to trade, and her involvement in weapons proliferation, but removing MFN is not the way to influence these issues. Removing MFN hurts Americans, hurts reformers, and hurts the people of Taiwan and Hong Kong. But I think the question we should really be asking ourselves is why do we put ourselves through this counterproductive exercise each year? This debate serves only to pit pro-MFN Americans against Anti-MFN Americans, and to cause hand-wringing in the Asian capitals. I don't think this debate has lowered the trade deficit, freed a single dissident, or prevented the sale of nuclear weapons. So I will put in my optimistic pitch to my colleagues and to the Administration witnesses to work toward changing the debate completely next year. Let's get out of this annual renewal process.

I know it is difficult to do in Congress, but we must keep our eye on the long-term goal, not the quick fix. And maintaining normal trade relations, and that is all MFN provides, serves our long-term goals. Change in this great civilization of 5,000 years will come slowly, but the United States has an important stake in continued relations with the world's emerging economic and military power.

And just as we know that it is hard to get anything done in Congress during an election year, we must recognize that China faces its own internal leadership struggle between the more moderate President Jiang Zemin ("Jon Zu min"), the more extreme National People's Congress Chairman Qiao Shi ("chow sure"), and the hard-line military leaders such as Zhang Zin ("Zang Zin"). But while China's leadership may be inconsistent, U.S. policy should not.

I believe that it has been the constant zigs and zags in the Clinton Administration's approach to China, going back to the Clinton campaign's rhetoric about "coddling dictators" that has led to the downturn in relations. It was the inconsistency, not the policy changes themselves, that hurt U.S. relations with China. And President Lee's trip to Cornell is a perfect case study.

Conventional wisdom seems to be that it was the Administration's decision to allow the Cornell visit that soured relations. Mr. Chairman, that is just plain wrong. I think all my colleagues will remember the outrage over the State Department's decision not to let President Lee play a round of golf in Hawaii with an old friend on a transit trip to Central America. It just was not consistent with American hospitality.

I met several times with Administration officials to ask them to change this ill-conceived policy. This resulted in the Taiwan Policy Review, but the Administration avoided the specific issue of private visits by President Lee, even though it was well known that President Lee had long wished to return to his alma mater, and had also been invited to come to Alaska for a private economic conference. More importantly, such a visit was not in any way inconsistent with the Taiwan Reunions Act or our "One China" policy. But the Administration refused to quietly inform the Chinese that a visa would be issued and assure them of the private nature of the trip, and its consistency with the "One China" policy.

Therefore, I authored S. Con. Res. 9 which passed the Senate 97 to 1 and called on the President to allow a private visit. The mistake made by the President's advisors was to tell the Chinese that the visit would not occur and that it was inconsistent with our "One China" policy, but to then turn around, grant the visa, and blame it on Congress. If I were a leader in China, I would be mad too.

But this issue is behind us now, the Administration, to my knowledge, did not bow to Chinese demands to reverse itself again on private visits, and Taiwan's newly reelected President Lee has reached out to the Mainland to defuse tensions. The United States should stay out of the middle of these efforts at reconciliation. We should now look ahead to how United States' policy toward China can best serve the U.S. national interest. I think that includes at least 5 components:

First, MFN, as I indicated before, should be renewed unconditionally.

Second, the next Administration should consider permanent MFN status for China. MFN was never intended to serve as a weapon of punishment for every problem we have with non-market economies. Its original purpose of guaranteeing freedom of immigration from the former Soviet Union has been grossly distorted, and I would say without achieving any positive results. Moreover, this has become a stumbling block to our negotiations over the PRC's WTO membership.

Third, the Administration should continue to work with both China and Taiwan to bring both into the World Trade Organization under sound commercial rules. I ask those who consider themselves friends of Taiwan to try not to politicize this process by creating an artificial linkage between the two applications. I also call on the Administration to keep Congress well informed about these important negotiations. I intend to ask USTR Barshefsky some specific questions about this issue, and will follow up with a letter stating some of my concerns.

Fourth, the Administration should continue to use selective trade tools to address market access problems. I support the Administration's efforts to enforce the intellectual property agreement, and support the imposition of sanctions if China does not live up to its commitments. A successful resolution of this issue will surely help China make its case that it is ready to join the international community in the World Trade Organization.

Finally, the Administration must maintain our security commitments in Asia. This is not an effort to "contain" China, but instead to allow China and other Asian nations to develop in a stable environment. This must include close consultations with our Asian allies and continued cooperation with Chinese military authorities. The Administration must also meet its commitment under the Taiwan Relations Act to consult with Congress in providing Taiwan with defensive goods sufficient to maintain its self-defense capabilities.

Mr. Chairman, as we struggle with how best to approach relations with China, I think it is instructive to recall the history of U.S. relations with the Republic of China. Although today we celebrate Taiwan's success as an economic and democratic miracle, this was not always the case. Martial law lasted from 1950 to 1987. During that period, individual rights and freedoms were stifled and political opposition was silenced. This included imprisonment of opposition leaders such as Peng Ming-min who was not only released, but became the DPP's presidential candidate in the March election.

During this entire period, the United States stood by Taiwan, maintained normal trading relations, and in fact, gave the R.O.C. economic aid. Most historians agree that U.S. aid and investment served to enhance market-oriented economic reforms that contributed to rising living standards and expanded economic freedoms, and injected a liberalizing influence into Taiwanese society. But the transition to an open, democratic society took fifty years on an island of 20 million, and was the first democracy in 5,000 years of Chinese history.

Of course, Taiwan's success also depended on a leadership decision to reform the political structure. We certainly cannot predict what direction the PRC leadership will take the 1.2 billion mainland Chinese, but we can follow the formula that has worked before.

Mr. Chairman. My support of most-favored-nation status for China has been long and consistent. It was the right policy when President Bush followed it, and I was relieved when President Clinton abandoned an ill-fashioned campaign policy of linking MFN to progress on human rights and other issues and adopted the same policy of unconditional renewal. I hope the Congress will uphold this policy.

I thank you for holding this timely hearing, and for giving us the opportunity to hear from so many knowledgeable witnesses.

PREPARED STATEMENT OF HARRY J. PEARCE

Thank you, Mr. Chairman. My name is Harry Pearce and I am Vice Chairman and Chief Financial Officer of Tyco Toys, Inc. I appear before you to speak on behalf of Tyco Toys as well as our industry's trade association, the Toy Manufacturers of America, Inc.—TMA.

Tyco is the third largest toy manufacturer in the United States with worldwide sales of over \$700 million. We employ 2,200 people worldwide. About 1,200 are employed in the United States, mostly in New Jersey and Oregon. Some of you are familiar with our radio-control toys, Magna Doodle drawing toy, Matchbox die-cast cars, View Master 3-D Viewers, and Sesame Street toys. TMA, of which I am past chairman and on whose board of directors I now serve, represents 265 U.S. manufacturers and importers of toys, games, dolls, and festive articles. TMA member companies account for approximately 85 percent of all toy sales in the United States. Toys are a \$50 billion global industry at the wholesale level and United States toy companies are the leaders in inventing, designing, producing, marketing, and selling toys around the world.

I am here to explain the tremendous stake that Tyco and our industry have in trade with China and the huge cost that the revocation of normal trading status for China—what the trade community confusingly calls "Most Favored Nation" or "MFN" status—would have on American toy companies, their employees, and American families. That, I hope, will enable you to understand why our industry so strongly supports unconditional renewal of MFN for China.

Let me start by giving you a brief insight into Tyco's business. Our company is international in scope. Thirty-five percent of sales are outside the United States. We produce approximately 25 percent of our toys in the United States in Portland, Oregon with China accounting for more than half of total sales.

Tyco's story is typical of our industry. American toy companies employ 42,000 Americans, about 70 percent of them in production work. We combine high-value added domestic operations—such as design, engineering, and sophisticated production processes—with low-cost, labor-intensive production overseas. As I suspect you already well understand, this is not a new phenomenon. Labor intensive production of many American consumer goods, of which toys are but one example, began to migrate from the United States to developing countries in the 1950s. For industries like ours that are product driven, price sensitive, and highly competitive, this reluctant evolution was a straightforward matter of survival. This strategy was the only way we could hope to remain competitive, sell toys to families in the United States and around the world at affordable prices, and minimize the inevitable loss of low-skilled jobs in the United States. It has proven to be a highly successful strategy. Today American toy companies enjoy a significant competitive advantage and hold a global market share of approximately 50 percent.

Preserving that success is contingent upon maintaining normal, that is MFN, trading status for China. A quick review of history will put the situation in perspective. Before 1979, when the United States and China established normal commercial relations and assumed reciprocal obligations to grant one another MFN trading status, China produced no toys for the U.S. market. Why? The answer is simple. The non-MFN U.S. tariff rate for toys and dolls—the toy categories that accounted for 75 percent of U.S. toy imports from China last year—is 70 percent. (Non-MFN tariff rates for the other 25 percent of toy products imported from China range from 35 percent to 52 percent.) There was no way China could overcome such high tariff hurdles and be a competitive supplier of toys to the U.S. market.

Extending MFN to China in 1979 brought those tariff rates down to between 4 percent and 12 percent. Uruguay Round tariff cuts implemented last year brought U.S. MFN duty rates for toys to zero, a tremendous boon to our industry and to American families. Because of China's industrious, quality-conscious, and low-cost labor force, it was natural that toy production migrate to China from other developing countries. Over the past dozen years, American firms—working through wholly-owned direct investments in China, joint ventures with Chinese and Hong Kong partners, and production contracts with Chinese firms—have invested heavily in China, building plants and teaching manufacturing skills. As a result, China has emerged to become the world's leading supplier of high-quality, low-cost, mass-produced toys.

The United States imported \$5.4 billion of toys from China in 1995, accounting for approximately 45 percent of all the toys American families purchased last year. To put that figure in perspective, Japan was our second largest foreign supplier and it accounted for U.S. imports of about \$1 billion.

Were Congress to revoke MFN for China now, our industry would suddenly find itself confronted with 70 percent tariffs on most toy imports from our most important supplier. The impact would be severe.

Tariff rates of 70 percent would drive the price of toys from China to prohibitively high levels. Consumer choice would be severely constrained. Toy sales would plummet. The burden of trade sanctions would be felt most acutely by families with lower disposable incomes, many of whom would face toy prices beyond their means.

Our industry is not a special case, Mr. Chairman. Other U.S. consumer goods producers and importers—including footwear, textiles and apparel, consumer electronics and others—would face similar consequences if China's MFN status were to be revoked. Next week, the Business Coalition for U.S.-China Trade, of which TMA is a member, will release a new study it commissioned that estimates the total cost to American families of revoking MFN for China, including higher prices for toys, would be \$27 billion to \$29 billion per year. That's equivalent to an annual tax of about \$300 on each of America's 96 million households.

In addition, American toy companies exclusively dependent upon product from China—TMA estimates possibly as many as fifty—would soon be forced out of business. In the longer run, we estimate over a period of two to four years, the industry would adjust to this effective embargo on Chinese toy imports by moving production to other developing countries. The adjustment costs to the industry of replicating its investment in China would be enormous and there would be no guarantee that the high efficiency of Chinese production could be duplicated. As a result, the pre-eminent global position of America's toy companies would be put at risk.

The jobs of many American toy industry workers supported by trade with China—we estimate as many as 20,000, particularly in the states of Rhode Island, New Jersey, Oregon, California, New York, Massachusetts, Ohio, and Texas—would be put in serious jeopardy. Many more jobs in the importing, distribution, and retailing of toys from China would likewise be put at risk.

We view the imposition of conditions upon the renewal of MFN as virtually synonymous with outright revocation. Conditionality means uncertainty. We cannot plan and run our businesses if we are wondering whether our most important source of supply is about to disappear. Without continuity and certainty of supply, American toy companies also cannot plan to take advantage of the growing Chinese consumer market.

China has taken tremendous strides over the past 15 years since trade with the United States was opened. The quality of life of tens of millions of ordinary Chinese has improved vastly. Despite this progress, TMA member companies share the concerns of all Americans over the issues of human rights, the proliferation of weapons of mass destruction, the protection of intellectual property rights, and China's slowness to open its market and assume the full obligations of the major economic power which it is rapidly becoming. We nevertheless want to impress upon you two critical points.

The first point is that the denying or conditioning of MFN is a totally inappropriate tool with which to address our concerns with China. MFN is simply too blunt and devastating a weapon to use to pursue U.S. objectives vis-a-vis China effectively. This Committee and the Congress have given the President a substantial arsenal of more limited but still highly potent weapons which the Administration has to date judiciously employed to protect and advance U.S. economic and foreign policy interests.

Our second point is that our industry's many years of experience in China has convinced us that America's economic and foreign policy interests will best be served by persevering in the policy of comprehensive engagement that all Administrations, Democrat and Republican, have pursued with bipartisan congressional support since 1979. Through their presence in China, American firms have an important role to play in support of that policy. This policy has never promised instant results, and there is no doubt there will be further setbacks along the way, but we believe comprehensive engagement is the only policy that holds the promise of achieving the results we all want to see.

Revoking MFN is the equivalent of waging economic war. It would do enormous damage to China, a country that is an increasingly important actor in all spheres of global affairs, as well as to ourselves. There is no reason to believe that it would advance the cause of U.S. economic and foreign policy interests. There is every reason to believe it would set us on a course of confrontation with China with potentially disastrous long-term consequences.

Comprehensive engagement is the right policy. MFN is the foundation upon which comprehensive engagement rests. Congress should therefore support the President's decision and the unequivocal recommendation of Majority Leader Dole to renew MFN for China.

**TARIFF COST CONSEQUENCES OF REVOKING MFN
FOR AMERICAN TOY COMPANIES AND AMERICAN FAMILIES
(MILLIONS OF DOLLARS)**

<u>HTS NUMBER</u>	<u>1995 U.S. IMPORTS</u>	<u>MFN DUTY RATE</u>	<u>AVERAGE NON-MFN DUTY RATE</u>	<u>THEORETICAL DUTY OWED</u>
WHEELED TOYS (9501)	\$ 25	0.0%	48%	\$ 12.00
DOLLS (9502)	\$ 868	0.0%	70%	\$ 607.60
TRADITIONAL TOYS (9503)	\$ 3,171	0.0%	70%	\$ 2,219.70
GAMES (9504)	\$ 529	0.0%	36%	\$ 190.44
FESTIVE ARTICLES (9505)	\$ 835	0.0%	52%	\$ 434.20
TOTAL	\$ 5,428			\$ 3,463.94

PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

Mr. Chairman, while I have already concluded that the United States should continue Most Favored Nation status for the People's Republic of China, I also believe this hearing is a good idea and a good opportunity.

I see this hearing as a chance to both review the specific questions involved in granting any nation "most favored nation" status and learn more about a wide range of issues when it comes to China.

As others have said before, "most favored" nation is a phrase that sounds to many like we are bestowing a few of the world's most exalted countries some sort of special, lofty status. But in fact, what it really means is "nondiscriminatory treatment," or to put it more simply, normal trading status.

I'm sure the Senator from New York can tell us how the concept of nondiscriminatory treatment has really been around for centuries, and MFN has formally been a part of American trade law for decades. Because of the various laws that bestow MFN status, a total of 151 countries and territories now receive "most favored" treatment. All but seven countries: Afghanistan, Cambodia, Cuba, Laos, North Korea, Vietnam and Yugoslavia have MFN, or normal trade status. And this Committee has already voted to take Cambodia off that list. Certainly we have disputes of one sort or another with other countries that currently receive MFN treatment, yet we don't threaten to remove normal trade privileges from them.

Therefore, my support for MFN extension should not be mistaken for a wholesale endorsement of China's policies and practices. Instead, I believe the legal criteria lead to extending this trade-related status, and that it is in our interests and the world's interest for us to pursue what can simply be called a "normal"—not highly privileged—trading relationship with a country of enormous size, population, and potential.

It is also important to consider the ramifications of revoking MFN status with China. At this stage, withdrawing MFN could have very negative effects in precisely all the areas we are concerned about: human rights, arms proliferation, Asian stability, and trade policy, to name some of the serious issues wrapped up with our relations with the Chinese.

But a hearing of this scope, in this Committee, is important. The Senate and its trade committee should look hard at some of the troubling issues that surface when looking at our trading relationship and on other fronts. MFN is not the only tool

available to us, by any means, to try to improve or change trade relations or other aspects in U.S.-China matters.

Our Administration has to grapple with a whole series of issues, from China's arms sales and related proliferation problems; human rights abuses, the Harry Wu case springs to mind, and there are many others; destabilizing actions in Asia, especially across the Taiwan Strait; environmental degradation, and trade law violations, such as their failure to enforce the Intellectual Property Rights Agreement they signed onto only last year.

In saying all this however, I don't think the best way to engage in a constructive and positive way with China is to disengage in normal trade relations, which again, is what removal of MFN status would effectively.

To look at this in the inverse way, for years we have argued with Japan over their trade policies, which are an extension of the whole way they arrange their domestic economy, and which I think most of us would agree has had direct negative effects on the American economy. But even with that, our problems over trade have rarely, if ever, truly gotten in the way of our foreign policy and security goals with Japan in East Asia. We may have argued in the harshest tone with Japan over trade and economics, but I don't believe the of the overall bilateral relationship was ever truly threatened.

In contrast, with China, we seem to constantly allow all our concerns to overlap. Foreign and security policy bumps into human rights concerns bumps into trade policy bumps into arms proliferation bumps into foreign policy and so on. All of these things are certainly important Mr. Chairman, but they shouldn't be played one off of the other. Relations with China are too important and too complex to force into simplistic trade-offs. We need to be engaged with China in all these areas, and when necessary, such as has to do with intellectual property for example, take appropriate action.

I am anxious to hear the views of our witnesses. I especially want to welcome acting US Trade Representative Charlene Barshefsky, who I hope can remove the "acting" from her title, and Rich Trumka, who I know from his days with the United Mine Workers. Rich, we may disagree in some ways on this particular issue, but on many, many other things you know we work closely together, and I hope my colleagues will find him as bright, engaging, and helpful as I have over the years.

PREPARED STATEMENT OF SENATOR ALAN K. SIMPSON

Thank you, Mr. Chairman, for holding this hearing today on China's trade status with the United States. I want to express warm welcome to Ambassador Barshefsky, acting U.S. Trade Representative. She has taken the helm at that office and does tremendously good and important work. She has "hit the ground running" and I look forward to working with her in the coming months.

I also want to thank the other distinguished panelists for being here today. I'm sorry to see that my old friend General Scowcroft could not be here. We worked together on this and other issues of national security during the tenure of our good friend, President George Bush.

We recognized then that toying with China's MFN status is wrong—that revoking MFN would be a terrible mistake with "all or-nothing" consequences. We knew that and we stood by it. With the rhetoric of the 1992 Presidential election we bandied the idea that China's MFN status was something that could be casually regarded and used as easy leverage to force changes in China's policy on issues of global concern. I do not take those concerns lightly—indeed I fully recognize China's transgressions against international standards on human rights, nuclear nonproliferation and issues of sovereignty. But I strongly disagree with the appropriateness of this debate. Talk of revoking MFN does absolutely nothing to stabilize relations or further our Western ideals in mainland China. Far worse, it dilutes our message and weakens our credibility not only in China, but in the rest of the world. We know that and the Chinese know it.

Reasonable people in this Congress can disagree on the direction and priority of human rights considerations in our Nation's foreign policy decisions. We can disagree on the course of action this country should follow in pursuit of nuclear nonproliferation. However, I believe most of us would agree that our ability to achieve foreign policy goals is compromised when our rhetoric doesn't match our behavior. It is evident in the administration's behavior that they know revoking MFN will not help us achieve our goals. But the rhetoric—begun during the 1992 Presidential campaign—is still carried on by many people who point their fingers at China, demand cooperation and then admonish the United States for maintaining normal trade relations!

This ongoing confusion in our China policy will not be repaired by revoking MFN. After 24 years of open relations with China—during which time, the human rights situation in China has drastically improved—who can deny the successes of our engagement? Free market principles have a long way to go in China, but they are there. Economic integration is bringing systemic changes throughout the country, not just in the rapidly modernizing coastal cities, but in the interior as well. To retreat from that engagement now, in 1996, when there have been real “quality of life” improvements in almost every respect, would jeopardize that progress and completely remove the United States from the bargaining table.

I am pleased that President Clinton is firm in his support for extension of MFN, but it is time to end the ambiguity in our China policy. We have a laundry list of real problems with China, but revoking MFN will not remedy any of them. We must be specific in our goals and targeted in our actions. We should end this divisive annual debate and grant permanent unconditional non-discriminatory trade status to China. Hear that—nondiscriminatory trade status. It is our standard economic treatment for nearly every country in the world, it is not a “gift.” I was pleased to note that my friend, Senator Moynihan, mentioned this at the last trade markup and I know that you, Mr. Chairman, discussed this on the Senate floor yesterday. I agree that renaming MFN is an issue that needs renewed attention.

We should grant permanent MFN without any illusions about the capricious and at times offensive political repressions carried out by China's government, and we must remain ever alert to the nature of the country's growth. Our concerns are genuine and for that reason, we must continue to aggressively engage the Chinese on issues such as human rights, the environment, arms proliferation and population policy. But we can only do this in a sensible way if we remove this destabilizing and fruitless thorn from our relations. Only then can we begin to constructively address the problems.

I won't belabor my colleagues with detailed projections of economic and population growth in China. We all know the statistics and there is little question that China will emerge as a full world power within the next 10 years. One point that some fail to consider is that while China clearly values U.S. trade and investment, it will grow without it. The question is not whether China will be a great power, but what nature it will have and whether the U.S.-Sino relationship will be a constructive and secure one.

I strongly believe that if we continue to equivocate on the value of normal relations with the People's Republic of China we will absolutely fail in our efforts to advance American ideals and to address our concerns in that country, and we will fail in our efforts to bring China responsibly into the world economy. Our foreign policy must be unified and clear and based on reason, not vindictiveness. Our American values and standards are far more likely to be received and embraced if they are promoted through an open door.

PREPARED STATEMENT OF DONALD L. STAHELI

Mr. Chairman, thank you for the opportunity to speak to you and members of the Committee this morning. I am aware of the key significance of the Committee's role in the annual MFN debate, and appreciate the opportunity to meet with you. I have prepared written testimony with attachments for your interest, and I ask that this material be placed in the record.

I am Don Staheli, Chairman and CEO of Continental Grain Company and the new Chairman of the US-China Business Council. The US-China Business Council is the principal organization of American firms engaged in trade and investment with the People's Republic of China. Founded in 1973, the Council today represents more than 300 member companies. It has headquarters in Washington, with offices in Beijing and Hong Kong, all of which assist Americans to develop their China businesses.

Continental Grain is a global food company, serving customers in more than 100 nations through facilities, offices and affiliates in 55 countries. We are also involved in financial services in the United States. Continental has been active with the People's Republic of China since making our first grain sales in 1972. In this regard, we have participated actively in the historic improvements of the diet of the Chinese people in recent years.

My own first visit to China in 1979 was to discuss how Continental might help the Chinese improve the efficiency and quality of food production, especially chicken and pork. That led to our first investments in 1981.

Today, Continental maintains investments in two dozen joint ventures in the PRC, ranging from livestock and poultry feed mills to pork and poultry production,

grain storage facilities, and food plants that supply processed meat products to the Chinese, including the meat products for McDonald's restaurants in China and other Asian markets. We are also a major investor in a Shanghai project that will import and market liquefied petroleum gas, beginning in late 1997. This project will have the important side effect of contributing to the improvement of air quality in the crowded Shanghai region.

I have also had the privilege of serving for two years as Chairman of the International Business Leaders' Advisory Council to the Mayor of Shanghai, a group of 20 international chief executive officers originally formed by then-Mayor Zhu Rongji. Mr. Zhu is now Executive Vice Premier in the central government of China.

Mr. Chairman, my task this year in supporting the renewal of MFN tariff status for China is not to introduce surprising new arguments. Instead, my purpose is to reaffirm central points whose validity has not changed over the many years that Congress has debated MFN renewal. There are some who say that the views of the business community on MFN have not changed sufficiently in recent years to reflect changes in Congress itself. To the contrary, we would argue that the central points that the business community has maintained over the years are more clearly valid today than ever before. We encourage legislators to recognize them by moving to maintain normal trade and economic relations with China in 1996. It is no surprise, either, that each American President faced with the decision over MFN has granted that trade status to China despite certain misgivings about individual issues.

Today, I would point out that the American business community that has been instrumental in opening trade with China has also introduced to the Chinese people many of the principles which concern this Committee. Equally important is our belief that revoking MFN will do little or nothing to remedy China's behavior in the way that critics of MFN would like.

In brief, let me say that the broad community of business organizations that actively support the US-China Business Council make the following in regard to US-China trade relations and the importance of MFN in that relationship.

1. The U.S. and China live in a crowded world and a global economy. Neither country could maintain its economic health under what China's old time communists once called "Self Reliance." The U.S. and China cannot and should not avoid communicating with each other and, whenever possible, cooperating with each other in the areas of trade, regional and global politics, security, or the environment.

2. The US-China Trade Agreement of 1979 is the basic agreement on which U.S.-China economic relations have grown and flourished ever since. The central commitment of that Agreement is the reciprocal granting of MFN status. Because of the growth in trade between our two countries since that Agreement was signed, economic ties have become the keystone of U.S.-China relations.

3. MFN is misunderstood by a great many people. MFN is not a "preferential" or specially favorable trade status, or a gift bestowed by the U.S. on China—or any other country. In fact, the U.S. accords MFN to all but six of the nearly 200 nations of the world.

4. The immense growth of U.S.-China trade and investments flows from the fundamental decisions made by the Chinese leadership in 1978. That decision was to move China from a centrally-controlled command economy towards a more market-driven economy. This decision implies China's full participation in the world economy.

5. American business is both the beneficiary and an important contributor to this historic transformation of China. For most American companies involved in world trade, the gradual opening of China's markets to U.S. producers and products represents a profoundly important factor in their strategic planning.

6. U.S. exports to China rose 27% last year alone, to approximately \$12 billion. Another \$5 billion in U.S. exports went to Hong Kong for re-export to China. These export sales, by most estimates, produce close to a quarter million jobs for Americans.

Over the past decade, many U.S. companies have worked at all levels within China in a way that perhaps no other segment of American society has done since the renewal of U.S.-China contacts in the early 1970s. Their combined experiences and observations can offer a great deal of perspective for policy makers. Among those views, let me cite just a few:

First, the emerging relationship between the U.S. and China require a foundation of stability. Disagreements and disputes between the two nations will occur, but individual disputes should not be the cause of a comprehensive breakdown of relations between the two. Putting MFN up for annual review is counter-productive.

Second, American businesses that are investing in China have taken the longer view rather than the year to year basis that surrounds the MFN debate—with its

constant threat of sudden economic disruption. This process corrodes the current relationship and makes long-term planning by both sides unpredictable and difficult.

Third, the recurring crisis over MFN enhances the competitive advantages of other nations seeking to best their American competitors in the Chinese market.

Fourth, revocation of normal economic and trade relations will do nothing to remedy the conditions and forms of China's behavior that is often criticized in this country. Without minimizing the recent friction or without ignoring those aspects of China's international behavior with which the U.S. takes exception, it is time to re-invest in the cooperative trend that had been taking place over many years. It is not realistic to imagine that China will change its ways to suit the tastes of the U.S. Congress. It is far more likely that revoking MFN would lead to the further hardening of China's positions both domestically and internationally. This will only deepen China's hostility to American influence on any issue.

In closing, permit me to state forcefully that good trade relations between the U.S. and China will help achieve our country's overall objectives in the important areas of trade and human rights. Continued trade, along with continued dialogue between our government and that of China, will be much more effective in the long run than will stopping MFN.

Thank you for permitting me to discuss my thoughts and the views of the US-China Business Council. We welcome the opportunity to work with you and others in Congress on issues relating to the future of U.S.-China relations.

1.1 - Main Economic Indicators of the People's Republic of China

All figures are in billions of RMB yuan or percent unless otherwise indicated.

Nominal GDP (1995 estimate)	5,770.0
Real GDP growth in 1995	10.2% over 1994
US forecast for real GDP growth in 1996	11%*
PRC forecast for real GDP growth in 1996	8-10% **
Retail price index in 1995	14.8
Cost of living index in 1995	17.0
Population as of year-end 1995	1.2 billion
GDP per capita (1995 estimate)	4,808.33 RMB (\$578.13 by exchange rate conversion)
	\$1.838 (1992 purchasing power parity estimate)***
Exchange rate (3/28/96)	8.35 RMB /\$ 1
Foreign Exchange Reserves (excluding gold)	
Year-end 1995	\$73.50 billion
Year-end 1994	\$51.62 billion

	93Q1	93Q2	93Q3	93Q4	94Q1	94Q2	94Q3	94Q4	95Q1	95Q2	95Q3	95Q4
Money/Prices/Retail Sales												
M1 Supply	1,250.38	1,297.08	1,271.74	1,424.42	1,643.71	1,767.73	1,900.96	2,055.62	2,102.45	2,141.85	2,219.38	2,398.73
M2 Supply	2,572.51	2,673.52	2,756.24	3,007.57	3,700.37	4,004.09	4,351.37	4,693.33	5,029.6	5,315.05	5,681.32	6,074.95
Retail Price Index (quarterly)	9.10	12.40	14.80	15.77	20.03	20.97	23.17	21.20	18.70	16.00	11.40	8.30
Retail Sales	308.95	330.64	329.07	390.60	352.24@	366.52@	393.44@	493.01@	462.72@	477.36@	501.69@	na
% Growth over same period in previous year	16.17	27.80	25.84	26.43	25.2@	25.99@	33.51@	26.22@	31.36@	30.24@	27.51@	na
Cost of Living Index	12.20	15.10	15.70	18.80	22.40	22.60	27.30	25.50	21.30	18.20	13.20	10.10
(Also called Household Consumer Price Index)												

Gross Value of Industrial Output (GVIO):

Total Industrial Output	745.72	921.33	863.51	967.75	882.14	1,096.84	1,047.82	1,230.48	924.33	1,165.33	1,065.41	*****
% growth over same period in previous year	22.83	27.65	22.36	21.96	18.29	19.05	21.34	27.15	4.78	6.24	1.68	2.85
Light Industry Output	350.91	428.45	399.35	472.57	420.43	516.95	504.42	605.42	414.59	522.12	474.59	582.67
% growth over same period in previous year	18.15	25.81	21.78	22.85	19.81	20.66	27.81	28.11	(1.39)	1.00	(5.91)	(3.76)
Heavy Industry Output	394.81	492.88	464.16	495.17	467.11	574.49	543.40	625.06	509.74	643.21	590.82	682.87
% growth over same period in previous year	27.31	29.41	22.86	21.12	18.31	16.56	17.07	26.23	9.13	11.96	8.73	9.25
State-Owned Enterprise Output	422.35	482.76	448.51	480.89	422.69	477.32	446.69	516.15	439.94	510.94	472.53	544.43
% growth over same period in previous year	8.85	11.53	8.43	7.78	0.08	(1.13)	(0.41)	7.33	4.08	7.04	5.78	5.48
Collective Enterprise Output	252.54	342.81	314.39	371.64	330.99	427.30	410.86	486.52	313.30	414.18	359.88	451.07
% growth over same period in previous year	44.22	46.95	36.71	35.01	31.06	24.65	30.68	30.84	(5.54)	(3.07)	(12.41)	(7.29)
Other (Private and Foreign) Enterprise Output	70.80	95.76	100.59	115.02	128.46	192.21	190.26	227.81	171.29	240.21	233.22	270.01
% growth over same period in previous year	60.87	72.17	61.95	59.91	81.44	100.72	89.14	98.06	35.34	24.97	22.58	18.52

Investment in State-Owned Enterprises

Total Investment	46.66	129.39	145.43	362.46	61.08	200.60	233.94	460.22	111.79	264.59	312.81	na
% growth over same period in previous year	68.33	63.00	60.55	54.08	30.93	40.39	50.15	26.97	83.02	31.90	33.71	na
Fixed Investment	33.51	90.35	99.68	241.16	43.72	127.81	153.58	303.60	64.28	149.90	172.38	na
% growth over same period in previous year	69.59	60.51	61.90	57.09	30.47	41.46	54.07	25.89	47.03	17.28	12.24	na
Investment in Housing	2.88	10.03	11.82	25.67	3.48	13.91	17.00	38.61	5.83	17.46	22.74	na
% growth over same period in previous year	76.69	61.00	56.97	44.05	20.83	38.68	43.82	50.41	67.53	25.52	33.76	na
Investment in Technical Upgrading	13.15	39.04	45.75	121.30	17.57	53.84	64.79	148.24	21.81	59.84	66.95	na
% growth over same period in previous year	65.20	69.07	57.70	48.43	32.09	37.91	41.62	22.21	25.56	11.14	3.33	na

* 1996 estimate from Goldman Sachs

** Official Chinese government estimate.

*** Penn World Tables version 5.6

@ These figures represent consumer goods only; agricultural products are not included.

na Not available

Sources: IMF, "International Financial Statistics," US-China Business Council files, "China Economic News,"

"Journal of Commerce," World Bank, "Economist Intelligence Unit Country Report," PRC State Statistical Bureau, "China Monthly Statistics," "China Daily"

11.4 China's Trade Balance With Its Top Trading Partners According to

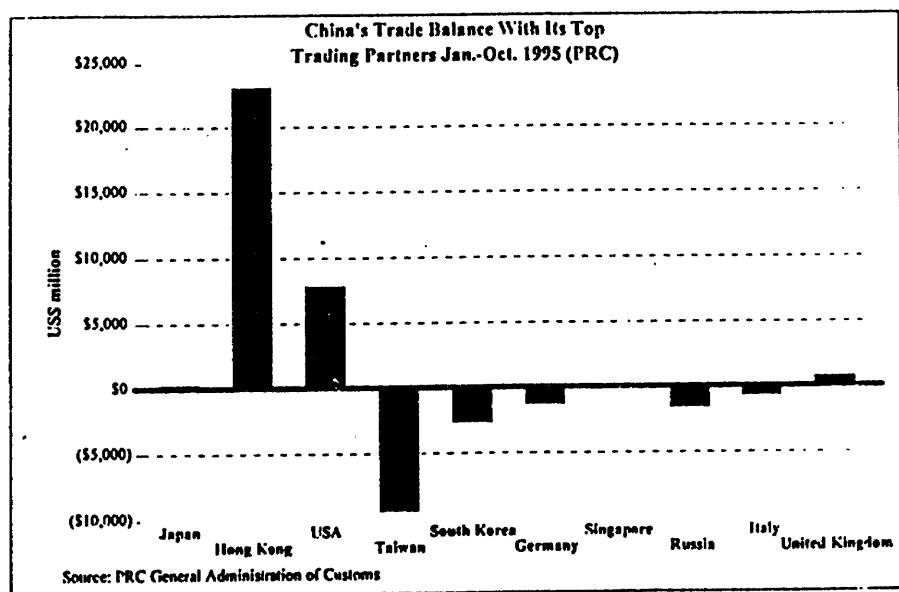
PRC Statistics (US\$ million)

	1991 Balance	1992 Balance	1993 Balance	1994 Balance	Jan.-Oct. '94 Balance	Jan.-Oct. '95 Balance
1. Japan	320	(1,981)	(7,471)	(4,748)	(4,727)	296
2. Hong Kong	11,673	16,971	11,591	22,908	16,959	23,069
3. USA	(1,815)	(305)	6,276	7,491	5,680	7,817
4. Taiwan	(3,043)	(5,183)	(11,471)	(11,843)	(9,061)	(9,371)
5. South Korea	1,113	(186)	(2,500)	2,916	(2,353)	(2,677)
6. Germany	(694)	(1,575)	(2,071)	(2,376)	(1,839)	(1,340)
7. Singapore	952	795	(401)	76	(67)	(88)
8. Russia	(257)	(1,190)	(2,295)	(1,915)	(1,464)	(1,620)
9. Italy	(527)	(653)	(1,133)	1,177	(1,120)	(729)
10. United Kingdom	(215)	(91)	265	611	467	761

Source: PRC General Administration of Customs, "China's Customs Statistics Monthly," 1991 - October 1995

* USSR as a whole

** 1991 estimates based on US-China Business Council files.



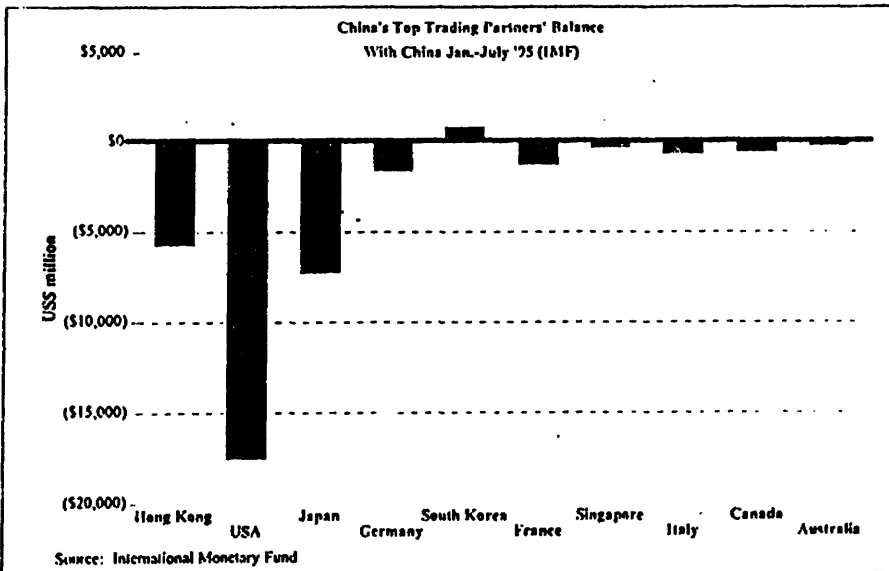
**11.5 China's Trade Balance With Its Top Trading Partners According to
Trading Partners' Statistics (US\$ million)**

	1991 Balance	1992 Balance	1993 Balance	1994 Balance	Jan.-July '94 Balance	Jan.-July '95 Balance
1. Hong Kong	(11,022)	(10,373)	(8,303)	(11,015)	(4,810)	(5,762)
2. USA	(11,018)	(19,913)	(22,416)	(32,075)	(15,688)	(17,540)
3. Japan	(5,643)	(5,005)	(3,298)	(8,882)	(2,961)	(7,294)
4. Germany	(1,536)	(3,795)	(2,531)	(3,167)	(1,283)	(1,598)
5. South Korea	(2,438)	(1,071)	1,222	740	1,011	828
6. France	(1,628)	(2,107)	(2,118)	(1,878)	(974)	(1,263)
7. Singapore	(1,369)	(1,140)	(499)	(787)	(179)	(316)
8. Italy	(1,025)	(1,307)	(135)	(845)	(282)	(666)
9. Canada	(16)	(233)	(1,088)	(1,235)	(471)	(578)
10. Australia	(196)	(324)	(445)	(424)	(71)	(250)

Source: "IMF Direction of Trade Statistics Yearbook," 1995;

"IMF Direction of Trade Statistics Quarterly," Dec. 1995 (Taiwan statistics not available)

US-China Business Council Forecast '96



III.1 Foreign and US Direct Investment in China 1979-1995

	1979-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995**	% Change Vs. 1994	Total
Equity Joint Ventures															
Number of contracts	190	741	1,412	892	1,395	3,909	3,659	4,091	8,395	34,354	54,003	27,890	12,606		153,537
Amount contracted (US\$ million)	315	1,067	2,030	1,375	1,950	3,134	2,659	2,704	6,080	29,128	55,174	40,194	22,805		168,615
Contractual Joint Ventures															
Number of contracts	1,123	1,089	1,611	582	789	1,621	1,179	1,317	1,778	5,711	10,445	6,634	3,201		37,080
Amount contracted (US\$ million)	3,230	1,484	3,496	1,358	1,283	1,624	1,083	1,254	2,138	13,255	25,500	20,301	11,528		87,534
Wholly Foreign-Owned Enterprises															
Number of contracts	46	26	46	18	46	410	931	1,860	2,795	8,692	18,975	13,007	7,695		54,549
Amount contracted (US\$ million)	372	100	46	20	471	481	1,654	2,444	3,670	15,696	30,457	21,949	16,115		93,474
Joint Resource Exploration															
Number of contracts	31	0	4	6	3	5	10	5	10	7	14	18	6		119
Amount contracted (US\$ million)	2,423	0	360	81	5	59	204	194	92	43	305	237	54		4,056
Total Foreign Direct Investment															
Number of contracts	1,392	1,856	3,073	1,498	2,233	5,945	5,779	7,273	12,978	48,764	83,437	47,549	37,011	-22.2%	258,788
Amount contracted (US\$ million)	6,339	2,650	5,931	2,834	3,709	5,297	5,600	6,596	11,980	58,122	111,436	82,680	91,282	10.4%	394,457
Amount utilized (US\$ million)*	2,687	1,419	1,956	2,245	2,647	3,740	3,774	3,410	4,366	11,008	27,515	33,767	37,521	11.1%	136,054
US Direct Investment:															
Number of contracts	46	62	100	102	104	269	276	357	694	3,265	6,750	4,223	3,474	-17.7%	19,722
Amount contracted (US\$ million)	751	165	1,152	527	342	370	641	358	548	3,121	6,813	6,010	7,471	24.3%	28,270
Amount utilized (US\$ million)*	18	256	357	315	263	236	284	456	323	511	2,063	2,491	3,083	23.8%	10,657
US Share of Contracted Investment:	11.8%	6.2%	19.4%	18.6%	9.2%	7.0%	11.4%	5.4%	4.6%	5.4%	6.1%	7.3%	8.2%		7.2%

* Includes utilized investment in material processing, compensation trade, and leasing arrangements.
The total number of contracts and total amount contracted exclude these projects.

** This column contains Jan-Sept. '95 data for ejv, cjv, wfoe, and joint resource exploration. All other data is full-year 1995 data.

Sources: Ministry of Foreign Trade & Economic Cooperation (MOFTEC), "Zhongguo Duiwai Jingji Maoyi Nianjian," issues 1984 through 1995/96 for 1979-1994 data
Ministry of Foreign Trade & Economic Cooperation (MOFTEC), for 1995 data

US-China Business Council Forecast '96

PREPARED STATEMENT OF RICHARD L. TRUMKA

Mr. Chairman, members of the committee, the AFL-CIO appreciates this opportunity to present its views on U.S. trade policy toward China and its opposition to the granting of most favored nation (MFN) trading status. This opposition, expressed for years to both Republican and Democratic administrations, is based on the continued denial of basic worker and human rights in China, and the nonreciprocal, unfair nature of the trading relationship that exists between the two countries.

While the congressional debate will correctly focus on the specifics of the U.S.-China relationship, it will also, through that examination, address a series of more fundamental questions: What are the conditions under which the United States trades with the world? Are there any standards or rules that should be observed? Are certain narrow commercial interests identical to the interests of the nation as a whole? The relationship with China puts those questions and others in sharp relief, and how they are answered will tell us a lot about this country's adherence to basic principles and whether or not the growing internationalization of the economy can be structured to benefit and not harm working Americans.

The administration's decision to seek a waiver of legal requirements to continue MFN status for China represents a regrettable misunderstanding of recent history, and if allowed to stand will further solidify a trading relationship that is harmful to U.S. workers. Despite 15 years of accommodation, exemplified by the uninterrupted granting of MFN status, there is nothing today that suggests that China is willing to act in accordance with international trading norms or basic democratic principles.

In this regard, it is difficult to understand why the American government continues to permit companies operated by the People's Liberation Army ("PLA") to do business in the United States. The PLA General Logistics Department has a company in southern California, the PLA General Staff Department has its headquarters in Atlanta, and the People's Armed Police have a company in Michigan. NORINCO, which was caught recently trying to illegally import 2,000 AK-47's destined for American street gangs, has some eight subsidiaries in southern California and New Jersey.

It my understanding that when the United States wanted to provide assistance to a foreign army both the House and Senate would debate the issue and vote. But, with China we have the perverse situation of having American consumers unwittingly subsidizing the Chinese army. This is simply not right.

Legal requirements allow for MFN treatment only with the existence of a trade agreement that provides reciprocal, non-discriminatory treatment. Access to the Chinese market for U.S. goods and services is severely and unfairly restricted, while the U.S. market remains open to the People's Liberation Army and an ever-growing volume of Chinese exports. Investment in China is conditioned on harmful export and technology transfer requirements. Intellectual property rights continue to be violated. Textile agreements are not honored as the U.S. Customs Service estimates that \$4 billion in illegal textile transshipments originate in China. These practices, together with the unwillingness of the U.S. to address them, has resulted in a massive shift in the balance of trade; with the U.S. now suffering under trade deficits that reached \$34 billion last year.

U.S. multinational companies, the major force behind MFN extension, have adapted to Chinese government policies and invested billions of dollars in China, transferring not only capital, but valuable technology and jobs. Using low cost, oppressed Chinese labor, they are establishing or contracting with manufacturing export centers that compete directly with U.S. production. Their support for MFN extension is principally about protecting those investments, and not about expanding U.S. exports and employment or promoting democracy in China.

It is clear that no progress has been made in the area of human rights. Chinese prisons are filled with political and religious dissidents. Independent unions are banned, and China continues to produce and export goods made in their forced labor system, Laogai, despite the bilateral agreement which was negotiated to end that practice.

As a former president of the United Mineworkers of American, I am particularly incensed about the use of forced labor in China. There are literally dozens of coal mines where prisoners are forced to labor under inhumane conditions. The largest asbestos mine in China is a forced labor camp. There are bauxite mines, manganese mines, and uranium mines among others where prisoners are used. Last year the AFL-CIO helped Harry Wu expose a forced labor mine that was exporting graphite to the U.S.

All the above suggests that a continuation of the policies in place for the last fifteen years would merely be a triumph of hope over experience. A new approach is needed to achieve a reciprocal, nondiscriminatory trading relationship and support those working toward the emergence of a free and democratic China. Seeking these goals is not only intrinsically correct, but also in the direct self-interest of the U.S. Freedom, democracy and adherence to international standards are necessary attributes if China, the largest country in the world, is to join, in a positive way, the world community. We are under no illusions that this will occur quickly or easily, and certainly the primary force for change must originate in China itself. But experience also tells us that external pressure can play a significant role in accelerating the process of change.

Indeed, much of the current debate about China policy has a very familiar ring. Many who urge an extension of MFN for China sound remarkably similar to the advocates of "constructive engagement" for South Africa in the 1980's, or those who thought that the oppressive nature of governments in Eastern Europe was of no consequence, as long as they paid their bills. Those views were demonstrated to be wrong then and they are equally wrong now.

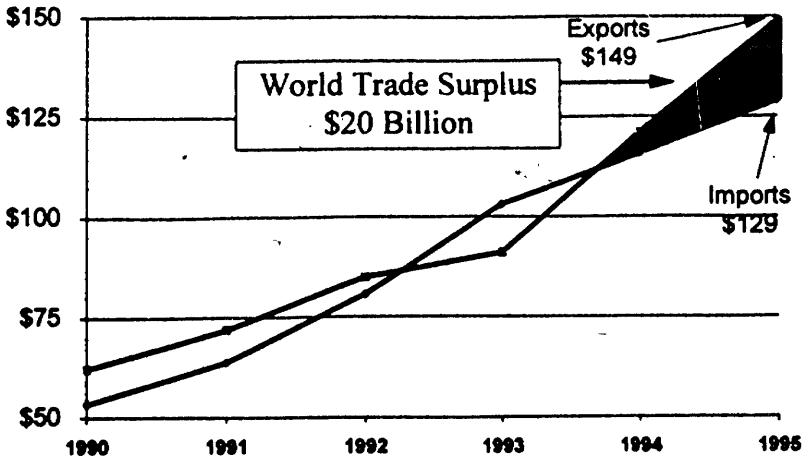
CHINA'S WORLD TRADE POSITION

In 1994, the World Bank described China's trade strategy as "mercantilist, motivated by achieving export growth for the sake of generating foreign exchange without sufficient regard to costs, and linked with attempts to contain import growth." In many respects this approach has been quite successful.

International trade now accounts for 40 percent of China's total economy, with hard currency reserves reaching \$73 billion. In recent years, Chinese exports have grown at three times the average world rate, making China one of the world's ten largest exporters. As a result of this strong export growth, together with restrictions on imports, China enjoyed an overall trade surplus of \$20 billion in 1995 (Figure 1), while the U.S. recorded an overall deficit of \$160 billion.

Figure 1

China's Trade With the World, 1990 to 1995 (Billions of Dollars)



Source: U.S. Department of Commerce

On a scale that the rest of the world is just beginning to comprehend, China is rapidly expanding its industrial capacity. Until now, growth has come mostly from producers that took advantage of the country's immense pool of oppressed workers, where wages average about \$100 per month. Increasingly though, these companies

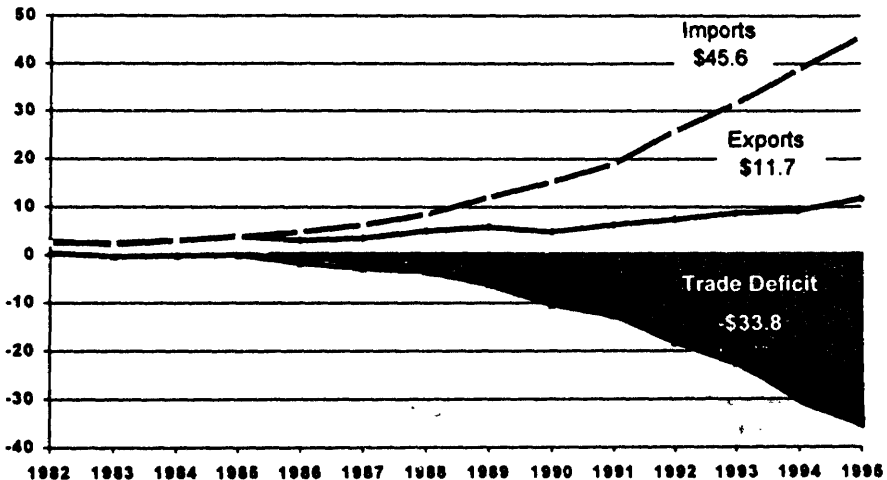
are moving to more advanced products. Manufactured goods, which account for 82 percent of Chinese exports, are no longer dominated by traditional labor-intensive products. For example, exports of electrical and machinery products exceeded textile exports for the first time in 1995, and are expected to total \$100 billion within four years. Exports of color TVs, auto parts, cellular phones, engines, power generators, computer equipment, and a host of other high-value-added goods will grow substantially.

U.S.-CHINA TRADE

Over the last dozen years, U.S. merchandise trade with China has deteriorated from rough balance to a deficit that reached \$33.8 billion in 1995. (Figure 2) While exports amounted to \$11.7 billion, imports reached \$45.6 billion and represented 31 percent of China's worldwide exports. In contrast, U.S. exports to China were only 2 percent of total U.S. exports. At \$11.7 billion in 1995, U.S. merchandise exports to China were lower than exports to countries like the Netherlands, Belgium, and Singapore and ranked thirteenth among countries that import from the U.S. However, the \$45.6 billion in imports from China ranked fourth among countries that send goods to the U.S.

Figure 2

U.S. Trade Deficit With China (Billions of Dollars)



Source: U.S. Department of Commerce

The makeup of the \$33.8 billion merchandise trade deficit with China is also cause for concern. (Figure 3) Of the 20 American industries running the biggest trade surpluses with China in 1995, only one, aerospace, produced high-value, complex products that generate the best paying jobs. The rest are raw materials and lower value added products such as fertilizers, cereals, food residue and waste, ore slag and ash, and pulp wood—the kinds of goods that developing countries send to industrialized countries. The largest deficit however, is for electrical machinery, equipment and parts.

Trade Balance of Top 20 Articles of U.S.-China Trade, 1995

Figure 3

U.S. Surplus		U.S. Deficit	
Article of Trade	\$ (mil)	Article of Trade	\$ (mil)
Fertilizers	1,200	Electrical Machinery And Equipment And Parts	6,615
Aircraft, Spacecraft, And Parts	1,151	Toys, Games And Sports Equipment	6,151
Cereals	1,144	Footwear, Gaiters And Parts	5,814
Cotton, Including Yarns And Woven Fabrics	691	Articles Of Apparel And Clothing Accessories	3,272
Animal Or Vegetable Fats And Oils	393	Articles Of Leather; Saddlery And Harness	2,533
Pulp Of Wood Or Other Fibrous Cellulosic Material;	183	Furniture; Bedding, Cushions Etc.; Lamps And Lights	1,919
Manmade Staple Fibers	153	Nuclear Reactors, Boilers, Machinery	1,433
Raw Hides And Skins (Other Than Furskins) And Leather	105	Articles Of Apparel And Clothing Accessories, Knit	1,371
Aluminum And Articles Thereof	92	Plastics And Articles Thereof	1,272
Copper And Articles Thereof	81	Optical, Photographic, Cinematographic, Measuring,	823
Miscellaneous Chemical Products	70	Prepared Feathers And Down And Articles	642
Meat And Edible Meat Offal	35	Made-Up Textile Articles, Needlecraft Sets	634
Residues And Waste From The Food Industries	10	Ceramic Products	532
Ores, Slag And Ash	8	Articles Of Iron Or Steel	448
Live Animals	8	Mineral Fuels, Mineral Oils And Products	413
Oil Seeds And Oleaginous Fruits	6	Tools, Implements, Cutlery, Spoons And Forks	348
Manmade Filaments, Including Yarns And Woven Fabric	5	Clocks And Watches And Parts	345
Tobacco And Manufactured Tobacco Substitutes	3	Miscellaneous Manufactured Articles	343
Nickel And Articles Thereof	3	Vehicles, Other Than Railway Or Tramway	330
Impregnated, Coated, Covered Or Laminated Textiles	2	Miscellaneous Articles Of Base Metal	311

Source: U.S. Department of Commerce

CHINA'S TRADE REGIME

The inequitable and discriminatory nature of Chinese trade and investment policies has been a major contributor to America's growing bilateral trade deficit. China has explicitly followed an export led growth strategy, implementing policies that have nothing in common with free trade or open markets. This is particularly true for so-called "pillar industries," industries that the Chinese government has targeted for development. For these industries, which include autos and trucks, aerospace, machinery, electronics, engineering, petro chemicals and building materials, China uses a combination of import protection, investment requirements, and export support.

Tariffs

China uses prohibitively high tariffs, in combination with import restrictions and foreign exchange controls to protect its domestic industry and restrict imports. Tariffs facing goods entering China in 1995 ranged as high as 150 percent, while the average nominal import tariff exceeded 35 percent. While some reductions have apparently taken place, tariff rates remain extremely high for sectors such as chemicals and transportation equipment in which China is seeking to build internationally competitive industries. Auto tariffs for example, are 100 percent.

The published tariff however, may not even apply as different ports of entry often charge different duty rates on the same products. Because there is flexibility at the local level in deciding whether to charge the official rate, actual customs duties are often the result of negotiation. This is also true of various forms of taxation. Allegations of corruption are numerous.

On the whole, tariff reductions have been the greatest on the sort of raw materials and high-technology items that China needs to import in order to sustain its economic growth. Least changed are the tariffs on consumer and manufactured goods which China prefers to make itself.

Non-Tariff Measures

These measures include import licenses, import quotas, discriminatory standards, lack of transparency, foreign exchange requirements, import substitution requirements, as well as the non-market operation of China's state-owned or-directed enterprises.

The levels of imports permitted under these measures are the result of complex negotiations between the central government and Chinese ministries, state corporations and trading companies. Non-tariff barriers are administered by the State Economic and Trade Commission (SETC), the State Planning Commission (SPC), and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Negotiations to end these practices have not been successful.

U.S. INVESTMENT IN CHINA

"... multinationals that have followed Beijing's rules may use their Chinese factories, rather than U.S. plants, to meet the huge demand for goods in the developing world." (*Business Week*, March 4, 1996, p. 60)

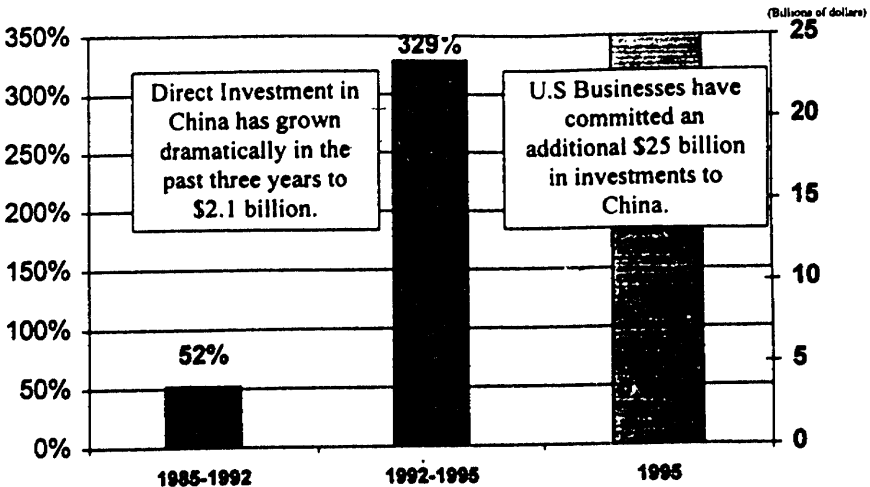
"We want them to bring their technology to the soil of the People's Republic of China." Yuan Sutai, China's Ministry of Electronics Industry. (*Wall Street Journal*, December 7, 1995)

While the public debate on MFN tends to focus on imports and exports, much of the passion in this discussion is a result of corporate decisions to use China as a low-cost production location. They fear that real action on the part of the U.S. to combat China's unfair practices might jeopardize existing or planned investment. China has masterfully exploited this fear by conditioning access to the world's largest potential market on a whole series of investment performance requirements that include import substitution, export performance, trade balancing, technology transfer, local content and domestic sales restrictions.

U.S. investment in China has grown rapidly over the last three years and is valued at \$2.1 billion for 1995. This however, is just the beginning. Committed investment is reported to be an almost unbelievable \$25 billion. (Figure 4)

Figure 4

U.S. Direct Investment Position in China, 1985 to 1995



Source: U.S. Department of Commerce,
U.S. China Business Council

Efforts on the part of the U.S. to negotiate the elimination of many of these investment requirements has been unsuccessful. When agreements have been reached, they are ignored by the Chinese government. For example, a Memorandum of Understanding on market access was reached in 1992, which committed China to a variety of actions, including pledging that it;

... will not condition the issuance of import licenses upon either the transfer of technology or meeting requirements related to investment in China . . . The Chinese government confirms that it has eliminated all import substitution regulations, guidance and policies and will not subject any products to any import substitution in the future.

Despite these commitments, USTR's 1995 National Trade Estimate Report on Foreign Trade Barriers reports that:

In 1994, China announced the first in a series of industrial policies that include clear import substitution requirements and in some other sectors, such as pharmaceuticals, China has also adopted import substitution requirements. China's auto policy, designed to build a modern automobile industry in China, explicitly calls for production of domestic automobiles and auto parts as substitutes for imports, and mandates strict local content requirements—forcing the use of domestic products, whether comparable or not in quality or price.

These policies and the U.S. acceptance of them have real consequences for U.S. workers and domestic production. Prior to the publication of its auto policy in 1994, China officially imported more than 300,000 vehicles. Today, imports have been reduced to tens of thousands. The U.S. trade balance with China has also suffered significantly with U.S. exports to China falling and U.S. imports rising. In 1993, just before the policy went into effect, the U.S. had a surplus in auto trade (vehicles and parts) with China of \$521 million. In 1995, the U.S. ran a deficit of \$454 million—a reversal of \$ 1 billion in just two years. With the massive amount of auto-related investment that is taking place in China, the deficit could mushroom in a short time.

China is following a very careful economic strategy that is based on a protected domestic market, foreign investment and exports, and U.S. companies are falling over each other in a rush to accommodate Chinese demands by investing in production facilities and transferring advanced technology. Make no mistake, their support for China and the continuation of MFN has nothing to do with fair trade, human rights, increased U.S. exports, domestic employment, corporate responsibility or U.S. national security, and everything to do with the profits they project through producing and selling in China.

It is this lure of profit that brings U.S. companies to join with Chinese businesses, state-owned enterprises and even the Chinese military in establishing new state-of-the-art production facilities in China. We have reached the point where the most ardent defenders of Chinese communism are U.S. capitalists.

U.S. CORPORATE ACTIVITY IN CHINA

The following is an illustrative list of the kind of U.S. economic activity and investment currently taking place in China. While U.S. exports are no doubt associated with much of these investments, it is clear that their principal focus is to increase Chinese production. And that production will compete directly with U.S. exports, not only to China, but to other countries as well.

Agribusiness/Pharmaceuticals

Archer Daniels Midland, Cargill, Continental Grain and Monsanto Co. already have or are exploring production opportunities in China despite growing exports from U.S.-based production facilities. ADM Co. has committed an estimated \$80 million to a seven-plant processing complex in Shanghai. Continental Grain has over 25 joint ventures in China. Monsanto, despite having its products pirated, recently announced plans for an agricultural-chemical plant in China (Business Week, May 20, 1996).

Pfizer Inc. established a joint venture in 1994 with a total investment of \$50.4 million. The joint venture produces mainly antibiotics which are substitutes for imports. According to company estimates, these products helped China save about \$20 million in foreign exchange in 1994 (Business Weekly, China Daily Publications, January 15, 1995).

Aerospace

Boeing Corp. is unarguably the most successful U.S. exporter to China, holding some 70% of the Chinese civilian aircraft market. Even this success is beginning to have a high price as Chinese demands for offsets and technology transfer intensify.

For example, tail sections for the Boeing 737 are made in China in the same plant in which Chinese military aircraft are built.

On the other hand, McDonnell Douglas has had one of the best-known and most unsuccessful ventures in China. In fact, a former Douglas executive (modestly) claims "[I]n the end we were betrayed" (Wall Street Journal, May 22, 1996). Douglas was actually one of the first companies to transfer massive amounts of technology, setting a standard for others that followed. The president of the company's operations in China stated "We're in the business of making money for our shareholders. If we have to put jobs and technology in other countries, then we go ahead and do it" (New York Times, February 25, 1995, p. 39).

Not only had Douglas transferred technology but they trained Chinese engineers for domestic production. Jobs were also part of the equation as Douglas agreed to let Chinese workers assemble planes from imported U.S. kits. In addition, Douglas agreed not to solicit Chinese airlines to buy planes manufactured in the U.S.

Later, China's aviation authority used a \$4.5 billion carrot, a program to manufacture transport aircraft, the so-called "Trunkliner," to further pursue technology transfer. Before an agreement was signed, the Chinese first pushed Douglas to help China produce plane parts and Chinese authorities insisted on the spread of technology. This "diffused production" in the words of Joseph Kahn of the Wall Street Journal, "had just one major beneficiary: the Chinese military" (Wall Street Journal, May 22, 1996).

A special relationship apparently developed between Douglas and China's military. Engineers were often taken from the original MD-82 venture and were placed on military or air-force projects. Chinese officials sought Douglas' help in acquiring dual use machine tools to further missile and special aircraft development.

In the end China canceled the fabled "Trunkliner" project. To preserve some semblance of a relationship, Douglas with the help of late commerce secretary Ron Brown, was able to sign a contract for 40 MD-90s—20 of which will be produced in Shanghai.

Vehicles And Parts

GM holds 30 percent of a joint venture with Jinbei Automobile Co. to build one-ton pick-up trucks in northeast China.

GM recently won the right to negotiate with a joint venture partner in China to build 100,000–150,000 mid-size cars in China with Shanghai Auto Industrial Corporation. According to GM Overseas Corp. vice president Robert Rice, GM would "spare no effort to introduce the most advanced production technologies to China and help China develop high-grade automobiles" (Journal of Commerce, June 10, 1995).

GM's Delphi parts division has recently announced that it plans to establish more than 20 parts production plants in China in the near future. Several plants were opened by Delphi in 1995 on top of others already in operation. Those plants produced drive shafts, wiring harnesses, ignition systems and engine control systems.

Delphi licensed production of wiring harnesses, spark plugs, starter motors, alternators, and steering gears to Chinese producers several years ago. It will produce as many as a million maintenance-free batteries next year and sell them throughout Asia in addition to within China.

Chrysler makes Jeep Cherokees and a utility vehicle in Beijing with a partner.

Ford has parts plants scattered around China. It builds audio and electronic parts in Shanghai, and is also making instrument panels with Shanghai Automotive Industry Corporation and safety glass for windshields with Yao Hua Glass Works.

Tenneco Automotive, a leading supplier of auto parts, launched its first joint venture in 1995. The investment and technology is expected to triple the Chinese partners existing production. The products, mainly shock absorbers, will supply auto producers in China. Local content requirements of up to 80 percent require that Western suppliers team up with domestic companies (Business Weekly, China Daily Publications, November 20, 1995).

Delco Electronics under Hughes Corp. is negotiating with Chinese suppliers to establish joint venture manufacturing auto parts in China.

Borg-Warner makes gearboxes and Allied Signal makes fuel systems. TRW makes engine valves in a joint venture. Dana makes drive shafts in Tinjin with Shul Hing Manufacturing Company and makes filters in Tinjin as well. Goodyear makes tires and hoses with joint venture partners. United Technologies Automotive produces electrical distribution systems in China with European and Chinese partners. Kaiser Aluminum helped build two aluminum wheel casting plants in China.

Kaiser established two joint ventures that will develop deep-processing of aluminum for use in building and industrial settings in two of China's provinces

(Guizhou and Sichuan). The two production lines and technology will be imported from Kaiser (Xinhua English Newswire, March 30 1995).

Electronics

Motorola recently became one of the first foreign companies to build a wholly owned semiconductor plant in Tianjin, China, a \$720 million investment. The new investment is designed to enhance existing Chinese capacity in producing semiconductors. Mass production is scheduled to begin in 1998, with products to be marketed domestically as well as abroad (China Daily, September 25, 1995). Last October, Motorola announced a joint venture with Nanjing Panda Electronics Group Corporation to produce personal computers. Motorola has investments (or planned investments) in China worth \$1.2 billion, producing goods like cellular phones, and in February 1996 announced plans to build a new plant in China to produce pocket pagers.

Hewlett Packard opened a \$29 million inkjet printer manufacturing plant in the economic development zone of Waigaoqiao. The plant will at first produce 20,000 printers a month, with production expected to reach 200,000 a month within two years, and generate revenues of \$100 million annually. All machines are supposed to be exported—though expectations are that 30 percent will be sold to the domestic (Chinese) market (Journal of Commerce, May, 14 1996).

Whirlpool from 1994-95 has established four joint ventures in China to make and sell refrigerators, microwave ovens, washers and air conditioners. These operations will export products to other countries in Asia and elsewhere. In 1994, Whirlpool invested \$107 million in two of those joint ventures. Workers in a Whirlpool manufacturing plant in Indiana have a pending trade adjustment claim with the Dept. Of Labor's Trade Adjustment Assistance Office.

In 1994, AT&T announced a series of deals that totaled \$150 million in investments in China. China insisted that AT&T Bell Laboratories must make most of the equipment there (Washington Post, April 29, 1994). AT&T is manufacturing both corded and cordless telephones in Guangdong province for export to the United States. Business projections for its operations in China show earnings of \$3 billion by the year 2000. AT&T led the resistance to a human rights proposed "code of conduct" for U.S. companies, stating it "would be viewed by the Chinese government as another attempt to influence Chinese domestic politics and would be detrimental to U.S. business" (Multinational Monitor, April 1996).

General Electric, which has 13 businesses and \$150 million invested in China already, announced in May its 14th operation. The alliance will allow China to produce the most advanced colored ultrasound equipment in the world and greatly expand exports (Xinhua English Newswire, April 24, 1996).

Hughes Electronic Corp. announced in late 1995 that it plans to invest up to \$1 billion in China over the next decade. Hughes stated much of the investment will be in the fields of telecommunications, space, electric vehicles and automobile parts. Hughes, which has signed a contract to make a communications satellite for China, will provide equipment for a ground control station in Beijing and train Chinese satellite controllers and analysts (Xinhua English Newswire, October 10, 1995).

Duracell began construction of an alkaline battery manufacturing plant in China during 1995 in addition to forming new subsidiaries. Another battery company, Ultralife Batteries, sold to the China Development Program manufacturing equipment, training and factory start-up support. The company had already transferred technology under the first phase of the program in fiscal 1993. Production of its Chinese-based subsidiary was to be producing batteries by the first quarter, 1996.

In 1994, Pulse Engineering Inc. completed the transition of their manufacturing operations to the People's Republic of China.

During 1994, CopyTele signed a letter of intent with Shanghai Electronics Components Corporation ("S.E.C.C.") to form a joint venture in Shanghai, China. The company has been advised that S.E.C.C., an electronics components company, is wholly owned by the government of China. The joint venture will develop, manufacture and market products worldwide in the telecommunications field.

Ault Corp. fiscal 1995 sales benefited from the exceptional growth of its Ault line of low-cost transformers, manufactured through subcontracting arrangements in the Peoples Republic of China. A California based-computer company, AST Research Inc., is selling PCs domestically that were assembled in China (Business Week, December 12, 1994, p.57). GTI established its third plant and utilized another subcontractor in China "responding to competitor and customers needs." VeriFone in 1994 stated in its annual proxy that "to meet growing demand, VeriFone began building a high-volume manufacturing center in Kunshan, Peoples Republic of China."

Miscellaneous Manufacturing

Eastman Chemical, which entered the Chinese market in 1979, and produces a growing number of specialty and industrial chemicals, plastics, and fibers announced in April that it plans to invest \$200-400 million in China over the next decade. Eastman announced it was working with the Chinese government and potential joint-venture partners on several projects that will feature Eastman's "state-of-the-art-technology" (Xinhua English Newswire, April 4, 1996).

DuPont Co. has plans to increase its stake in China from current investments totaling \$350 million to \$1 billion over the next five years.

Otis Elevator Co. first entered the China market with a joint venture in 1984, and has since established four major ventures in Tianjin, Beijing, Guangzhou, and Shanghai. Despite having its headquarters in Connecticut, 89 percent of the company's workforce resides outside the U.S (Xinhua English Newswire, March 11, 1996).

Fedders Corporation, the largest home air conditioner manufacturer in North America, recently sent up a joint venture in Zhejiang Province. The venture plans to manufacture up to 500,000 units by the third year of operation. The air conditioners will be sold domestically as well as abroad (Xinhua English Newswire, November 11, 1995).

VF Corporation, the parent company of Lee Jeans announced a joint venture in China where it will begin to manufacture Lee Jeans.

WORKER RIGHTS AND LABOR STANDARDS IN CHINA

The Chinese government crushed the loose worker groupings that developed during the 1989 democracy movement. Leaders are either dead, in jail or keeping an extremely low profile. Independent unions remain banned, working conditions are deteriorating, and the government's reliance on forced labor continues.

Even attempts by worker activists to promote a discussion of labor rights issues under China's legal framework have landed most of them in jail. The plight of Zhou Guoqiang, a leading advocate of this approach and a close associate of Han Dong Fang, is typical of what has happened to the few Chinese labor activists that tried to keep the movement alive after 1989. Secretly detained by the Public Security Bureau for six months in 1994, Zhou was then sentenced after a show trial which was held at a remote prison camp. He is presently in ill-health and may not survive his prison sentence.

Freedom of Association

The primary vehicle by which workers protect their rights is through membership in an independent trade union. In China, this is simply not possible. The February, 1994 issue of the All China Federation of Trade Union's official magazine defined trade unionism this way: "The premise for unions [in China] is to carry out the tasks of the party." In 1990, the ACFTU reacting to orders from the Communist Party in the wake of the 1989 Democracy Movement sent out the following circular, "Unions in China should resolutely uphold the unitary leadership of the party. Unions at all levels should maintain a high degree of unanimity with the party politically, in ideas and actions." At 1995 anniversary celebrations, the ACFTU General Secretary used this same quote to reaffirm the ACFTU's subordinate role to the party.

The party retains control of the ACFTU through the top-down selection of its officers, provincial and national level. A party document states:

the administration of union cadres by the party is an unchangeable principle. The ACFTU should work together with the Organization Department of the Central Committee of the Chinese Communist Party in laying down regulations concerning cadre management and in the nomination, investigation, election, approval and allocation of unions leaders.

Collective Bargaining

While collective bargaining remains impossible for workers employed by state enterprises, there are efforts underway to give the appearance of union organization and bargaining in the new mixed sectors, which are dominated by foreign investment. The State Department's Human Rights Report notes that according to Chinese government data, 86 percent of all foreign or mixed enterprises have union representation. The reality however is that the ACFTU presence in these enterprises is to control workers, not to serve their interests.

A recent report by Australian academic, Anita Chan, confirms the overall impression that sham unions are being created in China on a massive scale. She notes that in many unions either the factory managers or their subordinates are chosen to become the leading union officers. For example, she documents that in a township near Hong Kong, all union leaders are managers of the factories. At some of these

factories, workers are not informed of the new union or invited to join. In the Minhang district of Shanghai, 67 percent of union leaders are on the managerial staff of companies, 20 percent are Communist Party officials and 13 percent are managers or deputy managers.

The hollow nature of China's unions is also demonstrated at the district level. In China's economic zones, the trade union bureaucracy is often the same as the local government bureaucracy. For example, the deputy trade union leader in the Pudong development zone in Shanghai is the director of the Pudong Economic and Trade Bureau. In Nahui county of Pudong, the local trade union leader was the manager of the local government's industrial zone and the deputy director of a county joint venture shoe factory. Other information indicates that the government assigns staff to ACFTU regional offices and pays their salaries.

By participating in this charade, many U.S. investors are directly complicit in the continued suppression of Chinese workers.

Labor Standards

Labor standard laws are routinely violated by China's new class of employers. For example, the human rights report notes that, "As in other areas of China, officials admit that some foreign investors in special economic zones are able to negotiate sweetheart deals with local partners which effectively bypass labor regulations." Studies conducted in the past year of China's toy, garment, and electronics industries, in which there is heavy foreign investment, all paint the same picture: excessive hours worked, violation of minimum wage laws, poor health and safety conditions, physical abuse by managers, and illegal levies and deductions. The report on the electronics industry noted for example, that eight of 14 factories surveyed paid less than the legal minimum wage. In one factory, researchers found that workers were forced to work an average of 80 to 90 hours of overtime a month, far exceeding the legal limit of 36 hours.

Migrant workers from other parts of China are special victims. Exploitation for many begins even before they reach their jobs since they are required to pay recruiters in order to get jobs in the first place. These payments can be very large and may take years to payoff leading to a form of bonded labor. Migrant workers are often subjected to physical intimidation by factory supervisors who feel free to inflict punishments since local authorities often see migrants as threats to the local security situation.

Occupational safety and health conditions in most Chinese factories are very poor. So called three-in-one factories (which contain production, storage and dormitory facilities), though outlawed because of fire safety, operate in the thousands in southern China. Workers are routinely asked to handle hazardous chemicals about which they know little and breath fumes in poorly ventilated factories. This past summer, surveys conducted by the Hong Kong Christian Industrial Committee, found that most toy industry workers were not protected from noxious fumes caused by spray paints and glues, toiled in factories that did not meet fire prevention regulations and/or building safety codes, and worked without adequate training on dangerous machinery that lacked protective equipment. In describing a recent fire in Southern China that led to a number of deaths, one Chinese industry association official from the north called working conditions in the South "super-exploitation" that far exceeded the normal excesses to which he was accustomed.

Child Labor

There is a growing body of evidence that the use of child labor is growing in China. This evidence is based on reporting of individual incidents rather than surveys since the Chinese government has little interest in exposing the problem. As in other labor standards areas, the Chinese have adopted legislation that follows international norms. Children under 16 are prohibited from working in industry, yet local authorities routinely ignore the regulations. One of the most common practices is for recruiters to secure forged identification documents which they distribute to girls of 14 and 15. They then are placed in joint venture and township enterprise factories which produce goods for foreign markets.

Forced Labor

China continues to use forced labor as a part of its production system and makes no apologies for the practice. Since it makes no distinction between political prisoners, which number in the tens of thousands, and "regular criminals" they too become a part of the system.

In October, 1991, China officially "banned" the export of products produced by prison labor. In August, 1992, the U.S. signed a Memorandum of Understanding with China, amended in 1994, which purported to establish a process through which the U.S. could investigate allegations of forced labor used in goods that are ex-

ported. That process was to include U.S. access to suspect facilities in China. The implementation of the agreement has been unsatisfactory, and forced labor produced goods still find their way to the export market. Some are transshipped through Hong Kong, with the names of products changed to correspond with non-prison factories.

The continuation of forced labor exports is particularly reprehensible since the importation of such goods into the United States is illegal. At very least, adequate resources should be made available to the U.S. Customs Services to ensure compliance with U.S. law.

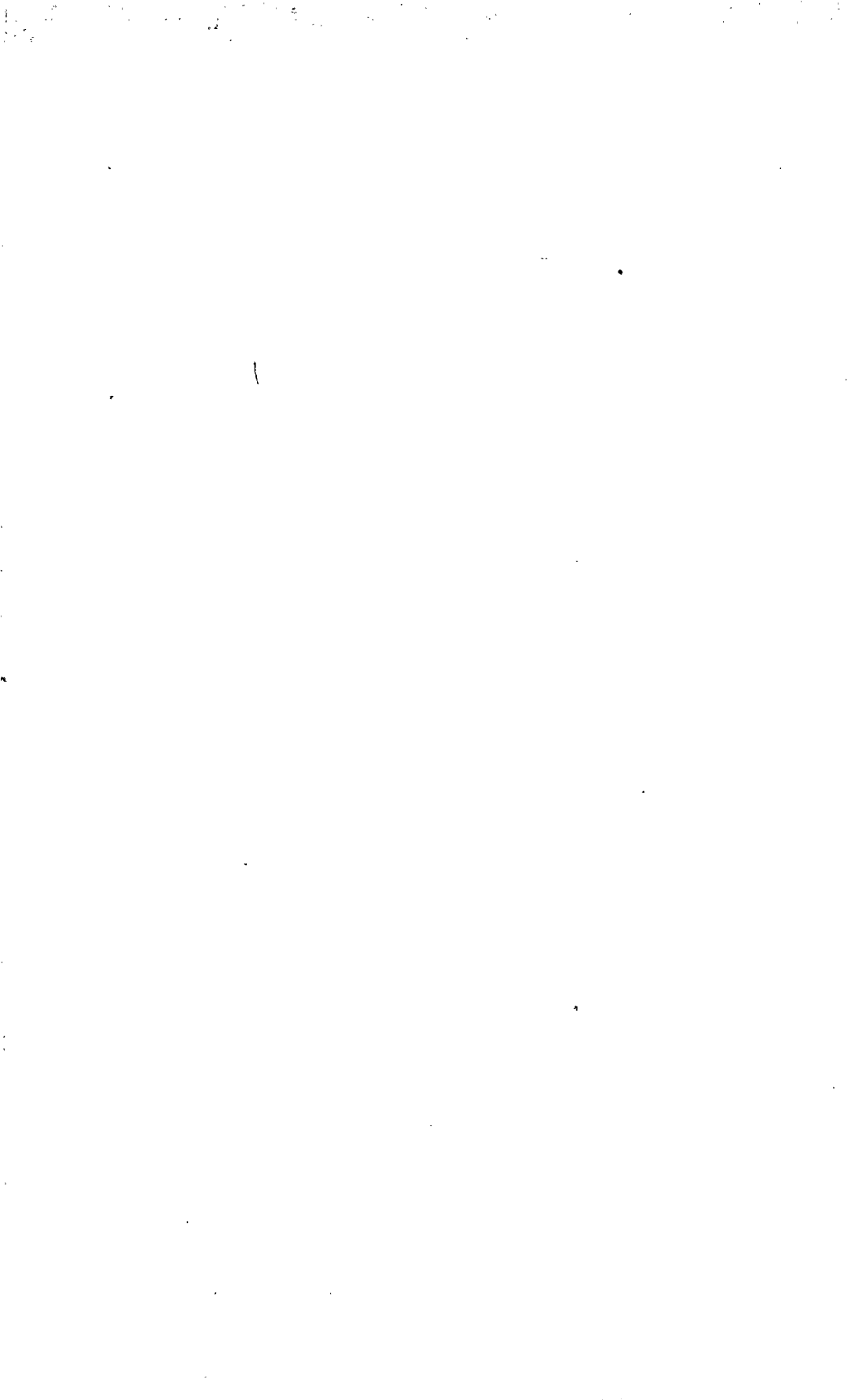
CONCLUSION

The AFL-CIO does not seek the isolation of China, or the elimination of trade and investment. We seek a relationship that will benefit working Americans; a relationship that puts the U.S. on the side of the oppressed, not the oppressors; a relationship where the rules of trade are fair and equitable; and a relationship that understands that this country has interests that are more important than the balance sheet of an individual company.

Merely maintaining the status quo will accomplish none of these goals.

The AFL-CIO urges your support for the disapproval resolution and the withdrawal of MFN status for China.

Thank you.



COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS (AAEI)

INTRODUCTION AND BACKGROUND

The American Association of Exporters and Importers (AAEI) is a national organization comprised of approximately 1,200 U.S. company-members who export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, footwear, food, toys, specialty items, textiles and apparel. Members also include firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers. Many of AAEI's member firms and companies have or are considering investment in China.

U.S. businesses in these areas of international trade will benefit, either directly or indirectly, from a decision to extend Most-Favored-Nation (MFN) status for China beyond July of 1996. A substantial number of AAEI exporters and importers are currently engaged in direct trade with China, with many AAEI retailer members sourcing as much as 30%—40% of imports from China. Overall, more than one-half of AAEI's membership is involved in trade with China in some capacity. Considering the importance of continued China MFN for U.S. industry, including AAEI's members, we urge the Administration and Congress to revamp U.S. policy in an effort to avoid the annual MFN debate. To this end, AAEI supports President Clinton's 1994 decision to de-link human rights concerns from MFN consideration and urges serious exploration of long-term or permanent renewal of China's MFN status.

U.S.-China trade and investment has grown tremendously in volume and complexity since the U.S. first accorded China MFN status. Total trade has more than tripled since 1981 and nearly doubled since 1990. Total cumulative U.S. investment in China is rapidly increasing, and China is one of our fastest growing export markets, purchasing an estimated \$13 billion in U.S. goods and services last year.

MFN status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China negotiated in 1979. The term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing. The U.S., like most other countries, maintains two complete tariff schedules—one set of standard rates for MFN countries, and a second set of often prohibitive rates for non-MFN countries. The tariff differential between these rate schedules generally ranges from 10% to 50%, and can be as high as 100% or more for some products, so that the loss of MFN status can effectively price a country's exports to the U.S. out of the market. The additional cost associated with denying MFN status would be paid for by U.S. companies and consumers.

AAEI SUPPORTS UNCONDITIONAL MFN RENEWAL

AAEI strongly supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As testified in previous years, we believe that the threat of terminating China's MFN status is neither an appropriate nor effective tool for addressing human rights concerns. We urge the members of the Trade Subcommittee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

The Chinese market is already the world's third largest, according to an International Monetary Fund (IMF) study, and has continued to grow at an annual rate

of more than 10%. This market is simply too important to our future international competitiveness and to the battle against inflation in the U.S. to ignore or to jeopardize through an unstable trading relationship. As President Clinton has recognized, MFN is the essential cornerstone for a long-term, stable bilateral relationship with China in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long run plans, and saddles U.S./China trade and investment with a risk factor cost not faced by our international competitors.

AAEI members agree that human rights issues warrant our attention and further bilateral negotiations between the U.S. and China. However, the Association does not believe that the threat of terminating MFN is an appropriate or constructive tool for pursuing this important U.S. foreign policy objective. History suggests that despite China's strong interest in trade with the U.S., efforts to impose our will on the Chinese government through a series of public demands will prove to be counterproductive. MFN is the foundation on which the U.S. bilateral relationship with China rests.

Terminating MFN for China would not simply result in higher tariff rates for some imported goods; it would sever the basic economic—and, consequently, geopolitical—relationship between the two countries. It would also strengthen those in China who desire to see the People's Republic turn inward again, away from ideologically threatening capitalist influences, and would weaken those liberalizing forces that we seek to encourage. This would be particularly unfortunate while the leadership situation in China remains unsettled.

CHINA'S POST-JUNE MFN STATUS SHOULD BE RENEWED

AAEI supports the President's human rights objectives. For reasons noted above, we do not believe that the unilateral threat to eliminate MFN—and the uncertainty associated with annual MFN debates—further either U.S. foreign policy or trade objectives. As an association of companies engaged in trade with China, the balance of our comments will focus on the trade and economic aspects of the debate. This, however, should not in any way be construed to suggest any lesser interest in the successful resolution of U.S. human rights concerns in China.

China has made some good faith efforts to respond to U.S. market-opening initiatives. Among important developments, China has agreed to remove high tariffs on hundreds of U.S. imports, increase transparency with regard to its trade operations and move towards currency convertibility.

There are a number of other reasons for supporting the continuation of MFN treatment for China. Trade with China must be kept open to maintain benefits to U.S. industry of a bilateral economic relationship with China. Failure to renew MFN would threaten the jobs of thousands of U.S. workers producing goods for export to China and would harm American businesses relying on Chinese imports for their livelihood. Tariffs, which are at an average 4%-5%, would skyrocket to as high as 110% in some cases, increasing costs to American consumers by billions of dollars. In many cases, this increased cost would be inflationary and fall most heavily on those Americans least able to bear the burden.

AN MFN CUT-OFF WOULD HARM U.S. IMPORTERS

The loss of China's MFN status would also have both immediate and long-term consequences for AAEI members and the entire importing community. In the short-term, they would incur significant losses on merchandise already contracted for sale at a specific price, but not yet delivered. Payment for these orders are often guaranteed by irrevocable letters of credit. If duty rates increased from Column 1 to Column 2 levels before Customs clearance, these companies would be required to absorb the increases or pass them on to American consumers. American companies and American consumers, not Chinese, are harmed by increasing duty rates for merchandise which was previously ordered.

Over the longer term, the cost of delays, lost time, and unavailability of alternative supply could be even more damaging to businesses than duty increases. Many consumer products imported from China are not available in the U.S., and alternative sources of supply overseas would likely be much more costly than Chinese goods, of lesser quality, or unavailable altogether. The difficulties and uncertainties of trade with China have already pushed U.S. importers to search for alternative sources of supply. With the long lead times necessary for orders in many industries, some companies could easily lose a whole season, or even a whole year. This could cause major economic hardship. Companies would be forced to raise prices on goods, with consumers bearing the ultimate burden. In most cases, U.S. producers would not benefit from a cut in supply of Chinese goods because of their

inability to produce competitively-priced products. Yet, a reduction in supply of these basic consumer items would cause considerable hardship for Americans with limited incomes who purchase basic-necessity consumer goods imported into the U.S. from China. With the growing threat of a higher inflation rate, this is a poor time to increase the U.S. cost of living.

Termination of China's MFN status could also make it difficult for U.S. companies to obtain products which are not easily accessible from other countries. In the case of textiles and apparel, U.S. quotas limit the amount of merchandise which can be imported from foreign countries. Thus, even countries which might have the ability to provide a somewhat competitive supply of a particular product may be unable to do so because they have filled their "quota" for the year. Furthermore, when quota is in short supply, as it most certainly would be if China MFN status were terminated, U.S. importers would pay a premium for quota itself, and provoke quota calls based on surges from countries not under quota.

AN MFN CUT-OFF WOULD ALSO HARM U.S. EXPORTERS

Failure to renew China's MFN status would harm U.S. exporters as well as importers. China represents a significant, and very promising, market for U.S. exports, with approximately \$13 billion worth of American goods purchased by the Chinese last year. The Department of Commerce estimates the value of U.S.-China trade and investments will be \$600 billion in the next five to seven years. Historically, China has been quick to retaliate against foreign countries perceived as interfering with domestic issues. It would not be surprising for China to withdraw MFN for American goods and services and to limit U.S. investment and government procurement opportunities in response to elimination of MFN for Chinese goods. In fact, in 1987 during negotiation of a bilateral textile agreement with the U.S., China threatened to find another supplier for the nearly \$500 million worth of annual U.S. agricultural exports to China. More recently, U.S. aircraft exports have been threatened.

Unilateral U.S. action against China would cause a severe blow to U.S. exports to China. In addition to a possible loss of \$13 billion in U.S. exports, loss of the Chinese market would have a significant impact on some of our most competitive industries—agriculture, aircraft, heavy equipment, machinery, telecommunications and chemicals. And, with our Western allies keeping the door open for many of their goods to China, the hard-won U.S. market share could disappear overnight, resulting in lost jobs in the export sector of the U.S. economy and an increase in the trade deficit. It would be truly ironic if the net result of the last few years' hard-won Chinese market opening commitments expanded business for European and Japanese competitors because U.S. companies are effectively excluded from the market by a U.S.-China breakdown.

Beyond the immediate loss of business in China and Hong Kong, an MFN cut-off would significantly jeopardize long-term U.S. commercial interests in the region. A Sino-American trade war would deprive

U.S. companies of important business relationships and opportunities at a critical time in the growth of the Chinese economy.

China's economy has grown rapidly in recent years, at an average annual rate approaching 10%, and is poised for major expansion over the next decade. According to an IMF study, China's economy is now the world's third largest. Some predict it will be the largest economy in the world by the year 2010, or the year 2020 at the latest. U.S. companies have established a major presence in China, providing an ideal foundation for future expansion. A trade breach would threaten this foundation. It would also provide U.S. competitors in Asia and Europe with a major advantage.

MFN TRADE SANCTIONS WOULD BE COUNTERPRODUCTIVE

Unilateral trade sanctions imposed for foreign policy purposes have a very poor history of effectiveness. They serve mainly as symbolic gestures, often at great expense to U.S. economic interests, U.S. exports and foreign market share, and consumer prices.

Elimination of China MFN, and the resulting withdrawal of U.S. business from China, would decrease Chinese exposure to Western values and free market ideas which have clearly played a part in China's move toward trade liberalization and a market economy. Liberalized, market-oriented sectors, such as those in South China, would be the first to be injured or even shut down if MFN were withdrawn, and Chinese authorities would direct business back to state-owned enterprises. Terminating MFN would merely enable Chinese authorities to blame the U.S. govern-

ment for their current domestic economic problems, further strengthening hard-line, anti-Western elements in the government.

Furthermore, sanctions run counter to other U.S. foreign policy interests, including the stability of the Hong Kong economy and the future of the Hong Kong people. Hong Kong accounts for two-thirds of all foreign investment in China and one-third of China's foreign exchange, and is the port of entry and exit for much of the world's trade with China, especially that of the United States. Because of the unique combination of communications, financial and technical support, established and reliable legal system, and common language available in Hong Kong, more than 900 American companies have established a significant presence there, and of these, approximately 200 have chosen Hong Kong as their base for business operations throughout the region.

The damage to Hong Kong resulting from an MFN cut-off, which has been estimated at more than \$21 billion in trade alone, would seriously jeopardize Hong Kong's continued ability to serve this important role for American companies as entrepot and investment "gateway" for China and the region. Damage to Hong Kong would also have counterproductive effects on political and economic reform in China. Hong Kong is South China's most important source of external investment, with Hong Kong companies providing employment to three million people in Guangdong Province alone. The impact of MFN removal would be felt disproportionately there, weakening the very forces of liberalization key to future economic and political progress in China, and Hong Kong's security and well-being. The people of Hong Kong would be put at risk should Hong Kong, as it now functions, become less valuable to China.

Finally, the U.S. should not unilaterally act without the support of our major trading partners. Unless multilaterally imposed, sanctions are certain to be unsuccessful and the U.S. could run the risk of alienating its allies.

CONCLUSION

AAEI strongly supports renewal of MFN for China for another year. As stated, AAEI supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. Although we recognize the importance of focusing attention on human rights concerns in China, we do not believe that terminating China's MFN status will contribute to this worthy objective. We urge members of the Subcommittee to take a strong stand to ensure that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

AAEI supports initiatives by the Administration and Congress to grant China MFN status on a permanent basis and urges serious consideration of a revision of the Jackson-Vanik Amendment toward this aim. A revision of Jackson-Vanik does not require a revision of U.S. human rights objectives in China. AAEI supports those human rights objectives. AAEI believes that President Clinton correctly determined that those objectives should not be limited to trade issues between the United States and China. The U.S. human rights objectives can, and should, be attained without terminating China's MFN status. Terminating China's MFN status could only harm U.S. trade and foreign policy interests, and ultimately, the progressive forces in China on which future progress will depend.

The American Association of Exporters and Importers wishes to thank Chairman Roth and the Committee on Finance for this opportunity to present the views of our membership on this important issue.

GEORGE BUSH

June 4, 1996

Dear Mr. Chairman,

Congress soon will face a vote of great consequence -- whether to approve renewal of most-favored-nation trade status for China. My position on this issue has been clear since 1989 -- renewing MFN is in America's overriding interest.

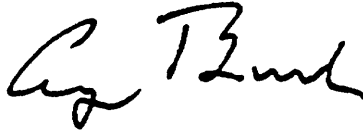
China is on the threshold of becoming a great power, emerging from decades of self-imposed isolation and economic stagnation. How China develops in the coming years is a matter of vital interest to the United States. Our strategic goals with China should be clear; we wish to see a China which plays by the rules of the international system as well as a China which is peaceful, prosperous, and free.

There is no question that China's conduct on matters such as human rights, non-proliferation, trade, and Taiwan poses serious concerns. But revoking MFN will not help us address these problems. By isolating the United States from China, we impair our ability to influence the directions China will take on these important questions. MFN revocation is simply the wrong tool to achieve our ends.

I urge you to support unconditional MFN for China. I believe as well that we should get out from under this annual debilitating debate. To deny MFN would set back our relations with China in a fundamental way and with that, our ability to be a positive influence on China's development. MFN is a vote for engagement, a vote for China's

adoption of international standards in areas like trade and human rights, and a vote for America's interest.

Sincerely,

A handwritten signature in black ink, appearing to read "C. T. Bush". The signature is fluid and cursive, with the first name "C." and last name "Bush" clearly distinguishable.

The Honorable William V. Roth, Jr.
Chairman, Senate Finance Committee
104 Hart Senate Building
Washington, DC 20510

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Separate China Trade From Other Issues
by Edward R. Muller

Statement for the Record
Senate Finance Committee
Hearing on China's MFN Status
June 6, 1996

Again, we are engaged in our annual soul-searching over whether or not to renew China's most favored nation (MFN) trading status. Although the debate professes to examine US/China policies, it has become a destructive exercise that not only fails to achieve our policy goals, but also weakens the prospect of achieving them in the future.

It is time to bring this yearly drama to an end by making MFN status for China permanent. We must stop viewing MFN status as a foreign policy tool -- a benefit that can be awarded or withheld, depending on a country's willingness to support our objectives. Rather, we should view it as the basis of a long-term and reciprocal economic relationship -- the foundation upon which a normal bilateral relationship can flourish.

Human rights, intellectual property rights, nuclear proliferation, Taiwan and Hong Kong all are important and complex issues that do matter and must be resolved. MFN status establishes a relationship within which resolution of these issues can be pursued.

A sound MFN relationship with our trading partners is in the US national interest. It enables other countries to earn foreign currency by exporting their products to the United States, in turn strengthening those countries' ability to buy our exports.

By fostering trade-based economic development, MFN status also helps foreign countries establish and sustain market-driven economies, strengthen democratic institutions and improve social conditions.

During the 15 years that China has enjoyed reciprocal MFN status with the United States, the Chinese Government has gradually adopted market-oriented reforms, decentralized decision-making and improved the standard of living in many parts of the country.

As China's economy has developed, so, too, has the US/China economic relationship. China is now the fastest growing market -- a market our competitors in Japan and Europe would be only too happy to usurp.

In the last seven years alone, US exports to China increased from \$5 billion to more than \$12 billion. Moreover, with a population of 1.2 billion and the prospect of \$750 billion in infrastructure projects over the next decade, China will remain a key market for years to come.

By their very presence, US businesses accomplish much in China. US exports of goods and services expose the Chinese to consumer choices and information sources that were unimaginable two decades ago. US investment generates jobs and encourages the development of a growing, and vocal, entrepreneurial class.

In the case of the power sector, where a number of US firms -- including my own, Edison Mission Energy -- are pursuing opportunities, US projects will have a tremendous impact on the economy. Electricity projects fuel industrial production and power the improvements in telecommunications and information that are crucial to economic success in the global marketplace.

Project development and financing in themselves help establish sophisticated commercial and legal infrastructure. And access to safe and reliable electricity benefits Chinese people in their homes, schools and work.

Recognizing the importance of MFN as key to our relationship with China, ***President Clinton took a welcome first step when he supported renewal of MFN status for China.***

Next, ***Congress should support renewal unanimously.*** Any vote against it aimed at "sending a signal" to the Chinese," unfortunately, will only signal that the United States is still unable to develop a clear policy with regard to China.

Finally, ***Congress and the Administration should make this year's vote on China MFN status the last.*** While problems in China persist, we should acknowledge that China has made large strides in a relatively short time, and pursue further progress quietly through diplomacy, not as part of an annual Congressional fray over MFN.

President Clinton delinked human rights from the MFN debate once before, in 1994. To preserve the delinkage, let's eliminate this annual review once and for all.

Edward R. Muller is CEO of Edison Mission Energy, an independent power producer based in Irvine, California, that develops, owns and operates power plants throughout the world, including China.

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